

Consultation sessions with SALGA




Accounting Standards Board





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.





Objective of consultation

- Report on results of post-implementation review.
- Discuss ED 126 – Amendments to GRAP 16 and GRAP 17.
- Discuss ED 127 – Amendments to GRAP 21 and GRAP 26.





Update of Post- implementation Review of GRAP 16 and GRAP 17





Objective and results

- Objective to consult users and preparers on the information in the financial statements.
- Results considered by the Board in March 2014.
- Analysis of comments and actions on ASB's website.



Common areas of concern observed

- Accounting for land – control versus legal title.
- Accounting for housing schemes.
- Differentiation between PPE and Investment Property.
- Impairment of assets – cash versus non-cash, impairment versus repair/change in useful lives.



Common areas of concern observed

- Delete encouraged disclosures.
- Presentation of WIP.
- More detailed information on asset management, capital projects and use of capital grants.
- Use of external valuers.




Common areas of concern observed

- Capitalisation or expensing of subsequent costs.
- Standardisation of components (what components, and proportion of assets), useful lives, and costs for DRC calculations.

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Common areas of concern observed

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- Subsequent measurement bases used.
 - Education of users.
 - Alignment of reporting.





Key actions

- Three new projects.
 - New FAQs published by the Secretariat.
 - Recommendations made to the National Treasury.
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Key actions

Three new projects:

- Interpretation: Land – control versus legal title.
- Guideline: Housing schemes.
- Review of GRAP 16 and 17 - Distinction between PPE and Investment Property, indicator based review of useful lives, use of valuers, encouraged disclosures, capital WIP.



Key actions

- Impairment of assets – cash versus non-cash, impairment versus repair/change in useful lives → Review of GRAP 21 and GRAP 26.





Key actions

- Recommendations to the National Treasury:
- Need for standardised guidance – Work commenced on development.
- Alignment of reporting – Role of MSCOA.



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Linkages with existing projects

- Discussion Paper 9 on application of materiality.





PART 1

Exposure Draft 126





Proposed Amendments to GRAP 16 and GRAP 17





Overview

- Background and purpose of ED 126.
- Proposed amendments to the Standards.
- Transitional provisions.



Background and purpose

- Post-implementation review of GRAP 16 & GRAP 17.
- Objective was to solicit feedback from:
 - preparers → what challenges they experience in applying Standards of GRAP.
 - users → whether information in F/S meet their needs.
- Different consultation methods used.

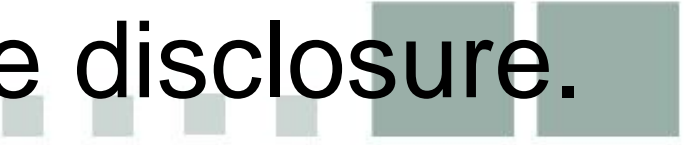


Proposed amendments





Focus areas affected

- Investment property (IP) vs property, plant & equipment (PP&E) distinction.
 - Useful lives & residual values.
 - The use of external valuers.
 - Disclosure on WIP.
 - Encouraged disclosures.
 - Repairs & maintenance disclosure.
- 



Distinguishing Investment Property from PP&E



Investment property

- Preparers unable to distinguish IP and PP&E.
 - Assets held to deliver services but rental revenue received.
 - Effect of rentals that are below market rate.
- Preparers questioned classification of land held for an undetermined use.
- Proposed amendments
 - No amendments to the principles, issues related to application.
 - Additional guidance, examples and amended text provided.

Investment property

- Factors affecting IP:

- Amount of revenue not important – rather why/how property is used.
- Existence of lease in itself does not mean property is IP.
- Rent does not need to be market related.



Investment property

- Clarity on when property is not IP:
 - Used in the production/supply of goods & services in terms of its mandate.
 - Contributes to specific goods or services with other property.
 - Held for disposal as part of on-going operations.

Investment property

- Guidance on land held for strategic purposes:
 - Property not currently used.
 - Likely to be used in the production or supply of goods/services or for admin purposes, in future.
 - Because of legislation, policies or plans of entity.
 - Classified as PP&E.
 - Separate disclosure required.



SMC 1

Do you agree with the proposed amendments to GRAP 16?






