ANALYSIS AND RESPONSES TO VERBAL COMMENT RECEIVED ON THE

PROPOSED STANDARDS OF GRAP ON *INTERESTS IN OTHER ENTITIES*

(ED 144 TO ED 148)

RESPONSES TO THE VERBAL COMMENT RECEIVED ON THE PROPOSED STANDARDS OF GRAP ON *INTERESTS IN OTHER ENTITIES* (ED 144 to ED 148)

The Accounting Standards Board (Board) approved the Exposure Drafts of the proposed Standards of GRAP on *Interests in Other Entities* (ED 144 to ED 148) for comment in March 2016. A Notice was also published in the Government Gazette on the 5th of August 2016 (Notice 40188). The comment period closed on 30 November 2016.

The proposed Standards were discussed with preparers, auditors and consultants by way of workshops, roundtable discussions or other meetings as listed in the table on the next page. In addition, a presentation on the proposed Standards of GRAP was also made during a SAICA webcast.

The results from the workshops, roundtable discussions or other meetings are summarised in this document into general and specific matters, and include the Board's responses to the comment received.

CLASSIFICATION OF VERBAL COMMENT RECEIVED ON THE PROPOSED STANDARDS OF GRAP ON *INTERESTS IN OTHER ENTITIES* (ED 144 TO ED 148)

No.	Name/Organisation	Total	Preparers	Users	Auditors	Other interested parties
1.	Auditor-General Product Champion meeting				√	
2.	Non-delegated municipal CFO Forum		√			
3.	Public Entity CFO Forum		√			
4.	Roundtable discussion with various stakeholders			√		
5.	SAICA webcast		√			
	Total	**5**	**3**	**1**	**1**	

COMMENTS ON ED 144 TO ED 148 *INTERESTS IN OTHER ENTITIES*		
No.	**Comments**	**Board's response**
	SPECIFIC MATTERS FOR COMMENT	
	<u>Specific matter for comment 1</u> **The proposed Standard of GRAP on *Separate Financial Statements* (GRAP 34) allows an entity to account for similar investments in controlled entities, joint ventures and associates in its separate financial statements either:** **(a) at cost;** **(b) in accordance with the Standard of GRAP on *Financial Instruments*; or** **(c) using the equity method as described in the Standard of GRAP on *Investments in Associates and Joint Ventures*.** **The accounting policy choice in accounting for investments in an entity's separate financial statements should be applied to similar investments, i.e. controlled entities, joint ventures and associates.** **The Standard of GRAP on *Consolidated and Separate Financial Statements* (GRAP 6) does not permit the use of the equity method, which was in line with the IASB thinking at the time that GRAP 6 was developed. The equivalent IPSAS 6 did, however, allow the use of the equity method to account for other investments in an entity's separate financial statements.** **In August 2014, the IASB reinstated the equity method as an option in separate financial statements, following support from stakeholders to permit the use of the equity method. In line with international practice, the Board has therefore agreed to also permit the use of the equity method in separate financial statements.** **Do you agree with the Board's view to include the equity method as a method to account for investments in an entity's separate financial statements? Please explain your response.**	

1.1	**Auditor-General Product Champion meeting**	
1.1.1	Respondents supported the inclusion of all three options as a method to account for investments in an entity's separate financial statements.	Noted. As respondents supported the inclusion of the equity method to account for investments in an entity's separate financial statements, the Board agreed that the equity method should be retained.
1.2	**Roundtable discussion**	
1.2.1	Respondents supported the inclusion of all three options as a method to account for investments in an entity's separate financial statements.	Noted. As respondents supported the inclusion of the equity method to account for investments in an entity's separate financial statements, the Board agreed that the equity method should be retained.
	<u>Specific matter for comment 2</u> **The proposed Standard of GRAP on *Disclosure of Interests in Other Entities* (GRAP 38) brought together all the disclosure requirements on interests in other entities. Do you find the inclusion of the disclosure requirements proposed in GRAP 38 useful in meeting the user's information needs, or, in your view, could some of the disclosure requirements be eliminated? Please explain your response.**	
2.1	**Roundtable discussion**	
2.1.1	Some respondents questioned why disclosure requirements for non-controlling interests in paragraph .17 should be presented in the economic entity's financial statements.	Noted. The paragraph requires the disclosure by the controlling entity of material non-controlling interests

