

FEEDBACK STATEMENT – ED 139 AND ED 151 PROPOSED INTERPRETATION OF THE STANDARDS OF GRAP ON *RECOGNITION AND DERECOGNITION OF LAND*

<p>This Feedback Statement outlines feedback received on the Interpretation to the Standards of GRAP on <i>Recognition and Derecognition of Land</i></p>	<p>Overview</p>	<p>This Feedback Statement outlines decisions taken by the Board prior to approving the Interpretation of the Standards of GRAP on <i>Recognition and Derecognition of Land</i> (IGRAP 18) and outlines the key principles in IGRAP 18.</p>
	<p>Consultation process</p>	<p>The ASB undertook a public consultation, which included users of the financial statements, preparers, auditors, and other interested parties.</p>
	<p>Supporting material</p>	<p>The Board’s analysis of both the written and verbal comments received on ED 139 and ED 151 along with its responses thereto.</p> <p>The final Interpretation of the Standards of GRAP on <i>Recognition and Derecognition of Land</i>.</p> <p>These materials can be accessed on the ASB’s website.</p>
	<p>Next steps</p>	<p>IGRAP 18 becomes effective for financial periods commencing on or after 1 April 2019. Entities can, however, apply the principles in the Interpretation earlier.</p>



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What we heard	
General support expressed for the principles proposed	Respondents welcomed and generally supported the guidance and clarification on accounting for land.
Alternative approaches proposed	<p>During the consultation on ED 139, some respondents proposed alternative approaches to recognise and derecognise land, namely:</p> <p>(a) <i>Recognition of right-of-use of land</i></p> <p>It was proposed that an approach similar to the new IFRS 16 <i>Leases</i> should be adopted. Applying this approach to the recognition and derecognition of land would mean that the legal owner of the land accounts for the land. The entity that uses the land recognises its right to use the land, which will then be amortised over the period over which the rights are granted.</p> <p>(b) <i>Two model approach for recognition and derecognition of land</i></p> <p>It was proposed that the principles in the IGRAP should only be applied to transactions that involve entities outside the government, or transactions within government where there is a clear commercial objective to the transaction. Another model should then be developed for transactions that are undertaken within government, or between government entities where there is no commercial objective. Adopting this approach would result in the inclusion of two models in the IGRAP. The first model would be based on the proposals included in the IGRAP, while in the second model, the custodian of the land will recognise the land and the entity that uses the land will recognise a right to use the asset.</p> <p>The Board reconfirmed its previous decision that the IGRAP should be based on the principles in the Conceptual Framework and existing Standards of GRAP. The principle of substance over form, and the principle that legal ownership is only one method of assessing control of land were applied in developing the IGRAP. The Board also agreed not to adopt an approach that has not yet been considered in the public sector at an international level. The Board also noted that the International Public Sector Accounting Standards Board has commenced work on the development of public sector equivalent guidance to IFRS 16. The Board concluded that it would be premature to develop a pronouncement on principles that have not yet been tested in the public sector.</p>

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What we heard

Indicators to assess control of land

Proposals on indicators of control in ED 139

ED 139 proposed that control may be evidenced by the following indicators:

- legal ownership; or
- the right to access the land, and to restrict or deny the access of others to the land; and/or
- the existence of an enforceable right to service potential or the ability to generate future economic benefits arising from the land.

In applying the third criterion, ED 139 indicated that, for an entity to conclude that it controls land, the period of time over which the entity has an enforceable right need to be long enough to reflect the indefinite nature of the land.

Respondents noted two overall issues in applying the indicators of control: (1) clarity was required on what it meant to use land for a long enough period to reflect the indefinite nature of land, and (2) clarity was requested on who should recognise land where one entity concludes that it has the right to direct, or to restrict or deny the access of others to the land, while another entity demonstrates that it has an enforceable right to use the land.

The Board reconsidered the third indicator of control in ED 139 and agreed that the second and third indicators should be combined.

The Board also agreed that where an entity has the right to use the land for a period of time, the right of use should be for an indefinite period. Indefinite use on its own, however, does not mean that an entity controls land. The entity should be able to demonstrate that it has both indefinite use and certain substantive rights in order for it to control land.

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What we heard

Indicators to assess control of land

For an entity to demonstrate that it has substantive rights, the Board agreed that an entity should consider whether it can:

- directly use the land’s future economic benefits or service potential benefits to provide services to beneficiaries; or
- exchange, dispose of, or transfer the land; or
- use the land in any other way to generate future economic benefits or service potential.

