

ED 177

Proposed Transitional Provisions for GRAP 104 (Revised In 2019)





Disclaimer

The views and opinions expressed in this presentation are those of the individual. Official positions of the ASB on accounting matters are determined only after extensive due process and deliberation.





Background

- Amendments to GRAP 104 approved in March 2019.
- Next step develop transitional provisions, propose effective date, determine level of approval required.
- ED 177 issued, comment deadline 29 November 2019.





Why do we need transitional provisions?

- Provide direction on how to apply amendments on initial adoption.
- Indicate whether changes prospective or retrospective, and whether restatement required.
- Focus on areas where old and new requirements differ.
- Assess whether transitional relief needed.





Transitional provisions

Transitional provisions focus on areas where old and new requirements differ:

- Scope → treatment of financial guarantee contracts and loan commitments.
- Classification of financial instruments.
- Impairment model and amortised cost.





Transitional provisions

New GRAP 104 applied retrospectively, except for some areas where:

- Assessments made on date of adoption.
- Retrospective restatement not required.
- Comparative information not required.



Transitional provisions

Area	Transitional provisions
Classification	Assess whether financial assets are held for trading as at the date of initial adoption.
	Assess 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.



Transitional provisions

Area	Transitional provisions
Measurement	<p><i>Effective interest method</i></p> <p>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:</p> <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 <u>each comparative period</u>. • When an entity does not restate comparative information – <u>fair value at the date of initial adoption</u>.



Transitional provisions

Area	Transitional provisions
Measurement	<p><i>Impairment</i></p> <p>Assessing changes in credit risk:</p> <ul style="list-style-type: none"> • 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>[Not for receivables]</p>



Transitional provisions

Area	Transitional provisions
Disclosures	<ul style="list-style-type: none"><li data-bbox="517 525 1721 572">• An entity is required to disclose certain information.<li data-bbox="517 619 1649 729">• This disclosure is however <u>not</u> required for prior periods.<li data-bbox="517 776 1649 886">• Restatement is permitted if it is possible without applying hindsight.<li data-bbox="517 933 1760 1110">• If prior period amounts are restated, the restated financial statements must reflect all the requirements of GRAP 104.



Transitional provisions

Area	Transitional provisions
Disclosures	<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.



Transitional provisions

Area	Transitional provisions
<p>Disclosures</p>	<p>(b) Qualitative information to enable users to understand:</p> <ul style="list-style-type: none"> • how the classification requirements were applied to those instruments where the classification changed, and • the reasons for changes in the designation of financial assets and financial liabilities measured at fair value. <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>(e) The disclosures in (a) to (d) need only be provided in the year that the entity adopts the amendments to GRAP 104.</p>





Transitional relief

- Does the complexity of the amendments, changes to systems, processes, policies, and capacity building require time for adoption.
- Traditionally 3 year period for recognition and/or measurement.
- Challenges identified with this approach in practice.





Transitional relief

- Board decided to propose delayed effective date rather than three year transitional period.
- Proposed date 1 April 2024 → compliance by 31 March 2025 or 30 June 2025.
- Views?



To note...

- Changes arising from first time adoption not always 'change in policy'.
- If principles stayed the same but incorrectly applied in prior periods = error and not change in accounting policy.



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