Basis for conclusions

This basis for conclusions gives the Accounting Standards Board's (the Board's) reasons for accepting or rejecting certain solutions related to the accounting for financial instruments. This basis for conclusions accompanies, but is not part of, this Standard.

Introduction

Approach adopted by the Board in its development and revision of GRAP 104

Initial development

BC1. GRAP 104 prescribes the recognition, measurement, presentation and disclosure principles for financial instruments. This Standard was~~is~~ drawn primarily from pronouncements issued by the International Accounting Standards Board (IASB®). These pronouncements include:

- International Accounting Standard (IAS® Standard) 32 on *Financial Instruments: Presentation* (IAS 32)*;*
- International Accounting Standard (IAS® Standard) 39 on *Financial Instruments: Recognition and Measurement* (IAS 39)*;*
- International Financial Reporting Standard on (IFRS® Standard) *Financial Instruments: Disclosures* (IFRS 7)*;* and
- *International Financial Reporting Standard for Small and Medium-sized Entities* (IFRS for SMEs®).

BC2. The Board also considered the pronouncements and practices of other countries as part of the development process. ~~The Board will consider the impact of any Interpretations of IFRSs as part of a separate project.~~

BC3. The Board's key strategy in developing GRAP 104 was to use the relevant IFRS~~s~~ Standards as a basis, and to simplify and streamline the principles prescribed in those Standards wherever appropriate. As a result, ~~In order to achieve this,~~ the Board eliminated ~~undertook to~~:

- ~~eliminate~~ alternative accounting treatments for similar transactions, where possible; and
- ~~eliminate~~ guidance on transactions that are not commonly found in the public sector.

Revision of GRAP 104

BC4. The IASB replaced IAS 39 with International Financial Reporting Standard (IFRS® Standard) on *Financial Instruments* (IFRS 9) in 2014. IFRS 9 substantially revised the way in which financial instruments are classified, how amortised cost is determined, how and when financial assets are assessed for impairment, and overhauled the requirements for hedge accounting.

BC5. The Board received feedback from its stakeholders during the consultation on the work programme that certain aspects of GRAP 104 should be revisited in the light of IFRS 9 being issued. Stakeholders requested that the Board reconsider the categories of financial instruments (financial assets in particular), the impairment model, and hedge accounting.

BC6. In reviewing the three areas identified by stakeholders, the Board considered whether, or the extent to which, GRAP 104 should be aligned with IFRS 9. The Board agreed that it is important to maintain alignment with IFRS 9 as far as possible, but that due consideration should be given to (a) whether the principles are suitable for the public sector; and (b) simplification wherever possible.

BC7. Where relevant, the Board also considered:

- any revisions to IAS 32 and IFRS 7; and
- guidance in IPSAS 29, *Financial Instruments: Recognition and Measurement* as well as proposed revisions to that IPSAS.

~~This basis for conclusions summarises the significant departures that are made from IFRSs and the reasons for such departures.~~

~~Future developments~~

~~Although the IASB recently announced its intention to revise and simplify certain aspects of IAS 39 during 2009, the Board agreed that it would not wait for the IASB to finalise its revisions to IAS 39 before issuing the statement since the issue of GRAP 104 is a Board priority. The Board did, however, agree to undertake a review of the Standard of GRAP once the IASB has completed its project. In particular, the Board wishes to identify other areas of the Standard which are based on IAS 39 and IFRS 7 and which could be simplified, e.g. the accounting for embedded derivatives and the elimination of certain disclosures when the review takes place.~~

Scope

Elimination of guidance on transactions not commonly found in the public sector

BC8. ~~One of the most significant differences between the IFRSs and this Standard is the scope.~~ IFRS~~s~~ Standards provide guidance on:

~~(a) financial guarantee contracts;~~

~~(b) loan commitments;~~

(a) certain share-based payment transactions, including the presentation of treasury shares;

(b) contingent settlement provisions; and

(c) settlement options.

BC9. Based on stakeholder consultations, the Board concluded that some of these transactions are not commonly undertaken in the public sector and, as a result, guidance on these transactions has been eliminated. ~~no guidance has been provided in this Standard for these transactions.~~ Where such transactions exist, particularly those outlined below, an entity applies GRAP 3 in formulating an appropriate accounting policy:

(a) settlement options;

(b) treasury shares; and

(c) contracts, including puttable instruments, that will or may be settled in an entity's own equity instruments and are:

(i) non-derivatives for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or

(ii) derivatives that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

Loan commitments

BC10. When the Board originally issued GRAP 104, it agreed that loan commitments, i.e. a firm commitment to provide loans under pre-specified conditions, should be excluded from the recognition and measurement requirements of this Standard. Although the Board concluded that loan commitments may be prevalent in the public sector, it may be difficult to initially determine a fair value for such instruments as entities are unlikely to charge a commitment fee. The Board agreed that loan commitments should be recognised and measured using GRAP 19.

BC11. In terms of IFRS 9, only some loan commitments are within its scope, most notably loan commitments to provide a loan on below market terms. All loan commitments are however subject to the impairment and derecogntition requirements of IFRS 9. IFRS 9 requires that entities initially measure loan commitments at fair value, and subsequently at the higher of fair value, less any revenue recognised, and the loss allowance. In terms of the new impairment model in IFRS 9, when an entity assesses whether a loan is impaired, it considers both the drawn and undrawn portion of the facility, which includes any loan commitment. As a result of this change in approach, the Board agreed that it could no longer allow entities to recognise loan commitments using GRAP 19, as the accounting approach in GRAP 19 is incompatible with the impairment requirements of IFRS 9. As a result, the Board agreed that the accounting for loan commitments should be revised and aligned with IFRS 9. ~~Certain commitments to provide loans under pre-specified conditions are within the scope of IAS 39, while others are within the scope of the International Accounting Standard on *Provisions, Contingent Liabilities and Contingent Assets.* As entities may enter into loan commitments in the public sector, the Board considered including certain loan commitments, particularly those that provide a loan at a below-market interest rate, within the scope of GRAP 104.~~

~~In terms of IAS 39, entities initially measure loan commitments at fair value which is equal to the commitment fee charged. Entities in the public sector that enter into commitments to provide loans at a below market interest rate usually don't charge a commitment fee. It is difficult to determine a reliable fair value for commitments where no fee is charged. As a result, the Board concluded that it would not include the recognition and measurement of loan commitments within the scope of GRAP 104, but would instead require entities to account for all loan commitments as follows:~~