ED 139 was amended to explain that where an entity has been granted a right to use land but the right is not for an indefinite period of time, it needs to consider whether the right should be accounted for in terms of GRAP 13 *Leases*, or in terms of another Standard of GRAP.

Revised indicators of control issued in ED 151

As a result of the changes made by the Board to the control criteria in ED 139 and the principles related thereto, the Board re-exposed the proposed IGRAP in ED 151. All the respondents to ED 151 supported the proposal to combine the second and third indicator of control as proposed in ED 139. Respondents also supported the additional clarification provided in ED 151.

The right to use land for an indefinite period of time versus unlimited period of time

Following the clarification of the indicators to assess control of land, respondents proposed that the reference to “indefinite period” in ED 151 should be amended to a more appropriate term. It was noted that “indefinite period” means that the entity is unsure about the time period over which it will have a right to direct access to land, and to restrict or deny the access of others to the land.

The Board agreed to amend the reference in the second criterion in ED 151 from “indefinite period” to “unlimited period” as “unlimited” indicates that there is no time limit to the period over which the entity will have a right to direct access to land, and to restrict or deny the access of others to the land. “Unlimited period” is also used in GRAP 17 *Property, Plant and Equipment* when referring to the useful life of land.

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What we heard	
Existence of a binding arrangement	<p>A number of respondents observed that a binding arrangement may not always be in place due to the lack of formalised arrangements, particularly between public sector entities and traditional authorities. Specific engagements were undertaken with the Department of Co-operative Government and Traditional Affairs, the Department of Rural Development and Land Affairs and the Government Immovable Technical Committee (GITC) to understand the nature of the arrangements in place between public sector entities and traditional authorities.</p> <p>Based on these consultations, the Board confirmed that evidence of a binding arrangement, whether in the form of legislation, a Permission to Occupy (PTO), minutes or recordings of discussions between the national or provincial government and the traditional authority and/or the community, exist in the majority of instances. The Board therefore agreed that no amendment should be made to the principle in ED 139 that requires the existence of a binding arrangement.</p>
Control of land by custodians	<p>Some respondents questioned whether a custodian controls land in all instances. The Board clarified the guidance in ED 151 to explain that legislation or similar means confers specific rights and responsibilities to custodians. These rights and responsibilities mean that the custodian is responsible for acquiring, managing and disposing of land subject to the relevant legislative requirements. Therefore, where one entity is the custodian of land while another entity is the legal owner, the custodian has the right to direct access to and restrict or deny access of others to land. In these instances, the custodian, rather than the legal owner, controls the land.</p>
Amendments to the proposed disclosure requirements	<p>ED 139 required an entity that is not the legal owner of the land, but assesses that it controls the land, to disclose in aggregate, the carrying value of the land recognised as its asset, and judgements made and assumptions applied to conclude that it controls the land. An entity that is the legal owner of the land, but who concludes that it does not control the land, was required to disclose the judgements and assumptions applied to conclude that it does not control the land.</p>

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Amendments to the proposed disclosure requirements	<p>The majority of respondents supported these disclosure requirements. Some respondents did however note that the disclosures could be too onerous when an entity is required to disclose specific judgements and assumptions applied on a case-by-case basis. The deletion of these disclosures was therefore proposed.</p> <p>The Board agreed to clarify in the basis for conclusions that the intention of the disclosures is not to provide information on a case-by-case basis, but in aggregate based on the type or nature of the land (for example, residential land, commercial land, etc.). In addition, the disclosure requirements have been amended to only require the disclosure of key judgements and assumptions.</p>
Additional consequential amendments included in GRAP 37 <i>Joint Arrangements</i>	<p>In finalising the proposed IGRAP, the Board agreed to include additional consequential amendments in GRAP 37 <i>Joint Control</i> to update the guidance on the joint control of an asset in the proposed IGRAP when GRAP 37 becomes effective.</p>
Summary of key principles	
Summary of key principles	<ul style="list-style-type: none"> • The IGRAP outlines principles to enable an entity to assess whether it controls land based on legal ownership or other rights. It also provides guidance on accounting for land where there is joint control of land. • When control of land is demonstrated after applying the control criteria, the entity should account for the land by applying the applicable Standards of GRAP to classify, initially and subsequently measure the land, and to present and disclose information to the users of the financial statements. If control of the land is not demonstrated, the entity applies the applicable Standards of GRAP to derecognise the land from its financial statements if it previously accounted for the land as its asset.