Residual values and useful life assessments





Residual values & useful lives

- Annual review of useful lives & residual values onerous due to:
 - volume of assets, time and costs involved.
 - detailed assessments being undertaken instead of considering specific factors.
 - Proposed indicator-approach
 - Assess if there is an indication that useful lives and residual values have changed.
 - Conduct detail assessment if one or more indicators are triggered.
- 

Residual values & useful lives

- Standard provides list of indicators:
 - The use of the asset has changed.
 - The asset is approaching the end of its previously expected useful life.
 - Planned repairs and maintenance either being undertaken or delayed.
 - The composition of the asset changed.
 - Environmental factors e.g. increased rainfall or humidity, adverse changes to temperature, etc.
 - Evidence that the condition of the asset has changed.
 - Asset assessed as being impaired.




Residual values & useful lives

- Clear that conditional assessments are not required → merely used as a factor to consider when they are performed.





SMC 2(a)



Do you agree with using an indicator based approach to assess the useful lives of assets (see paragraphs 1.1 to 1.8)?





Use of external valuers



Use of external valuers

- Uncertain if Standards require voluntary or mandatory use of an external valuer.
- Proposed amendment allows valuer to be:
 - A member of the valuation profession, or
 - ‘Another expert’ with the requisite competence to undertake such appraisals, and
 - May be employed by the entity.
 - No disclosure required whether valuer internal or external.



SMC 2(b)

Do you agree with clarifying the use of external valuers (see paragraphs 2.1 to 2.9)?





Disclosure on work-in-progress (WIP)




Disclosure on WIP

- Additional information on WIP per asset class and ageing of WIP.
- Proposed amendment to disclose:
 - WIP per asset class.
 - Carrying value of PP&E taking a significant period of time to complete than expected.
 - Carrying value of PP&E where construction halted, reasons for halting, any impairment losses.
- Changes in GRAP 103, GRAP 16, GRAP 31.



SMC 2(c)

Do you agree with the additional requirements added relating to the presentation and disclosure of capital work-in-progress (see paragraphs 3.1 to 3.8)?





Encouraged disclosures




Encouraged disclosures

- Relevance of encouraged disclosures questioned:
 - Disclosure not mandatory.
 - Time and costs involved.
 - Data not available.
- Proposed amendment to remove all encouraged disclosures.



SMC 2(d)

Do you agree with the elimination of certain encouraged disclosures, and requiring the disclosure of fully depreciated assets still in use (see paragraphs 4.1 to 4.11)?





Repairs & maintenance disclosure





Disclosure on repairs & maintenance

- Users indicated disclosure on repairs & maintenance should be mandatory.
 - Key measure used in assessing the adequacy of repairs to total carrying value of assets.
- Proposed amendment to show separate disclosure of repairs & maintenance.





SMC 2 (e)

Do you agree with requirement for the separate presentation of repairs and maintenance in the notes to the financial statements (see paragraphs 5.1 to 5.6)?





SMC 2(f)

- **Apart from disclosing expenditure incurred on repairs and maintenance, is there any other information that would be relevant to users to assess the adequacy of repairs of maintenance incurred during the year or otherwise provide context to the level of expenditure incurred?**





Summary of proposed amendments



Summary

Feedback	Proposed amendment
Difficult to distinguish IP from PP&E	No amendment to principles. Additional guidance and examples in GRAP 16 & GRAP 17 to clarify IP and PP&E.
Assessment of useful lives and residual values onerous	“Indicator based” approach to assess useful lives and residual values. Detailed assessments to be conducted only when indicator triggered. List of indicators provided.
Use of external valuers not clear	Proposed amendment also allows the use of “another expert” with the requisite competence to undertake such appraisals to be used in valuations. No disclosure whether internal or external is required.
Insufficient disclosure on capital WIP	Additional disclosure on; WIP per asset class, delays and/or halt in construction or development with reasons.
Encouraged disclosures are not relevant.	Deletion of encouraged disclosures.
Disclosure on repairs & maintenance should be made mandatory.	Separate disclosure on repairs & maintenance and to request views on what other information is likely to be useful.



Transitional provisions



Transitional provisions

Proposed amendment	Prospective application	Retrospective application
Separate disclosure on repairs & maintenance on all assets.		✓
Indicator based approach.	✓	
Disclosure on capital WIP.	✓	
Use of external valuers (professional valuer or another expert)	✓	
More explanations, guidance and examples to distinguish IP and PP&E.		✓
Deletion of all encouraged disclosures		✓