- ~~any obligation arising from loan commitments should be recognised, measured and/or disclosed in accordance with GRAP 19;~~
- ~~where a commitment fee is charged, the fee should be accounted for in accordance with GRAP 9; and~~
- ~~loan commitments should however be derecognised and disclosed in accordance with GRAP 104.~~

~~The Board concluded that where a commitment fee is charged, an entity shall consider this in determining the best estimate of any obligation that arises from~~

~~issuing the loan commitment. An entity shall recognise any obligation arising from a loan commitment at the higher of:~~

~~(a) the amount determined in accordance with GRAP 19; and~~

~~(b) the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with GRAP 9.~~

<u>*Measurement of loan commitments in a non-exchange transaction*</u>

<u>BC12. When the Board initially developed GRAP 104, one of the concerns raised was the initial measurement of a loan commitment where no fee is charged. The same concern was expressed for the initial measurement of financial guarantee contracts. In reconsidering the accounting for financial guarantee contracts (see paragraphs BC17 to BC 24), the Board agreed that in the absence of a fee being charged, a valuation technique should be used to measure fair value. If this did not result in a reliable measure of fair value, then the financial guarantee contract should be measured at the loss allowance. The Board agreed that a similar approach should be applied for loan commitments.</u>

<u>*Measurement of a loan commitment to provide a concessionary loan*</u>

<u>BC13. As the measurement of commitments to provide loans at below market terms is in the scope of this Standard, the Board considered the potential impact for concessionary loans. As a first step, the Board considered whether “loans at below market terms” are, or include, concessionary loans. The Board agreed that loans “at below market terms” is wider than just concessionary loans. Loans granted on below market terms include commercial arrangements that are concluded on unfavourable terms relative to the market, and also include concessionary loans which are made deliberately to achieve government’s specific policies. Secondly, the Board considered how commitments to provide concessionary loans should be measured as paragraph 5.4 indicates that such loans should be accounted for by separating the loan element from any concessionary element.</u>

<u>BC14. In determining how commitments to provide concessionary loans should be measured, the Board considered what information would be relevant to users. When an entity commits to provide a loan on concessionary terms, it is effectively committing to an outflow of resources on terms that are unfavourable to an entity. Having information about the value to be given away when, as well as the expected credit losses, it commits to the loan, provides relevant information to users of the financial statements about (a) the level of resources needed to fund the loan and the concessionary (social benefit) component, and (b) the credit risk exposure when entering into the arrangement.</u>

BC15. The Board agreed that the initial measurement of the loan commitment should include both the expected loss allowance and the concessionary (social benefit) component of the loan, and that both these aspects should be recognised using the *Framework for the Preparation and Presentation of Financial Statements*[1].

BC16. The Board considered the following aspects related to the measurement of a commitment to provide concessionary loans:

(a) Whether initial recognition on the basis outlined in paragraph BC15. affects the subsequent measurement of the loss allowance. The Board agreed that there will be no effect, but that entities will need to keep record of the initial loss allowance recognised to avoid double counting when subsequently measuring credit losses on the loan commitment. Entities will need to ensure that they only measure and recognise any changes in the loss allowance initially recognised.

(b) Whether any additional guidance is needed in the situations when a loan commitment is issued, but subsequently expires and is not utilised. It was agreed that the requirements for derecognising financial liabilities should be applied and the effect recognised in the statement of financial performance.

Financial guarantee contracts

General principle

~~Under IAS 39, entities are allowed in certain instances to account for financial guarantee contracts as either financial instruments or as insurance contracts in terms of IFRS 4. As the Board does not intend issuing an IFRS 4 equivalent for general use by all entities, it concluded that only entities (insurers) that are primarily engaged in insurance activities may account for financial guarantees in accordance with IFRS 4, while other entities should account for financial guarantees in accordance with BC11.~~

~~IAS 39 requires the issuer of financial guarantee contracts to initially measure them at fair value. The fair value on initial recognition would be the guarantee fee charged by the entity (assuming the fee is market related). The Board considered requiring financial guarantee contracts to be initially measured at fair value in accordance with the requirements of IAS 39, but concluded that there may be public sector reasons to deviate from IAS 39.~~

BC17. ~~A deviation from IAS 39 is appropriate because the reasons for issuing financial guarantees in the public sector are different to the private sector. In particular,~~

[1] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting.*

~~financial guarantees may be issued in the public sector to:~~ Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with terms of a debt instrument. Financial guarantee contracts, although often only issued by a limited number of entities in the public sector, can be significant in value. While the issuing of financial guarantee contracts is commonplace in the private sector, the reasons for issuing financial guarantees differ between the public and private sector. In the private sector, it is often a financial institution that issues financial guarantees in return for a fee. In the public sector, financial guarantees may be issued to:

- ensure certain projects are initiated and that they are affordable, e.g. an entity may guarantee the debt of a private sector entity in a public-private partnership arrangement;
- stabilise and assist certain areas of the economy, e.g. the provision of guarantees to lenders on behalf of industries or businesses during times of economic hardship;
- assist entities in raising affordable financing, e.g. by guaranteeing their bond issues; and
- provide certain services which are in the public interest, e.g. guaranteeing the deposits of certain financial institutions or providing guarantees on behalf of participants in a social housing scheme.

BC18. IAS 39 required entities to initially measure financial guarantee contracts at fair value. As financial guarantee contracts are often issued in the public sector without a guarantee fee being charged, entities were ~~would be~~ required to determine a fair value for financial guarantee contracts by way of valuation ~~if the approach under IAS 39 is followed~~. Given the nature and extent of the financial guarantees issued in the public sector, the Board concluded that initial measurement at fair value is not feasible because the cost of obtaining these valuations would outweigh the benefits for users of the financial statements. It also concluded that given the nature of the guarantees provided, a valuation technique may not necessarily provide a reliable measure of fair value. In its initial development of GRAP 104, the Board agreed that GRAP 19 should be applied to account for financial guarantee contracts.

BC19. In revising GRAP 104, the Board reconsidered whether this approach provides users of the financial statements with the most relevant information to hold entities accountable and make decisions. The Board observed that, by applying GRAP 19, liabilities related to financial guarantee contracts would only be recognised when an outflow of economic benefits or service potential is probable.

Until this threshold is reached, financial guarantee contracts would be disclosed as contingent liabilities. The issuing of a financial guarantee contract has an economic consequence for the issuer which should be considered by users in the context of managing debt and exposure to credit risk. As a result, the Board believed that the approach to recognising and measuring financial guarantee contracts needed to be revised.