		for each of the controlling entity's controlled entities. The disclosures provide more detail about information that is already included in the statement of financial performance and the statement of changes in net assets. The information provided by these disclosures will provide information on entities that have an outside interest in the economic entity, and will be available in order to prepare the consolidated financial information. Furthermore, there is no South African specific reason to depart from the IPSAS equivalent. The Board agreed that, other than combining the requirement to disclose the portion of ownership interests held by non-controlling interests with the disclosure of voting rights held by non-controlling interests if different, the Standard should maintain alignment with the IPSASB disclosures. Therefore, none of the disclosures were deleted.
2.1.2	Some respondents noted that the disclosure of summarised financial information by the reporting entity about interests in non-controlling entities is too onerous. It was proposed that the disclosure requirement in paragraph .17(g) should be deleted.	Noted. Refer to the response to comment 2.1.1.
2.1.3	The reference to "non-qualitative' in the heading to paragraph .47 should be amended to "non-quantifiable".	Noted. The amendment has been made.
2.1.4	In terms of legislation or similar means, some entities may be prohibited from presenting information of a sensitive nature in their financial statements.	Noted. The disclosure requirement in paragraph .18(a) is

	Respondents questioned whether the disclosure requirement in paragraph .18(a) is aimed at addressing the exemption to not present information of a sensitive nature.	meant to address those circumstances where the binding arrangement imposes certain restrictions on an entity, for example, due to exchange control regulations the controlling entity will not be able to access certain benefits of the controlled entity. The Secretariat has developed a Frequent Asked Question (FAQ) on the implications on compliance with the Standards of GRAP when an entity departs from a requirement in the Standard(s). The FAQ provides guidance to preparers on the impact of a departure from the Standards of GRAP.
	<u>Specific Matter for Comment 3</u> **The proposed Standards of GRAP on *Consolidated Financial Statements* (GRAP 35) and *Joint Arrangements* (GRAP 37) include detailed examples to illustrate the application of the principles proposed in the Standards. In line with past practice, these illustrative examples will be removed from the Standards of GRAP when the Office of the Accountant-General develops the implementation guidance for the specific Standard of GRAP.** **In your view, do you agree that the proposed illustrative examples included in the proposed GRAP 35 and GRAP 37 reflect South African public sector circumstances? Should any of these examples be eliminated, or should additional examples be included. Please explain your response.**	
3.1	**Roundtable discussion**	
3.1.1	National Treasury should retain the illustrative examples as it is helpful in understanding the principles in the Standards of GRAP dealing with interests in other entities.	Noted. The comment will be submitted to the OAG for its consideration.
	<u>Specific Matter for Comment 4</u>	

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<tr><td></td><td colspan="2">Are there any regulatory or other issues that exist in the South African environment that may affect the implementation of the proposed Standards of GRAP?
If yes, please provide details of these regulatory or other issues that should be considered in finalising the proposed Standards of GRAP.</td></tr>
<tr><td>4.1</td><td>Roundtable discussion</td><td></td></tr>
<tr><td>4.1.1</td><td>The definition of control in the Standard of GRAP on Consolidated Financial Statements (GRAP 35) requires that the controlling entity should have the ability to affect the nature or amount of the benefits from its involvement with the other entity, i.e. the controlled entity, through its power over the other entity.
Section 8 of the Public Finance Management Act, Act No. 1 of 1999 (PFMA), requires the National Treasury to prepare consolidated financial statements that includes the financial statements of a number of public sector entities. Likewise, section 19 of the PFMA requires provincial Treasuries to also prepare consolidated financial statements that include the financial statements of certain public sector entities. In applying the definition of control in GRAP 35 to the consolidation required in terms of the PFMA, the national or provincial treasuries will not be able to apply the principles in GRAP 35 in preparing the legislative consolidation as they cannot affect the nature or amount of the benefits of the entities required to be included in the consolidation required by legislation.
It was therefore questioned whether the Board intends to develop a separate Standard that can be applied by national and provincial treasuries in preparing the consolidation required by the PFMA.</td><td>Noted.
When the IPSASB developed the IPSASs that deal with interests in other entities, the matter was also considered. Entities with similar legislative consolidation requirements were of the view that the principles in IPSAS 35 Consolidated Financial Statements can be applied in preparing the legislative consolidation.
In terms of the South African Constitution, responsibilities are assigned to Parliament as the national executive. This national executive consists of a group of Ministers responsible for executing certain functions. Even though the definition of control in GRAP 35 requires an entity to affect the nature or amount of the benefits through its power over the other entity, the national executive as a body, will be able to affect the nature or amount of the benefits in other public sector entities.
It could therefore be concluded that the definition of control, as defined in GRAP 35, is met as the national</td></tr>
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		executive, as a body, rather than a controlling entity, has certain powers over another entity, or group of entities. The Board included a research project on its 2017 work programme to consider practical issues relating to the preparation of the consolidated financial statements by the national and provincial treasuries in terms of the PFMA. The Board agreed that this project should also consider practical challenges on the application of the definition of control, as defined in GRAP 35, in preparing the national and provincial consolidation as required by the PFMA.
	<u>Specific Matter for Comment 5</u> **In your view, should the National Treasury consider the development of any other implementation guidance, in addition to the GRAP Implementation Guideline that will be developed? Please explain your response.**	
5.1	**Roundtable discussion**	
5.1.1	Respondents did not identify any other additional implementation guidance that should be developed.	Noted. No further action required.

