ACCOUNTING STANDARDS BOARD

EXPOSURE DRAFT OF

PROPOSED TRANSITIONAL PROVISIONS FOR THE STANDARD OF GRAP ON FINANCIAL INSTRUMENTS (REVISED IN 2019)

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Introduction

Directive

The Accounting Standards Board (Board) is required in terms of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), to determine generally recognised accounting practice referred to as Standards of Generally Recognised Accounting Practice (GRAP).

The Board must determine GRAP for:

(a) departments (including national, provincial and government components);

(b) public entities;

(c) trading entities (as defined in the PFMA);

(d) constitutional institutions;

(e) municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality; and

(f) Parliament and the provincial legislatures.

The above are collectively referred to as "entities" in Standards of GRAP.

The Board has approved the application of International Financial Reporting Standards (IFRS® Standards) issued by the International Accounting Standards Board® for:

(a) public entities that meet the criteria outlined in the Directive on *The Selection of an Appropriate Reporting Framework by Public Entities;* and

(b) entities under the ownership control of any of these entities.

Section 89(1)(b) of the PFMA requires the Board to prepare and publish directives and guidelines concerning the Standards of GRAP as set out in section 89(1)(a) of the PFMA. The *Preface to the Standards of GRAP* determines that directives will be used to set transitional provisions and transitional arrangements for the entities required to comply with Standards of GRAP. Directives issued by the Board in terms of section 89(1)(b) of the PFMA therefore have the same authority as the Standards.

Directives should be read in conjunction with the applicable Standards of GRAP and Interpretations of Standards of the GRAP, as well as the *Preface to the Directives*.

ED 177

PROPOSED TRANSITIONAL PROVISIONS FOR THE STANDARD OF GRAP ON *FINANCIAL INSTRUMENTS* (REVISED IN 2019)

AMENDMENTS TO DIRECTIVES

The transitional provisions for the Standard of GRAP on *Financial Instruments* (Revised in 2019)(GRAP 104) are to replace the existing transitional provisions for GRAP 104 (Issued in 2009) in the following Directives:

- Directive 2 *Transitional Provisions for Public Entities, Trading Entities, Municipal Entities, Technical and Vocational Education and Training Colleges, and Constitutional Institutions*;
- Directive 3 *Transitional Provisions for High Capacity Municipalities*;
- Directive 4 *Transitional Provisions for Medium and Low Capacity Municipalities and Trading Entities*; and
- Directive 8 *Transitional Provisions for Parliament and Provincial Legislatures*.

Note: Paragraph references that indicate .XX refer to paragraphs in this Directive. Paragraph references that indicate X.XX refer to the paragraphs in the revised GRAP 104.

GRAP 104 *Financial Instruments* (2019)

Transitional provisions

.01 An entity shall apply this Standard retrospectively, in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors (GRAP 3), except as specified in paragraphs .05 to .20. This Standard shall not be applied to items that have already been derecognised at the date of initial adoption.

.02 For the purposes of the transition provisions in paragraphs .01 and .03 to .19, the date of initial adoption is the date when an entity first applies those requirements of this Standard and must be the beginning of a reporting period after the issue of this Standard.

Classification and measurement

.03 At the date of initial adoption, an entity shall assess whether a financial asset meets the condition in paragraph~~s~~ 4.2(a) on the basis of the facts and

circumstances that exist at that date. The resulting classification shall be applied retrospectively irrespective of the entity's management model in prior reporting periods.

.04 At the date of initial adoption of this Standard, an entity must determine whether the objective of the entity's management model for managing any of its financial assts meets the condition in paragraph 4.2(a). For that purpose, an entity shall determine whether financial assets meet the definition of held for trading as if the entity has purchased the assets at the date of initial adoption.

.05 If, at the date of initial adoption, it is impracticable (as defined in GRAP 3) for an entity to assess a modified time value of money element in accordance with paragraphs AG4.24 to AG4.26 on the basis of the facts and circumstances that existed at the initial recognition of the financial asset, an entity shall assess the contractual cash flow characteristics of that financial asset on the basis of the facts and circumstances that existed at the initial recognition of the financial asset without taking into account the requirements related to the modification of the time value of money element in paragraphs AG4.24 to AG4.26 (see also paragraph .28).

.06 If, at the date of initial adoption, it is impracticable (as defined in GRAP 3) for an entity to assess whether the fair value of a prepayment feature was insignificant in accordance with paragraph AG4.30 on the basis of the facts and circumstances that existed at the initial recognition of the financial asset, an entity shall assess the contractual cash flow characteristics of that financial asset on the basis of the facts and circumstances that existed at the initial recognition of the financial asset without taking into account the exception for prepayment features in paragraph AG4.30 (see also paragraph .29).

.07 If an entity measures a hybrid contract at fair value in accordance with paragraphs 4.4 and 4.6 but the fair value of the hybrid contract had not been measured in comparative reporting periods, the fair value of the hybrid contract in the comparative reporting periods shall be the sum of the fair values of the components (i.e. the non-derivative host and the embedded derivative) at the end of each comparative reporting period if the entity restates prior periods (see paragraph .15).