PART 2

Exposure Draft 127





Proposed Amendments to Impairment Standards: GRAP 21 and GRAP 26



Background and history of project

GRAP 21 & GRAP 26 issued

Entities may use Standards to formulate acc policy

2009

Impairment workshop held with preparers and engineers

Discuss impairment principles & high-level issues

2012

Review project initiated

Holistic review of GRAP 21 & 26 to simplify requirements

2014

2013

2015

Comment deadline
30 Jan 2015

GRAP 21 & GRAP 26 effective from 1 April

Entities must comply with all requirements

Improvements Project 2013

Amendments proposed to GRAP 21 & GRAP 26 approved with effect from 1 April 2015

ED 127 issued for comment

Proposed amendments to GRAP 21 and GRAP 26 approved for exposure

Key elements of the proposed amendments

In line with Board's overall simplification objective, the proposals considered:

- simplifying the impairment approach so it is clear when an asset is CGA or NCGA (**issue 1**)
- eliminating measurement alternatives to one measurement approach for NCGA (**issue 2**)
- assessing the possibility of combining two Standards (**issue 3**)
- addressing misconceptions from PIR (**issue 4**)




Issue 1

**Simplifying approach to
impairment to make it
clearer when asset is CGA
or NCGA**






Proposal

- simplified approach is neutral and moves away from concept of “generating a commercial return”
 - focused on objective of using the asset
 - based on deprivation model
 - entity measures an asset at value it would be deprived of if the entity lost that asset – this value is **replacement cost**
- 



Proposal


- simplified approach is based on **measurement basis** that best reflects an **entity's objective** for using the asset
- 

Simplified approach

Objective of using asset	Best measurement basis (VIU)	Asset classification	GRAP Standard applicable
To deliver services	Measure VIU using depreciated replacement cost (DRC)*	NCGA	GRAP 21
To generate positive cash inflows that are expected to be significantly HIGHER than the cost of replacing the remaining SP of asset	Measure VIU using discounted cash flow (DCF) method	CGA	GRAP 26



Simplified approach

- simplified approach is less subjective
 - judgement required in determining “significantly higher”
 - default position: asset used to deliver services → VIU = DRC unless it can be proven that expectation is to generate positive cash inflows which are significantly higher than DRC
- 

Proposed amendments

Simplified approach requires these amendments:

- definition of CGA to reflect best measurement base for VIU (par .09)
- commentary and examples added to be consistent with revised definition (par .09A to .15B)
- clarify assessment done at asset or cash-generating unit level (par .12)



Proposed amendments

- not required to perform annual calculations of DRC or expected CFs (par .15A)
- clarify classification will not change if objective not met in a particular period (par .15B)
- no disclosure of criteria used for distinguishing CGA from NCGA





**Do you agree with the
Board's proposal to simplify
the impairment approach?**





Issue 2

**Assessing feasibility of
one measurement
approach for NCGA**




Proposal

- Proposal to eliminate restoration cost and service units approach
 - DRC is most commonly used approach
- After consideration, decision made not to limit to 1 measurement approach due to
 - nature of impairment and data availability
 - restoration cost & service units → function of DRC
- No amendment proposed to GRAP 21



SMC 1

**Do you agree with Board's
view to retain 3
measurement approaches
for determining VIU for
NCGA?**






Issue 3

Assessing the feasibility of combining two Standards





Proposal

- Considered the feasibility of 1 Standard for impairment due to similarities in GRAP 21 and GRAP 26
 - assessment done at asset level and not entity level
 - easier to work with a separate Standard
 - developing one Standard with one set of impairment indicators for CGA and NCGA → departure from international practice
 - No amendment proposed
- 



SMC 2


**Do you agree with Board's
view that there's merit in
retaining two separate
Standards?**





SMC 3

If not, would it be appropriate to have one set of indicators for impairment of CGA and NCGA?





Issue 4

Amendments resulting from post-implementation review






PIR misconception

- Assets usually impaired for minor damages with no significant impact on value or service potential of an asset





Proposal

- Clarify that assets are impaired when the impairment reflects a **permanent or significant decline** in value or service potential of asset
- 

Proposed amendments

These amendments have been made:

- additional commentary added to indicator for physical damage (par. 25A)
- indicator added for the reversal of an i/loss when asset's service potential has been restored following physical damage (par. 58(bA))



**Do you agree with the
Board's proposal to address
the misconception?**





Transitional provisions





Proposed transitional provisions

- Apply amendments prospectively
- Does the application of amendments in GRAP 21 and GRAP 26 result in re-designation of existing assets?
 - must assess whether re-designation triggers an impairment test or reversal of i/loss





Next Steps

- Deadline for comment 30 Jan 2015
- Board meeting on March 2015
 - Board will consider responses received
 - Approve the amendments





THANK YOU





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