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Summary of key principles

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- An entity needs to apply judgement to assess control of land in applying the control criteria, i.e. (a) legal ownership; and/or (b) the right to direct access to land, and to restrict or deny the access of others to land.
- The recognition and derecognition of buildings and other structures are not addressed in the IGRAP. Buildings and other structures on the land are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures
- The control criteria are evidenced in a binding arrangement that is entered into between parties. A binding arrangement confers enforceable rights and obligations on the parties to the arrangement. A binding arrangement can be evidenced through (a) contract concluded between the parties; (b) legislation, supporting regulations or similar means including, but not limited to laws, regulation, policies, decisions concluded by authorities such as cabinet, executive committees, boards, municipal councils and ministerial orders; or (c) the operation of law, including common law.
- The entity needs to assess, at each reporting date, whether there were any changes made to the binding arrangement that may impact its initial assessment of control of the land.
- If one entity has the right to direct access to, and restrict or deny the access of others to land while another entity is the legal owner, the land is controlled by the entity that has the right to direct access to land, and to restrict or deny the access of others to land.
- For an entity to demonstrate that it has the right to direct access to land, and to restrict or deny the access of others to land, it should consider whether it can:
 - (a) direct the use of the land's future economic benefits or service potential to provide services to beneficiaries,
 - (b) exchange, dispose of, or transfer the land; and/or
- use the land in any other way to generate future economic benefits or service potential.

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- When an entity has been granted a right to use land for a period of time, the right of use should be for an indefinite period. The entity should be able to demonstrate that it has both indefinite use of the land as well as substantive rights in order for it to control land. For an entity to demonstrate that it has substantive rights, the criteria listed in the previous bullet should be considered.
- Where an entity has been granted a right to use land, the entity should account for the right in terms of GRAP 13 *Leases*, or in terms of another applicable Standard of GRAP.
- Legislation or similar means identifies custodians of land and confers on them specific rights and responsibilities. Where one entity is, in terms of legislation or similar means, identified as the custodian of land while another entity is the legal owner, the custodian controls the land as it has the right to direct access to and restrict or deny access of others to land.
- When joint control of land is established through a binding arrangement and no single entity is in a position to control the land unilaterally, each entity recognises its interest in the jointly controlled asset as required by GRAP 8 *Interests in Joint Ventures*.
- Where an entity is not the legal owner, or the custodian of land appointed in terms of legislation, but assesses that it controls land, it should disclose the carrying value of land recognised, and key judgements made and assumptions applied to conclude that it controls land
- Where an entity is the legal owner, or the custodian of land appointed in terms of legislation, but concludes that it does not control land, its shall disclose key judgements made and assumptions applied to conclude that it does not control land.
- To assist preparers with the application of the IGRAP, the Board included a decision tree as an Annexure to the IGRAP to explain how the control criteria should be applied

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Transitional provisions and effective date	
Clarification to transitional provisions	<p>The IGRAP should be applied prospectively to binding arrangements in relation to land that exists on the effective date of the IGRAP. Any adjustments that result from the initial adoption of the IGRAP to land that exists on the date of adoption are made against the opening balance of accumulated surplus and deficit.</p> <p>It also applies to any new arrangements relating to land that are entered into after the initial adoption of the IGRAP.</p> <p>If the acquisition cost of land is not available for those binding arrangements that exist on the on initial date of adoption of the IGRAP, a deemed cost may be determined to be the fair value of land on the date of adoption of this Interpretation (see Directive 7 <i>The Application of Deemed Cost</i>).</p>
Effective date	<p>The IGRAP becomes effective for annual financial statements covering periods beginning on or after 1 April 2019. Earlier application is permitted</p>
Effective date for improvements to GRAP 13	<p>During the Board's 2009 Improvements Project, an amendment was made to GRAP 13 following an amendment by the International Accounting Standards Board to IAS 17 on <i>Leases</i>. The Board, however, delayed the effective date for this amendment because of guidance issued by the Office of the Accountant-General.</p> <p>Based on the fact that the IGRAP was developed using the principle of substance over form, the Board agreed that the 2009 improvement should be made effective from 1 April 2019.</p>
How to access information	
Access information on the ASB and its work programme online	<p>Visit our website on www.asb.co.za</p>