	Specific Matter for Comment 6 **In your view, overall, does the application of the proposed Standards of GRAP result in financial statements that would be useful to users? Please explain your response.**	
6.1	**Roundtable discussion**	
6.1.1	Respondents were of the view that the application of the proposed Standards of GRAP results in financial statements that would be useful to users.	Noted. No further action required
	Specific Matter for Comment 7 **In your view, what are the costs and benefits of the proposals relative to the current accounting that are applied by entities in assessing their interests in other entities. In relation to quantitative financial costs, the ASB would be interested to understand the nature and estimated amounts of any expected incremental costs, or cost savings, of the proposals relative to the existing accounting.**	
7.1	**Roundtable discussion**	
7.1.1	No specific comment was noted.	Noted. No further action required.

	GENERAL MATTERS FOR COMMENT	
8.1	**Auditor-General Product Champion meeting**	
	ED 145 Proposed Standard of GRAP on *Consolidated Financial Statements*	
8.1.1	Respondents questioned whether more guidance is provided in the proposed Standard of GRAP on *Consolidated Financial Statements* on the application of the three indicators of control.	Noted. Detailed application guidance is included in the Standard of GRAP *Consolidated Financial Statements* (GRAP 35) on how to assess control. An entity considers whether it has (a) the power over the other entity, (b) exposure, or rights, to variable benefits from its involvement with the other entity and (c) the ability to use its power over the other entity to affect the nature and amount of the benefits from its involvement with the other entity.
8.1.2	Paragraph .59 in GRAP 35 requires that a controlling entity of an investment entity that is not itself an investment entity shall present consolidated financial statements in which it (i) measures the investments of a controlled investment entity at fair value in accordance with the Standard of GRAP on *Financial Instruments* and (ii) consolidates the other assets and liabilities and revenue and expenses of the controlled investment entity in accordance with paragraphs .39 to .56 of this Standard. Respondents questioned whether the investment entity should apply the principles in GRAP 106 to recognise and measure the difference between the assets acquired, liabilities assumed and the consideration transferred (if any).	Noted. In preparing consolidated financial statements, the investment in the investment entity will be presented at fair value, while the remaining assets, liabilities, revenue and expenses should be consolidated in terms of the requirements in GRAP 35.

8.2	**Roundtable discussion**	
8.2.1	Paragraph .47 in GRAP 35 requires that the most recent financial statements of an entity should be used to prepare the consolidation. In comparison, GRAP 6 on *Consolidated and Separate Financial Statements* requires that the period should not be more than three months. Participants involved in the preparation of the legislative consolidations questioned how the exclusion of a three month time period will impact, if at all, the preparation of the consolidated financial statements.	Noted. The Board included a research project on its 2017 work programme to consider practical issues relating to the preparation of the consolidated financial statements by the national and provincial treasuries in terms of the PFMA It is not anticipated that the exclusion of a specific time period will impact the preparation of consolidated financial statements as entities will still be required to adjust for the effects of significant transactions or events. The Board agreed that this comment should be considered as part of its research project (also see the response to comment 4.1.1).