BC20. IFRS 9 requires an entity to initially recognise financial guarantee contracts at their fair value, and subsequently at the higher or the fair value (which is usually the fee charged for issuing the guarantee) less any revenue recognised, and the loss allowance which reflects the entity's expected credit losses over the contract period. The Board agreed that this initial measurement at fair value reflects the fact that a potential liability is assumed by the issuer, and the subsequent measure reflects the need to assess and measure the entity's exposure to credit risk at each reporting date. The subsequent measurement based on the expected credit losses on the contract reflects an entity's credit risk exposure to the counterparty whose debt is guaranteed. Based on these arguments, the Board agreed that, in principle, financial guarantee contracts should be in the scope of the revised GRAP 104 and accounted for using the principles in IFRS 9.

BC21. Although there was broad agreement that the principles in IFRS 9 provide more relevant information to users, the same concerns were raised by preparers during the initial development of GRAP 104 about the initial measurement of financial guarantee contracts issued in a non-exchange transaction, i.e. where no, or only a nominal, fee is charged.

BC22. As a result of the concerns raised, the Board considered whether fair value should be determined for all financial guarantee contracts or only those issued in exchange transactions. The Board agreed that fair value should be determined for all financial guarantee contracts as the economic consequences of the transaction are the same. The Board noted that since initially issuing GRAP 104, guidance has been developed by the IPSASB on how to measure the fair value of financial guarantee contracts issued in non-exchange transactions. This guidance will assist in overcoming many of the issues initially raised. The Board agreed that if a reliable measure of fair value cannot be determined by an entity, then an entity initially measures the financial guarantee contract at the value of the loss allowance. A reliable measure of fair value may not be available if, for example, the range of fair values determined by the entity is significant, and/or the range of reasonable estimates cannot be assessed.

BC23. IFRS 9 allows entities to treat financial guarantee contracts as insurance contracts where a past, explicit assertion has been made by an entity that it deems these contracts to be insurance contracts. As financial guarantee contracts were previously recognised and measured using GRAP 19, entities were not permitted to previously treat these contracts as insurance contracts. As a result, the Board eliminated this alternative accounting treatment.

The government as the 'lender of last resort'

BC24. The government often acts as the 'lender of last resort', usually to protect key activities, functions or assets within the economy. The government's obligations as the lender of last resort most often arise from specific legislative requirements to intervene, for example, when certain entities are in distress, to fund shortfalls on pension or similar funds, etc. Questions were raised during the revision of GRAP 104 about whether government's role as the lender of last resort meets the definition of a financial guarantee contract. The Board agreed that these types of arrangements do not meet the definition of a financial guarantee contract (a) because these obligations are statutory rather than contractual in nature, and (b) there is no specific lending arrangement in place as there is no borrower, lender or specific debt being guaranteed.

~~Consequently, the Board concluded that:~~

- ~~any obligations arising from financial guarantees should be initially recognised, measured and/or disclosed in accordance with GRAP 19;~~
- ~~any fee received by the issuer of financial guarantee contracts should be accounted for in accordance with GRAP 9; and~~
- ~~financial guarantees should be derecognised and disclosed in accordance with GRAP 104.~~

~~The Board concluded that where a guarantee fee is charged, an entity should consider this in determining the best estimate of any obligation that arises from issuing the guarantee. An entity should therefore recognise any obligation arising from a financial guarantee at the higher of:~~

~~(a) the amount determined in accordance with GRAP 19; and~~

(c) ~~the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with GRAP 9.~~

Rights and obligations arising from non-exchange revenue transactions

BC25. Following the principles of GRAP 23, entities may recognise monetary assets and liabilities, such as receivables and payables, as a result of a non-exchange revenue transaction. While GRAP 23 provides guidance on the initial recognition and measurement of such transactions, it does not provide any guidance on the subsequent measurement, derecognition, presentation and disclosure of such receivables and payables.

BC26. To the extent that the~~se~~ receivables and payables recognised in accordance with GRAP 23 arise out of contractual arrangements and otherwise satisfy the definition of a financial asset or a financial liability, this Standard should be used for the subsequent measurement, presentation and disclosure of such instruments.

BC27. Financial instruments that are within the scope of this Standard can only arise from ~~out of~~ contractual arrangements. As a result, any monetary financial assets and monetary financial liabilities that arise from non-contractual, non-exchange revenue transactions are not within the scope of this Standard. The subsequent measurement, derecognition, presentation and disclosure of these non-contractual monetary assets are in the scope of GRAP 108~~and monetary liabilities will be prescribed in a Guideline to be issued by the Board~~.

Hedge accounting

BC28. Based on feedback received from stakeholders during the development of GRAP 104, the Board agreed that there is no need to provide guidance on hedge accounting. This is because of the legislative environment which prohibits entities from entering into certain types of instruments, and as a result, limits the hedging instruments available to entities. Entities were however permitted to apply hedge accounting using the principles in IAS 39. ~~Similar to the Board's decision of not providing guidance on certain financial instruments, it has concluded that only a limited number of entities apply hedge accounting in the public sector. Entities may apply hedge accounting, as long as they comply with the requirements of IAS 39 on hedge accounting as well as the disclosures in IFRS 7.~~

BC29. In revising GRAP 104, the Board revisited its earlier decision and again assessed whether there is a need for guidance on hedge accounting. A limited number of entities indicated that they applied hedge accounting. Based on this experience, the Board reconfirmed that no guidance is needed in a revised GRAP 104. Entities are however permitted to apply the hedge accounting requirements in IFRS 9, or the requirements in IAS 39 until such time as they are withdrawn by the IASB.

Definitions

Residual interest

BC30. The IASB defines a financial instrument as: "any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity", with an equity instrument being defined as, "any contract that shows evidence of a residual interest in the net assets of an entity after deducting all of its liabilities".

BC31. The use of the term 'equity instruments' in the public sector is limiting since entities most often do not have capital that is comprised of shares or other forms of unitised capital. Capital contributions in the public sector may be evident in a number of ways, for example, by a formal agreement between the parties to the transaction or a designation of a transfer of resources that represents an interest in the net assets of an entity.

BC32. Consequently, the Board agreed to replace 'equity instruments' with a term that was more representative of the various types of contributed capital found in the public sector. As a result, the term 'equity instruments' has been replaced with 'residual interest'.

BC33. The definition of 'residual interest' describes a residual interest as representing an interest in the net assets of an entity, and that the interest may be evident in:

- equity instruments, for those entities where their contributed capital comprises share capital;
- an agreement between parties that a transfer of resources between entities represents a residual interest in the net assets of an entity; and
- a designation of a transfer of resources between entities that establishes a residual interest in the net assets of another entity.

