



Reporting Frameworks for Government Business Enterprises

The Accounting Standards Board (the Board) approved the [Directive on The Selection of an Appropriate Reporting Framework by Public Entities \(Directive 12\)](#) in July 2015.

Since the withdrawal of Statements of GAAP in 2012, the Board has been deliberating on what the most appropriate reporting framework should be for entities that applied Statements of GAAP. During this time, the Board agreed as an interim measure, after consultation with its constituents, that Government Business Enterprises (GBEs)¹ should retain the status quo regarding the reporting frameworks applied in preparing their financial statements. This meant that those GBEs that applied Statements of GAAP in previous reporting periods would continue to do so, while those that applied IFRSs in previous reporting periods, would continue to apply IFRSs.

The Board's deliberations on this matter gave way to three consultations which resulted in the development of two Exposure Drafts on *The Application of Standards of GRAP by Government Business Enterprises (Schedule 3B and 3D)* (ED 124), and *The Selection of an Appropriate Reporting Framework by Public Entities* (ED 130), issued for comment in May 2014 and February 2015 respectively.

Respondents to ED 130 broadly supported the proposals, and after considering various issues raised by respondents, the Board approved ED 130 as a final Directive at its meeting in July 2015. This [Directive on The Selection of an Appropriate Reporting Framework by Public Entities \(Directive 12\)](#) outlines a set of criteria that entities are required to consider in determining what reporting framework they should apply, i.e. IFRSs or Standards of GRAP.

Who should apply the Directive?

The Directive is applicable to those entities that currently apply Statements of GAAP or IFRSs. Those entities that apply Standards of GRAP are exempt from the Directive.

What are the requirements of the Directive?

The Directive provides that entities are only allowed to apply IFRSs if they meet one of the following criteria:

- (a) The entity is a financial institution, as defined in the Financial Services Board Act, Act No. 97 of 1990, or undertakes activities similar to a financial institution, including the provision of loans and credit in accordance with the National Credit Act, Act No. 34 of 2005.
- (b) The entity has ordinary shares or potential ordinary shares that are publicly traded on capital markets.
- (c) Its operations are such that they are:
 - (i) commercial in nature; and
 - (ii) only an insignificant portion of the entity's funding is acquired through government grants or other forms of financial assistance from government. Entities assess, holistically, the nature of the funding received, how it is used, and its level of dependency on that funding.

¹ Government Business Enterprises are those entities listed in schedules 2, 3B and 3D of the Public Finance Management Act (PFMA)

If entities do not meet any of these criteria, then they should apply Standards of GRAP.

When should entities apply the Directive?

The Directive is effective for financial years commencing on or after 1 April 2018 so as to provide entities sufficient time to prepare for any change in reporting framework, with earlier application permitted. Therefore the initial application is 1 April 2018, or earlier. The Directive is applied subsequently where entities believe that a significant change has occurred that leads them to conclude that they meet, or no longer meet, the criteria in the Directive.

What is the status of current exemptions issued by the National Treasury?

Historically, some entities have been granted exemptions allowing them to apply IFRSs instead of Statements of GAAP or Standards of GRAP.

As a consequence of issuing the Directive, the Board has agreed that it is necessary for the status of these exemptions to be reviewed. As such, a submission has been made to the Deputy Minister of Finance on Directive 12, and one of the issues raised is the status and legality of these exemptions. The outcome of this consultation will be communicated in due course.

Way forward

The Board agreed that outreach activities in the form of “educational sessions” with the affected preparers and auditors are necessary to ensure that all parties understand the requirements of Directive 12, and how it is intended to be applied. A communication will be issued to all those affected about the timing of these sessions.

All documents relating to this project, including feedback from the consultation process, are available on our website on www.asb.co.za. Given the significance of the project, a report of the findings of the GBEs project will be published in due course.

Link to the final Directive:

<http://www.asb.co.za/Portals/0/Documents/GRAP/directives/Directive%2012%20The%20Selection%20of%20an%20Appropriate%20Reporting%20Framework%20by%20Public%20Entities.pdf>

We would like to take this opportunity to thank all those parties that participated in this project. Any queries regarding this communication can be sent to info@asb.co.za, or by contacting the ASB on 011 697 0660.

This communication has been prepared by the Secretariat of the ASB and not the Board.