.08 If an entity has applied paragraph .07 then at the date of initial adoption the entity shall recognise any difference between the fair value of the entire hybrid contract at the date of initial adoption and the sum of the fair values of the components of the hybrid contract at the date of initial adoption in the opening accumulated surplus or deficit (or other component of net assets, as appropriate) of the reporting period that includes the date of initial adoption.

.09 At the date of initial adoption–an entity may designate a financial asset as measured at fair value through surplus or deficit in accordance with paragraph 4.6. Such a designation shall be made on the basis of the facts and circumstances that exist at the date of initial adoption. That classification shall be applied retrospectively.

.10 At the date of initial adoption an entity:

(a) shall revoke its previous designation of a financial asset as measured at fair value through surplus or deficit if that financial asset does not meet the condition in paragraph 4.6.

(b) may revoke its previous designation of a financial asset as measured at fair value through surplus or deficit if that financial asset meets the condition in paragraph 4.6.

Such a revocation shall be made on the basis of the facts and circumstances that exist at the date of initial adoption. That classification shall be applied retrospectively.

.11 At the date of initial adoption, an entity:

(a) May designate a financial liability as measured at fair value through surplus or deficit in accordance with paragraph 4.8(a).

(b) Shall revoke its previous designation of a financial liability as measured at fair value through surplus or deficit if such designation was made at initial recognition in accordance with the condition now in paragraph 4.8(a) and such designation does not satisfy that condition at the date of initial adoption.

(c) May revoke its previous designation of a financial liability as measured at fair value through surplus or deficit if such designation was made at initial recognition in accordance with the condition now in paragraph 4.8(a) and such designation satisfies that condition at the date of initial adoption.

Such a designation and revocation shall be made on the basis of the facts and circumstances that exist at the date of initial adoption. That classification shall be applied retrospectively.

.12 If it is impracticable (as defined in GRAP 3) for an entity to apply retrospectively the effective interest method, the entity shall treat:

(a) the fair value of the financial asset or the financial liability at the end of each comparative period presented as the gross carrying amount of that financial asset or the amortised cost of that financial liability if the entity restates prior periods; and

(b) the fair value of the financial asset or the financial liability at the date of initial adoption as the new gross carrying amount of that financial asset or the new amortised cost of that financial liability at the date of initial adoption of this Standard.

.13 At the date of initial adoption, an entity shall determine whether the treatment in paragraph 5.44 would create or enlarge an accounting mismatch in surplus or deficit on the basis of the facts and circumstances that exist at the date of initial adoption. This Standard shall be applied retrospectively on the basis of that determination.

.14 At the date of initial adoption, an entity is permitted to make the designation in paragraph 1.10 for contracts that already exist on the date but only if it designates all similar contracts. The change in the net assets resulting from such designations shall be recognised in accumulated surplus or deficit at the date of initial adoption.

.15 Despite the requirement in paragraph .01, an entity that adopts this Standard shall provide the disclosures set out in paragraphs .21 to .24 but need not restate prior periods. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the reporting period that includes the date of initial adoption in the opening accumulated surplus or deficit (or other component of net assets, as appropriate) of the annual reporting period that includes the date of initial adoption. However, if an entity restates prior periods, the restated financial statements must reflect all of the requirements in this Standard.

Impairment

.16 An entity shall apply the impairment requirements in paragraphs 5.17 to 5.36 retrospectively in accordance with GRAP 3 subject to paragraphs .15 and .17 to .20.

.17 At the date of initial adoption, an entity shall use reasonable and supportable information that is available without undue cost or effort to determine the credit risk at the date that a financial instrument was initially recognised (or for loan commitments and financial guarantee contracts at the date that the entity became a party to the irrevocable commitment in accordance with paragraph 5.21) and compare that to the credit risk at the date of initial adoption of this Standard.

.18 On transition, an entity should seek to approximate the credit risk on initial recognition by considering all reasonable and supportable information that is available without undue cost and effort. An entity is not required to undertake an exhaustive search for information when determining, at the date of transition, whether there have been significant increases in credit risk since initial recognition. If an entity is unable to make this determination without undue cost and effort, paragraph .20 applies.

.19 When determining whether there has been a significant increase in credit risk since initial recognition, an entity may apply:

(a) the requirements in paragraphs 5.25 and AG5.81 to AG5.83;

(b) the rebuttable presumption in paragraph 5.26 for contractual payments that are more than 30 days past due if an entity will apply the impairment requirements by identifying significant increases in credit risk since initial recognition for those financial instruments on the basis of past due information.

.20 If, at the date of initial adoption, determining whether there has been a significant increase in credit risk since initial recognition would require undue cost or effort, an entity shall recognise a loss allowance at an amount equal to lifetime expected credit losses at each reporting date until that financial instrument is derecognised (unless that financial instrument is low credit risk at a reporting date, in which case paragraph .19(a) applies).