Financial assets and financial liabilities

BC34. The IASB's definition of a financial asset and a financial liability deals with the settlement of financial instruments in an entity's own equity instruments. It is not common for entities in the public sector to have contributed capital that comprises equity instruments. In cases where the contributed capital comprises equity instruments, there are usually restrictions placed on the ownership of such instruments. It is therefore unlikely that entities will use equity instruments to settle any financial instruments, and thus these requirements have been not been included in the definition of a financial asset and a financial liability for purposes of this Standard.

BC35. To the extent that these transactions are undertaken, entities should apply the relevant IFRS~~s~~ Standards (see paragraph BC9.).

Classification of financial instruments

Overarching classification principles

BC36. The classification principles introduced by IFRS 9 are principle based and focus on the underlying characteristics of an instrument as well as the reasons for an entity holding a financial instrument. This is a significant change from IAS 39 which was largely rules based, and was one of the reasons why the Board developed its own categories of financial instruments based on the principles in IAS 39 and the IFRS for SMEs.

BC37. The Board agreed with the overarching classification, and reclassification, principles in IFRS 9 and agreed to align GRAP 104 as far as possible. The Board agreed to depart from the classification principles in IFRS 9 in the following areas, with the reasons discussed below:

(a) Elimination of the category of financial assets "at fair value through other comprehensive income".

(b) Retention of the category of financial assets "at cost".

Financial assets at fair value through other comprehensive income

BC38. In IFRS 9, an entity that has a strategy of holding financial assets to collect cash flows and for sale, and the cash flows of the asset are "solely payments of principal and interest" (SPPI), classifies such assets at fair value through other comprehensive income. Although the type of instruments included in this category are similar to those measured at amortised cost, the reason for holding the instruments is different. In the amortised cost category, although sales are permitted, they are incidental rather than being integral to the entity's strategy. Given the nature of public sector entities' operations, the Board considered whether the fair value through other comprehensive income category should be introduced.

BC39. The Board observed that entities do not frequently have a strategy of both holding and actively selling instruments. As a result, the Board agreed that such a category is likely not needed. The Board observed that the use of comprehensive income is a mechanism used in the private sector to remove volatility from the statement of financial performance. This results in some gains and losses being presented in the statement of financial performance, while the gains and losses that relate to changes in the market (for the most part) are recognised in the statement of other comprehensive income. The Board agreed that having some gains and losses recognised in the statement of financial performance and some in the statement of other comprehensive income does not provide meaningful information to users and may make it hard for users to assess performance. The Board also agreed that the public sector is often less concerned with volatility in the statement of financial performance as this is not an entity's primary metric of performance.

BC40. The Board agreed to not introduce the category of financial assets at fair value through other comprehensive income for the reasons outlined in paragraph BC 39. The Board agreed that if an entity does not meet the requirements to measure financial assets at amortised cost, such instruments are measured at fair value through surplus or deficit.

Financial assets at cost

BC41. In IAS 39, an entity was permitted to measure investments in residual interests (equity instruments) at cost if there was no reliable measure of fair value. As public sector entities frequently invest in entities with unlisted equity or capital, the Board adopted this principle when GRAP 104 was developed. In IFRS 9, the IASB has limited the use of cost by indicating that it can only be used when more recent information about the investment is unavailable and outlines a number of situations when a fair value must be determined, e.g. where there has been a change in the performance on the entity in which the investment is held. The Board debated whether, in revising GRAP 104, entities should be permitted to continue to use cost.

BC42. In discussing the merits of retaining this approach, the Board noted that when public sector entities invest in the residual interests of other entities, it is usually for public policy reasons. The entities are often newly established, start-up entities and undertake activities to promote economic growth, employment or innovation in certain industries. As a consequence, determining fair value is difficult as there is no market for the instruments, and data for an equivalent instrument or entity is also unlikely to be available. This means that the valuations are likely to be complex and require a high degree of estimation. As a result, it is likely that experts will be needed.

BC43. The Board considered whether using cost, while practical, provides useful information to users of the financial statements. If such investments are made to achieve particular policy objectives, the Board questioned whether recognising an investment at all provides meaningful information to users. On balance, the Board agreed that cost represents the entity's or public sector's investment of economic benefits or service potential in a particular entity and that investment should be recognised.

BC44. The Board agreed that, as a practical expedient, entities should be allowed to measure investments in residual interests at cost where a reliable measure of fair value in unavailable. The Board emphasised the following:

- The use of cost is not an accounting policy choice and that entities may only use cost after demonstrating that there is no reliable measure of fair value.

- The assessment of whether a reliable measure of fair value is available is not a once off assessment. Entities need to determine on an ongoing basis if a reliable measure of fair value is available. If a reliable measure of fair value becomes available (or vice versa), an entity reclassifies the instrument. As such the definition of "reclassification date" and the related principles have been modified from IFRS 9 to accommodate the measurement of the instrument at cost.

Effect of classification principles on concessionary loans granted by an entity

BC45. The Board noted that the subsequent measurement of some concessionary loans under the new classification principles could potentially change. Under the previous classification principles in GRAP 104, all concessionary loans were measured at amortised cost less impairment. The Board observed that some concessionary loans, particularly those that are not solely payments of principal and interest, would need to be measured at fair value. These would typically include loans that have contingent repayment features, or have features that are not linked to a basic lending arrangement, e.g. repayment when a specific income or profitability threshold is reached, when certain metrics are achieved, finding employment etc. While the Board noted the change in measurement, it believed that measurement at fair value better reflect the features and economic characteristics of the loan.

~~**Categories of financial assets and financial liabilities**~~

~~BC27. Subsequent measurement of financial assets and financial liabilities in IAS 39 is based on the categorisation of such assets and liabilities into defined categories. The categories defined in IAS 39 are as follows:~~

~~Financial assets~~

1. ~~financial assets at fair value through profit or loss;~~
2. ~~held-to-maturity investments;~~
3. ~~loans and receivables; and~~
4. ~~available-for-sale financial assets.~~

~~Financial liabilities~~

1. ~~financial liabilities at fair value through profit or loss;~~
2. ~~financial liabilities at amortised cost.~~

~~BC28. The categorisation of financial instruments into the various categories in IAS 39 is overly complex for the types of instruments used in the South African public sector. The Board concluded that streamlining the number of categories and~~

~~simplifying the classification of financial instruments would be appropriate for the types of transactions most commonly undertaken in the public sector. As a result, the Board agreed to prescribe only three categories of financial instruments:~~

- ~~financial instruments at fair value, with the changes in fair value recognised in surplus or deficit;~~
- ~~financial instruments at amortised cost; and~~
- ~~financial instruments at cost.~~

