

EXECUTIVE SUMMARY– ED 177 *PROPOSED TRANSITIONAL PROVISIONS FOR GRAP 104 ON FINANCIAL INSTRUMENTS*

This executive summary outlines proposed transitional provisions for GRAP 104 (2019)

Overview

The final amendments to GRAP 104 on *Financial Instruments* were approved by the Board in March 2019. The Board has issued proposed transitional provisions to support the adoption of the amendments.

Consultation process

The comment deadline is 29 November 2019.

Supporting material

ED 177 on *Proposed Transitional Provisions for the Standard of GRAP on Financial Instruments*.

Final amendments to GRAP 104 on *Financial Instruments* (2019).

Next steps

The Board will analyse the comment received on the Exposure Draft before finalising the transitional provisions. The final transitional provisions will be considered by the Board in March 2020.



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What principles were used to develop transitional provisions?

What is the purpose of transitional provisions?

Transitional provisions indicate either how a Standard of GRAP or amendments to a Standard should be applied for the first time. The transitional provisions will indicate whether (a) the amendments should be applied retrospectively or prospectively, and/or (b) any specific relief has been provided for certain requirements or transactions.

The principles of GRAP 3 on *Accounting Policies, Changes in Accounting Estimates and Errors* are generally used as a basis to develop transitional provisions.

The proposed transitional provisions aim to address areas where the principles in the previous and revised versions of GRAP 104 differ. The main differences include the following:

- Accounting for issued financial guarantee contracts and loan commitments as financial instruments.
- Classification of financial instruments for subsequent measurement purposes.
- Impairment model for financial assets and selected instruments.

Is there a link to the transitional provisions in IFRS Standards?

The amendments to GRAP 104 were based on the equivalent international standards, i.e. IFRS 9 on *Financial Instruments* and IFRS 7 on *Financial Instruments: Disclosures*. The most significant changes to GRAP 104 relate to the principles for classifying financial assets and the revised impairment model. The transitional provisions in IFRS 9 and IFRS 7 respond specifically to these changes.

The Board considered whether any additional transitional provisions should be developed. In commenting on the amendments to GRAP 104, stakeholders indicated that the change in impairment model and the related changes to determining amortised cost may be complex for receivables. In finalising the amendments to GRAP 104 the Board exempted receivables from certain requirements of the impairment model to simplify the accounting. Given the relief provided in the Standard itself, the Board did not believe that specific transitional provisions are needed.

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What are the transitional provisions?

<p>Should the amendments to GRAP 104 be applied retrospectively or prospectively?</p>	<p>The amendments to GRAP 104 should be applied retrospectively with some exceptions.</p>
<p>What does retrospective application mean?</p>	<p>GRAP 3 defines retrospective application as applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied. When an entity applies a new accounting policy retrospectively, it applies the new accounting policy to comparative information for prior periods as far back as is practicable. Retrospective application to a prior period is not practicable unless it is practicable to determine the cumulative effect on the amounts in both the opening and closing statements of financial position for that period. The amount of the resulting adjustment relating to periods before those presented in the financial statements is made to the opening balance of each affected component of net assets of the earliest prior period presented. The adjustment is made to accumulated surpluses and deficits.</p>
<p>Is any specific relief provided from retrospective application?</p>	<p>Retrospective application is required, except in the following instances:</p> <p><i>Classification and measurement</i></p> <ul style="list-style-type: none"> • An entity determines whether financial assets are held for trading as at the date of initial adoption. • An entity assesses the cash flow characteristics of a financial asset without taking into the modified time value of money element and prepayment features. • If a hybrid contract is measured at fair value but the fair value was not determined for comparative periods, the fair value is the sum of the non-derivative host and embedded derivative at the end of each comparative period.

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What are the transitional provisions?

<p>Is any specific relief provided from retrospective application?</p>	<p><i>Effective interest method</i></p> <ul style="list-style-type: none"> • If it is impracticable for an entity to apply the effective interest method retrospectively, an entity can measure the gross carrying amount of the asset as follows: <ul style="list-style-type: none"> - When an entity restates comparative information – fair value of a financial asset or financial liability at the end of each comparative period. - When an entity does not restate comparative information – fair value at the date of initial adoption. <p><i>Impairment</i></p> <ul style="list-style-type: none"> • Assessing changes in credit risk – An entity uses information that is available without undue cost and effort to determine if there has been a significant change in the credit risk of an instrument since initial recognition to the date of initial determine. If the information is not available without undue cost and effort an entity recognises losses using lifetime expected credit losses.
<p>Are any specific disclosures required on initial adoption of the amendments?</p>	<p>An entity is required to disclose the information below. This disclosure is however <u>not</u> required for prior periods. Restatement is permitted if it is possible without applying hindsight. If prior period amounts are restated, the restated financial statements must reflect all the requirements of GRAP 104.</p> <p>(a) For each class of financial asset and financial liability on initial adoption:</p> <ul style="list-style-type: none"> - The original measurement category and carrying amount using GRAP 104 (2009). - The new measurement category and carrying amount using GRAP 104 (2019). - The changes in the carrying amount resulting from a change in measurement category. - The changes in the carrying amount resulting from a change in a measurement attribute.

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What are the transitional provisions?

<p>Are any specific disclosures required on initial adoption of the amendments?</p>	<p>(b) Qualitative information to enable users to understand (a) how the classification requirements were applied to those instruments where the classification changed, and (b) the reasons for changes in the designation of financial assets and financial liabilities measured at fair value.</p> <p>(c) The fair values of financial assets or financial liabilities at the end of the reporting period for those instruments that are now measured at amortised cost.</p> <p>(d) The effective interest rate on initial adoption and interest revenue or expense recognised for financial assets and financial liabilities previously measured at fair value.</p> <p>The disclosures in (a) to (d) need only be provided in the year that the entity adopts the amendments to GRAP 104.</p>
<p>What is the proposed effective date?</p>	<p>The proposed effective date is for financial years commencing on or after 1 April 2024. The Board decided to delay the effective date to allow entities sufficient time to change systems, process and policies to respond to the amended requirements. The delay in the effective date allows practice on IFRS 9 to develop in the private sector.</p>
<p>Who will approve the amendments to GRAP 104?</p>	<p>The amendments to GRAP 104 are significant and result in changes in the information made available to users and the way in which preparers account for transactions. The Board will therefore request the Minister of Finance to approve the amendments and effective date of GRAP 104.</p>

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