Disclosure

Initial adoption of GRAP 104 (2019)

.21 In the reporting period that includes the date of initial adoption of this Standard, the entity shall disclose the following information for each class of financial assets and financial liabilities as at the date of initial adoption:

(a) the original measurement category and carrying amount determined in accordance with GRAP 104 (2009);

(b) the new measurement category and carrying amount determined in accordance with this Standard;

(c) the changes in the carrying amounts on the basis of their measurement categories in accordance with GRAP 104 (2009) (i.e. not resulting from a change in measurement attribute on transition to this Standard);

(d) the changes in the carrying amounts arising from a change in measurement attribute on transition to this Standard; and

(e) the amount of any financial assets and financial liabilities in the statement of financial position that were previously designated as measured at fair value

through surplus or deficit but are no longer so designated, distinguishing between those that this Standard requires an entity to reclassify and those that an entity elects to reclassify at the date of initial adoption.

An entity shall present these quantitative disclosures in a table unless another format is more appropriate.

.22 On the date of initial adoption of this Standard, an entity shall disclose qualitative information to enable users to understand:

(a) How it applied the classification requirements in this Standard to those financial assets whose classification has changed as a result of applying this Standard.

(b) The reasons for any designation or de-designation of financial assets or financial liabilities as measured at fair value through surplus or deficit at the date of initial adoption.

.23 An entity shall disclose the fair value of the financial assets or financial liabilities at the end of the reporting period for financial assets and financial liabilities that have been reclassified so that they are measured at amortised cost as a result of the transition to this Standard. The disclosures in this paragraph need not be made after the reporting period in which the entity initially adopts this Standard.

.24 An entity shall disclose the following for financial assets and financial liabilities that have been reclassified out of the fair value through surplus or deficit category as a result of the adoption of this Standard:

(a) the effective interest rate determined on the date of initial adoption; and

(b) the interest revenue or expense recognised.

If an entity treats the fair value of a financial asset or a financial liability as the new gross carrying amount at the date of initial adoption (see paragraph .12), the disclosures in this paragraph shall be made for each reporting period until derecognition. Otherwise, the disclosures in this paragraph need not be made after the reporting period in which the entity initially adopts this Standard.

.25 When an entity presents the disclosures set out in paragraphs .21 to .24, those disclosures, and the disclosures in paragraph 8.31, must permit reconciliation between:

(a) the measurement categories presented in accordance with GRAP 104 (2009) and this Standard; and

(b) the class of financial instrument

as at the date of initial adoption or an earlier period as described in paragraph .15.

.26 On the date of initial adoption, an entity is required to disclose information that would permit the reconciliation of the ending impairment allowances in accordance with GRAP 104 (2009) and the provisions in accordance with the Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets* to the opening loss allowances determined in accordance with this Standard. For financial assets, this disclosure shall be provided by the related financial assets' measurement categories in accordance with GRAP 104 (2009) and this Standard, and shall show separately the effect of the changes in the measurement category on the loss allowance at that date.

.27 On this initial adoption of this Standard, an entity is not required to disclose the line item amounts that would have been reported in accordance with the classification and measurement requirements (which includes the requirements related to amortised cost measurement of financial assets and impairment in paragraph 5.13 to 5.36) of:

(a) this Standard for prior periods; and

(b) GRAP 104 (2009) for the current period.

.28 In accordance with paragraph .05, if it is impracticable (as defined in GRAP 3) at the date of initial adoption of this Standard for an entity to assess a modified time value of money element in accordance with paragraphs AG4.24 to AG4.26 based on the facts and circumstances that existed at the initial recognition of the financial asset, an entity shall assess the contractual cash flow characteristics of that financial asset based on the facts and circumstances that existed at the initial recognition of the financial asset without taking into account the requirements related to the modification of the time value of money element in paragraphs AG4.24 to AG4.26. An entity shall disclose the carrying amount at the reporting date of the financial assets whose contractual cash flow characteristics have been assessed based on the facts and circumstances that existed at the initial recognition of the financial asset without taking into account the requirements related to the modification of the time value of money element in paragraphs AG4.24 to AG4.26 until those financial assets are derecognised.

.29 In accordance with paragraph .06, if it is impracticable (as defined in GRAP 3) at the date of initial adoption for an entity to assess whether the fair value of a prepayment feature was insignificant in accordance with paragraph AG4.30 based on the facts and circumstances that existed at the initial recognition of the financial asset, an entity shall assess the contractual cash flow characteristics of that financial asset based on the facts and circumstances that existed at the initial recognition of the financial asset without taking into account the exception for prepayment features in paragraph AG4.30.

An entity shall disclose the carrying amount at the reporting date of the financial assets whose contractual cash flow characteristics have been assessed based on the facts and circumstances that existed at the initial recognition of the financial asset without taking into account the exception for prepayment features in paragraph AG4.30 until those financial assets are derecognised.