~~BC29. In formulating the three categories of financial instruments, the Board examined existing guidance from the following sources:~~

- ~~existing categories in IAS 39, particularly the financial assets and financial liabilities at fair value and loans and receivables category;~~
- ~~IFRS for SMEs; and~~
- ~~proposed guidance issued by the Public Sector Accounting Standards Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA).~~

~~BC30. Based on the categories of financial instruments included in IAS 39 and the IFRS for SMEs, it identified three measurement bases commonly used for financial instruments, i.e. fair value, amortised cost and, in limited instances, cost.~~

~~BC31. In defining the categories of financial instruments, the Board considered whether fair value should be used as a single measurement basis for all financial instruments. It concluded that measuring all financial instruments at fair value may be inappropriate for the following reasons:~~

- ~~the objective of most public sector entities is to deliver essential public services. The acquisition or incurrence of financial instruments is often as a consequence of their service deliverv actions. Entities often do not manage financial instruments on a fair value basis and an alternative measurement basis should thus be allowed;~~
- ~~the cost of determining fair values for all financial instruments may outweigh the benefits of providing such information; and~~
- ~~measuring certain financial liabilities at fair value may result in an understatement of an entity's liabilities at reporting date.~~

~~BC32. The Board therefore considered that both fair value and amortised cost should be used as measurement bases for financial instruments. It sought to identify what the appropriate criteria should be for measuring financial instruments at fair value and amortised cost respectively.~~

~~BC33. The Board concluded that derivative financial instruments and instruments held for trading should be measured at fair value since this best reflects the entity's intention for holding such instruments.~~

~~BC34. It concluded that non-derivative instruments with fixed or determinable payments, such as deposits with financial institutions, debtors, creditors and other debt instruments should be measured at amortised cost. The Board noted, however, that in certain instances measuring non-derivative instruments with fixed or determinable payments at amortised cost may be inappropriate and may not reflect an entity's intention for holding a specific instrument. A specific example may occur where an entity undertakes economic hedging by entering into a derivative to offset fluctuations in a non-derivative debt instrument, with the effect that the derivative is measured at fair value and the debt instrument at amortised cost.~~

~~BC35. As a result, the Board concluded that entities should be allowed to designate non-derivative financial instruments with fixed or determinable payments at fair value on initial recognition, on an instrument by instrument basis. The Board considered the circumstances under which designations at fair value may be appropriate. It concluded that a free designation of non-derivative financial assets with fixed or determinable payments at fair value should be allowed, although the criteria for the designation of such financial assets at fair value should be provided in an entity's accounting policies. It concluded that non-derivative financial liabilities with fixed or determinable payments should only be designated at fair value to eliminate a recognition or measurement inconsistency that would otherwise arise from applying the principles of the Standard to financial assets and financial liabilities.~~

~~BC36. The Board also acknowledged that it may be appropriate to designate certain combined instruments, which would otherwise require separation in accordance with the Standard, at fair value. It concluded that combined instruments, which include a host contract that is a financial instrument, could be designated at fair value in certain instances.~~

~~BC37. The Board also concluded that the use of cost as a measurement basis for financial instruments should be limited. It agreed to limit the use of fair value to those investments in residual interests where fair value cannot be reliably measured.~~

Initial recognition

Regular way purchases and sales of financial assets

BC46. IAS 39 allows regular way purchases and sales of financial assets to be recognised using either trade or settlement date accounting. A distinction is necessary in IAS 39 between regular way purchases and sales of financial assets and other purchases and sales of financial assets, such as derivatives, because derivatives are recognised at ~~on their~~ trade date only. In order to eliminate alternative accounting treatments as far as possible for similar transactions, the Board concluded that it would only prescribe that trade date accounting be used for regular way purchases and sales of financial assets. The decision to eliminate settlement date account is based on practice in the public sector internationally and locally.

BC47. As trade date accounting is effectively prescribed for all purchases and sales of financial assets, the Board deemed it unnecessary to make a distinction between regular way purchases and sales of financial assets and purchases and sales of other financial assets. As a result, the concept of regular way purchases and sales of financial assets had been omitted from this Standard.

BC48. The principle in IFRS 9 is unchanged, and in the interest of simplifying this Standard by eliminating alternative accounting treatments, the Board confirmed its earlier decision.

Initial measurement

Concessionary loans

BC49. Concessionary loans are either received or granted by government or its entities for a variety of social or economic reasons. These loans usually have lenient repayment terms for interest, capital or both, and/or are granted at below market interest rates.

BC50. IAS 39 provides guidance on the accounting treatment for low or no interest loans. It prescribes that these loans should be measured on initial recognition at fair value. This represented ~~is equal to~~ the present value of the contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds of the loan and the present value of the contractual cash flows was~~is~~ amortised over the period of the loan using the effective interest method (by applying an effective interest rate).

BC51. The Board concluded that in the case of concessionary loans, the difference between the present value of the contractual payments using a market related rate of interest for a similar debt instrument, with similar terms, maturity, currency and risk profile and the proceeds granted or received, may, in substance, result in non-exchange revenue (for the recipient of a concessionary loan), or a social benefit (for the grantor of a concessionary loan).

BC52. With the alignment of GRAP 104 with the impairment requirements of IFRS 9, a number of principles related to the measurement of concessionary loans issued by an entity needed to be revisited. In particular, the Board considered the implications for the measurement of concessionary loans that are credit impaired on purchase or origination and those that become credit impaired after initial recognition.

BC53. The existing guidance in GRAP 104 requires an entity to separate a concessionary loan into two components: (a) the loan (financial asset) and (b) the concessionary (social benefit element of the loan). Any impairment losses were considered separately as part of the subsequent measurement of the loan. IFRS 9 introduces a requirement to assess whether a financial asset is credit impaired on purchase or origination. An entity is required to include any expected credit losses in the fair value of the loan on initial recognition. The inclusion of expected credit losses in the initial measurement not only affects the cash flows used to determine fair value, it also affects the interest rate used to discount the cash flows (this rate is the credit adjusted effective interest rate). For concessionary loans that become credit impaired, the treatment under IFRS 9 and GRAP 104 on initial recognition is unchanged.

BC54. The Board believes that having separate information on the concessionary (social benefit) component of the loan and the credit loss is important, as it helps users to identify what resources were given away by the entity to achieve particular government policies, and what resources are being lost as a result of poor credit management practices or exposure to credit risk. While this can be achieved for concessionary loans that become credit impaired after initial recognition, it is not possible to separately distinguish the concessionary (social benefit) component of the loan from the expected credit losses for loans that are credit impaired on purchase or origination without modifying the principles in IFRS 9. As a result, the Board agreed that the concessionary element recognised should include the credit losses and any social benefits provided.

BC55. Stakeholders also raised potential issues with determining the fair value of a purchased or originated credit impaired concessionary loan on initial recognition. It is unlikely that a market, or reliable market data, exists on which to determine fair value. As a practical expedient when a reliable measure of fair value cannot be determined for purchased or originated credit impaired concessionary loans, stakeholders suggested measuring fair value by reference to:

- The estimated cash flows of the instrument, including expected credit losses. The expected cash flows reflect the cash flows that are expected from the instrument, rather than what the entity collects, or is willing to collect, i.e. the entity's own collection practices are ignored in determining the expected cash flows.

- Discounted using a rate that best reflects the time value of money of the instrument. This rate should exclude any consideration of credit risk as the effect of credit risk is included in the expected cash flows.

BC56. The Board agreed that this approach may provide more meaningful information to users under the circumstances, as the measurement appropriately reflects the credit risk of the instrument and considers the settlement of the instrument over time.

Accounting treatment by the recipient

BC57. The Board considered that where an entity receives a concessionary loan, the difference between the loan proceeds and the fair value of the loan may result in either non-exchange revenue or a contribution from owners.

BC58. The Board concluded that entities should consider the guidance in this Standard as well as GRAP 23 in identifying whether the difference between the fair value of the loan and the loan proceeds is a transfer of resources that is non-exchange revenue or a contribution from owners.

Accounting treatment by the issuer

BC59. The Board agreed that the issuer of a concessionary loan should also assess whether the nature of the difference between the loan proceeds and the fair value of the loan represents a loan ~~an additional capital contribution~~ or a transfer of resources. The Board concluded that the issuer of a concessionary loan should apply this Standard as well as the *Framework for the Preparation and Presentation of Financial Statements*[1] in making this assessment.

BC60. A transfer might be provided in the form of a social benefit. Social benefits are defined for purposes of this Standard, as a cash transfer paid to individuals and households in a non-exchange transaction to protect them against certain social risks. Where an entity grants concessionary loans to individuals or households, a component of the concessionary loan may be deemed to be a social benefit and accounted for in accordance with the *Framework for the Preparation and Presentation of Financial Statements*[1].

BC61. Where an entity grants a concessionary loan to another entity (which for purposes of this Standard would include, but not be limited to, an unincorporated entity, partnership or trust) the difference between the loan proceeds and the fair value of the loan is treated in accordance with the *Framework for the Preparation and Presentation of Financial Statements*[1].

Concessionary investments

BC62. In revising IPSAS 29, the IPSASB discussed the notion of a "concessionary investment". This is when an entity invests in the residual interests of another entity, usually to achieve specific public policy objectives, and all or part of the investment is a non-exchange transaction. The Board agreed that guidance on how to account for these transactions may be useful and would ensure that transactions are accounted for based on their underlying economic characteristics. The principles underlying the accounting treatment of these instruments are the same as concessionary loans. As the entity would need to assess whether the transaction is an investment in another entity or a social benefit, the Board noted that the terms and conditions of the arrangement between the parties would need to be examined to identify the component parts. If it is unclear from the arrangement whether there is one or more part to the transaction, the default treatment is that the investment is treated as the acquisition of an interest in the residual interests of the entity.

Fair value

BC63. The concept of fair value in IFRS 9 is based on that outlined in International Financial Reporting Standard (IFRS® Standard) 13 on *Fair Value Measurement* (IFRS 13). As there is no equivalent of IFRS 13 in the public sector, the Board agreed to retain the existing fair value guidance from IAS 39.

Discounting financial assets and financial liabilities on initial recognition

BC64. ~~IAS 39 requires that financial assets and financial liabilities initially be recognised at fair value. AG79 states that,~~ Paragraph AG5.8 indicates that "Short term receivables and payables with no stated interest rate may be measured at the original amount if the effect of discounting is immaterial". Determining when discounting is or is not material has been an area of interpretation that has resulted in divergent practice in the public sector. The effect of discounting can be material from the day that services are received or provided if a period of credit is received by or granted to consumers of those goods and services. However, to discount receivables or payables at this point may be onerous and impractical in the public sector.

BC65. As a result, the Board ~~has~~ concluded that financial assets and financial liabilities should not be discounted prior to their due date for payment, unless the credit period granted is not in line with operating terms in the public sector. Where the credit granted between the date of originating the receivable or payable and its due date for payment is not in line with accepted practice or legislation in the public sector, an entity shall consider whether the effect of discounting is material.

~~Reclassifications of financial instruments~~

~~BC51. As the Board prescribed categories of financial assets and financial liabilities for purposes of subsequent measurement that are different from IAS 39, the circumstances under which reclassifications may be made differ from IAS 39. The paragraphs that follow outline under what circumstances reclassifications may be made.~~

~~BC52. As the categories of financial instruments are more flexible than under IAS 39, the Board considered that reclassifications between the various categories of financial instruments should be limited. It concluded that reclassifications should not be allowed while instruments are issued or held, except in the following cases:~~

~~(a) A host contract that is part of a combined instrument may be reclassified from amortised cost or cost to fair value if it was separated from the embedded derivative on initial recognition, and the fair value of the embedded derivative cannot be measured reliably at a subsequent reporting date. This effectively requires a reclassification of the host contract from amortised cost or cost to fair value during the life of the debt instrument.~~

~~(b) An investment in a residual interest may be reclassified between the fair value and cost categories. If fair value cannot be measured reliably for an investment in a residual interest, an entity may measure it at cost. Similarly, if a fair value can be measured reliably for the investment, it should be measured at fair value.~~

~~No other reclassifications are permitted.~~

~~BC53. The Board considered whether reclassifications should be allowed from fair value to amortised cost where fair value can no longer be determined for instruments measured at fair value or because there has been a change in management's intention.~~

~~BC54. An entity is allowed a certain degree of flexibility at initial recognition to measure certain instruments at amortised cost or fair value. The Board therefore concluded that in order to simplify the requirements of the Standard and to avoid the manipulation of an entity's results, the accounting for financial instruments should be based on management's intention and actions at initial recognition.~~

Subsequent measurement

BC66. After the global financial crisis, the IASB substantially changed its approach to both assessing when an asset is impaired, as well as how the amount of any potential impairment loss is calculated. This has meant a complete change to the impairment model included in GRAP 104, as well as how amortised cost and interest revenue are determined. The Board agreed that it should align the impairment approach and method for determining amortised cost in GRAP 104 with that in IFRS 9. A number of principles were however considered in deciding whether the approach in IFRS 9 results in relevant information for users of financial statements in the public sector. The paragraphs that follow outline the key areas of the Board's deliberations.

Amortised cost

BC67. With the change in impairment approach, there have been a number of changes to the way in which amortised cost of a financial asset is determined, as well as how interest revenue is calculated. In particular, interest revenue is calculated by applying the effective interest rate to the gross carrying amount of the financial asset, unless it is credit impaired on purchase or origination, or becomes credit impaired. In these instances, interest revenue is based on the amortised cost of the instrument (i.e. including the allowance), and using the credit-adjusted effective interest rate for purchased or originated credit impaired instruments. The Board's discussion on the appropriateness of these principles for the public sector is outlined in paragraphs BC68 to BC76 below.

Write offs

BC68. IFRS 9 introduced the notion of a "write-off" of financial assets where there is no reasonable expectation that part of a financial asset is collectable. While stakeholders supported the principle, they requested guidance on the interaction between write-offs and the loss allowance under the new impairment model. In particular, guidance was requested on whether write-offs should first be recognised in the loss allowance, or whether any write off is recognised by removing any balance in the loss allowance and recognising any additional amount in the statement of financial performance.

BC69. The Board debated whether it should provide explicit guidance on the approach to be followed. The Board acknowledged that under the new expected credit loss approach, entities are likely to anticipate any significant declines in credit risk and include these in the loss allowance at year end. It is however possible that unforeseen circumstances arise which mean that a further loss should be recognised. For these reasons, and given that entities in the public sector undertake diverse activities, the Board agreed that entities can apply either approach outlined in BC67.

Impairment of financial assets

BC70. The IASB substantially changed the impairment approach from an "incurred loss model" in IAS 39 to an "expected credit loss model" in IFRS 9. The approach in IFRS 9 means that users have information available earlier about any anticipated credit losses on financial assets. Given the potential for improved information to users, the Board agreed to align the impairment approach in GRAP 104 with that in IFRS 9 as far as possible. The exceptions are discussed below.

Purchased or originated credit impaired financial assets

BC71. In terms of the new expected credit loss model, an entity includes expected credit losses over the life of a financial asset in the initial measurement of an instrument that is credit impaired on purchase or origination. The effective interest rate – called the "credit adjusted effective interest rate" – is used to calculate interest revenue using the value of the financial asset including credit losses.

BC72. The Board noted that entities in the South African environment are often required to transact with other parties to provide basic services, irrespective of whether those parties can afford to pay for the services received. This means that there is a high prevalence of revenue transactions where their collectability is in doubt at the initiation of the transaction. The potential implications of introducing the requirements for purchased or originated credit impaired transactions can therefore have a pervasive effect on the sector, and in particular, local government.

BC73. Given the potential implications, the Board considered the effect of including credit losses in the initial measurement in the receivable on the recognition of revenue related to the sale of goods and services, and in particular, whether this principle is consistent with IGRAP 1 *Applying the Probability Test on Initial Recognition of Revenue.* The recognition of interest revenue on a "net" rather than a "gross" basis was also considered.

BC74. In considering the requirements for purchased or originated credit impaired financial assets in IFRS 9 to sale transactions, the Board concluded that a reduced amount of revenue would be recognised, as the receivable would be measured including any expected credit losses. The Board concluded that this is inconsistent with IGRAP 1 which views uncollectability (i.e. credit losses) as an event that is considered in the subsequent measurement of the transaction.

BC75. As a result of the inconsistency between IFRS 9 and IGRAP 1, the Board debated whether it should amend the requirements of IGRAP 1 or IFRS 9. The Board agreed that the principles in IGRAP 1 respond directly to the legislative obligations of public sector entities locally to collect, and be accountable for, all revenue due to the state. As a result, the Board agreed that the principles for purchased or originated credit impaired instruments should not be applied to receivables related to contractual revenue arrangements in the scope of GRAP 9 or GRAP 23. The Board noted that while it supports a departure from IFRS 9, it is to respond to the legislative environment locally rather than being a disagreement with the conceptual merits of the principle.

BC76. With regards to the recognition of interest revenue, the Board noted that IGRAP 1 makes no explicit reference to interest revenue. Given that interest revenue is calculated on a net basis (i.e. including credit losses) for purchased or originated credit impaired instruments, or when an instrument becomes impaired after initial recognition, the Board agreed to exclude the recognition of interest from IGRAP 1. Without this amendment, situations may arise when entities will recognise interest on a gross rather than a net basis by applying the principles in IGRAP 1, while ignoring the specific prescripts of GRAP 104.

Financial assets measured at cost

BC77. The Board considered whether the expected credit loss model could be applied to financial assets measured at cost. The Board considered that the expected credit loss model may be inappropriate for such investments as the model requires sophisticated information about credit risk and expected cash flows (based on historical, current and forecast data) which may not be available for the instruments in question. The Board debated whether it should retain the existing impairment approach in GRAP 104 for these instruments. The existing approach relies on a loss event occurring, rather than focusing on expected losses. An entity could estimate the expected cash flows of the instrument after this event and discount them based on a market rate at reporting date.

BC78. The Board debated whether it is appropriate to continue to measure an investment at cost if cash flow information is available. Arguably if cash flow information is available, then the instrument should be measured at fair value. The Board agreed that the threshold to use fair value as a measurement basis is higher than the threshold to use cash flows for impairment purposes. The Board also agreed that if an event has occurred that indicates that the value of the investment has declined, then the entity has no alternative but to assess impairment using the best information available. Based on these arguments, the Board agreed to retain the current impairment model in GRAP 104 for investments in residual interests measured at cost. An entity should use the definition of a “credit impaired financial asset” to assess whether a loss event has occurred.

Simplified approach for impairing receivables and lease receivables

BC79. In assessing the period over which expected credit losses should be determined, an entity determines whether there has been a significant increase in credit risk.

A significant increase in credit risk requires an entity to use lifetime expected credit losses. Where there has been no significant increase in credit risk, an entity estimates losses over a twelve month period. In IFRS 9, an entity can use a practical expedient for trade and lease receivables where there is no significant financing transaction. The practical expedient allows entities to use the lifetime expected credit losses of the instrument. Entities have a choice of applying this expedient where there is a significant financing transaction, and may apply the choice separately for trade and lease receivables. This Standard uses the term "receivables", which broadly refers to contractual arrangements where goods and services are provided by the entity to another party.

BC80. As the practical expedient means that entities do not need data about credit risk, this is helpful in the public sector environment where entities are often compelled to transact with other parties, and as a result, do not collect information on the credit risk of their customers. The Board agreed that, in the interest of simplifying the requirements, the lifetime expected credit losses should be determined for all trade and lease receivables, irrespective of whether a financial transaction exists.

Use of collateral in determining expected credit losses

BC81. In determining the expected credit losses of an instrument, an entity considers the effect of any collateral held. In developing GRAP 104, the Board agreed that collateral should not be considered by an entity in estimating credit losses if the entity has no intention to use the collateral. This is particularly the case where municipalities hold collateral over fixed property for any amounts owing to it, but in most instances, the municipality does not utilise the collateral if this would create undue hardship on the other party. The Board agreed that this principle should be retained and applied under the expected credit loss approach.

Recognition of gains and losses

BC82. IFRS 9 allows entities an irrevocable choice on initial recognition to recognise the fair value gains and losses on investments in residual interests in other comprehensive income. For the same reasons outlined in paragraph BC39, the Board agreed that this accounting policy choice should not be permitted. All fair value gains and losses on investments in residual interests should be recognised in surplus or deficit.

Derecognition of financial assets

BC83. When the Board originally issued GRAP 104, the principles for derecognising financial assets in IAS 39 were deemed to be ~~are~~ too complex for most of the transactions undertaken by public sector entities. As a result, the Board agreed to follow a simpler approach by adopting the principles in the IFRS for SMEs for derecognising financial assets. This approach does not require entities to:

- test whether the contractual rights to receive the cash flows of a financial asset have been retained by the entity, but with a corresponding obligation to pay those cash flows to one or more entities (called ‘pass-through’ testing); and
- apply a continuing involvement approach. This approach is applied where entities retain control of an asset, but transfer some risks and rewards of ownership of a financial asset to one or more entities.

BC84. In the absence of applying a continuing involvement approach, this~~the~~ Standard requires that entities continue to recognise financial assets in their entirety, with the exception of specifically identified cash flows of financial assets, such as interest strips, that may be result in the derecognition of part of a financial asset.

BC85. The derecognition requirements in IFRS 9 are the same as in IAS 39. In revising GRAP 104, stakeholders did not raise any specific issues with the derecognition requirements, and as a result, they were retained, unamended.

Presentation

BC86. IAS 32 requires entities to recognise gains and losses on financial instruments either in a statement of comprehensive income or in a separate income statement. As the Board has not yet considered the amendments made by the IASB to the International Accounting Standard on *Presentation of Financial Statements* (IAS 1), which introduced a statement of comprehensive income in the financial statements, this Standard only allows entities to recognise such gains and losses in the statement of financial performance.

Disclosure

~~BC72. Disclosures have been modified from IFRS 7 to accommodate the new categories of financial instruments introduced in this Standard.~~

BC87. In developing GRAP 104, the Board aimed to streamline and simplify the disclosure requirements wherever possible so that relevant information is provided to users of the financial statements. In revising GRAP 104 to align it with the revised requirements of IFRS 7 following the issue of IFRS 9, the same approach was followed.

Disclosure of credit risk information for assets and liabilities measured at fair value

BC88. IFRS 7 requires extensive disclosures about the credit risk of financial assets and financial liabilities ~~related to loans and receivables~~ designated at fair value. The Board was initially of the view ~~The Board is of the view~~ that these disclosures are not relevant to the types of financial instruments that commonly occur in the South African public sector. The Board however noted that users of the financial statements need this information to assess the proportion of changes in fair value that are due to a change in market or credit risk. As a result, the board agreed to re-instate these disclosure requirements. The Board also agreed that, because some concessionary loans could now be measured at fair value rather than amortised cost, the disclosures should be extended to concessionary loans granted by an entity.~~As a result, these disclosures have not been included in this Standard.~~

Disclosing the fair value of instruments measured at amortised cost

BC89. IFRS 7 requires that the fair value of all financial instruments be disclosed in the financial statements. The Board is of the view that providing the fair values for all financial instruments may be costly. As a result it concluded that disclosure of the fair value of financial instruments is encouraged, but not required. The Board has also only encouraged rather than required entities to produce information about transfers between the various levels in the fair value hierarchy, reconciliations of the opening and closing balances of various levels within the fair value hierarchy and sensitivity analyses of the various assumptions used within the various levels of the fair value hierarchy.

BC90. ~~In line with paragraph BC60., t~~The Board has also not prescribed the disclosure of the fair value of any collateral held by the entity. The Board has, however, prescribed that entities disclose whether or not, in management's view, the collateral held is sufficient for the debt owing to the entity.

Disclosure of the nominal values of instruments

BC91. The Board received input from stakeholders during the initial development of GRAP 104 indicating that disclosure of the nominal values of instruments may be particularly useful for accountability purposes because officials in the public sector are held accountable for the nominal values of financial assets and financial liabilities and not their fair values. In particular, it is useful to disclose the nominal values of financial assets and financial liabilities where the transaction price is not representative of fair value on initial recognition. The Board agreed that it should be mandatory for entities to disclose the nominal values of concessionary loans granted or received and that entities should be encouraged to provide the nominal values of other financial assets or financial liabilities where this information is useful to users of the financial statements.

BC92. In revising GRAP 104, the Board reconsidered the encouraged disclosure of nominal values. In line with decisions on other projects, the Board agreed that it should eliminate encouraged disclosures wherever possible as a means of simplifying the requirements of the Standards of GRAP. As a result, the Board agreed to delete this disclosure.

Exposure to market risk

BC93. IFRS 7 requires entities to prepare a sensitivity analysis outlining the impact of market risks on profit or loss or equity. Many entities in the public sector are not exposed to ~~significant~~ market risks because, for example, legislation limits entering into transactions in foreign currency and other complex financial instruments. As a result the Board concluded that a sensitivity analysis is only required to be prepared by an entity when it is exposed to significant market risk. ~~should be encouraged for those entities where this information would be useful.~~

Management of contributed capital

BC94. The IASB amended IAS 1 in 2005, requiring entities to disclose additional information about how they managed their capital. The purpose of these disclosures is to highlight important factors for users to consider in assessing the risk profile of an entity and its ability to withstand unexpected adverse events, including how those changes may affect the entity's ability to pay dividends.

BC95. Many entities in the public sector do not hold contributed capital and may not borrow money. As a result, entities do not focus on managing their capital as envisaged by the IAS 1 disclosures. As a result, the Board deemed these disclosures to be inappropriate to the South African public sector and has not proposed similar amendments to GRAP 1.