ANALYSIS AND RESPONSES TO VERBAL COMMENT RECEIVED ON

PROPOSED REVISION OF THE STANDARD OF ON FINANCIAL INSTRUMENTS

(ED 167)

RESPONSES TO THE VERBAL COMMENT RECEIVED ON THE PROPOSED REVISION OF THE STANDARD OF GRAP ON *FINANCIAL INSTRUMENTS* (ED 167)

The Accounting Standards Board (Board) approved an Exposure Draft of the *Proposed Revision of the Standard of GRAP on Financial Instruments* (ED 167). Notice was published in the Government Gazette on 22 June 2018 (Notice 41722). The comment period closed on 7 December 2018.

The proposed revisions were discussed with preparers, auditors and consultants by way of workshops, roundtable discussions or other meetings as listed in the table on the next page.

The proposed revisions were discussed with stakeholders per chapter in ED 167. Feedback received on those chapters is summarised in this document and includes the Board's responses to the comment received.

CLASSIFICATION OF VERBAL COMMENT RECEIVED ON THE PROPOSED REVISION OF THE STANDARD OF GRAP ON *FINANCIAL INSTRUMENTS* (ED 167)

No.	Name/Organisation	Preparers	Users	Auditors	Other interested parties
1.	Public Sector Accounting Forum (September and October)	X		X	X
2.	Roundtable with public entities (migrating from GAAP or IFRS to Standards of GRAP)	X	X		
3.	Roundtable with public entities (already applying Standards of GRAP)	X	X		
4.	SAICA (via webcast in April and October)	X	X	X	
5.	Municipal Accounting Working Committee (Western Cape local government)	X			
6.	Roundtable discussion with preparers (across the sector)	X			
7.	Roundtable discussion with firms, auditors, consultants			X	

NO.	COMMENT	Board's response
1.	**SCOPE OF GRAP 104**	
1.1	**Public Sector Accounting Forum (September)**	
1.1.1	The Forum supported the amendments to include financial guarantees and loan commitments in the scope of GRAP 104.	Noted. No further action required.
1.1.2	It was indicated that guidance may be needed on the accounting implications for guarantees held by an entity.	Noted. Guidance will be provided in a Fact Sheet.
1.2	**Roundtable discussion (Directive 12 public entities)**	
1.2.1	Participants agreed with the scope.	Noted. No further action required.
1.2.2	Participants questioned whether letters of support (e.g. where a controlling entity indicates that it will make good any shortfall in debts, deficits etc. for a controlled entity) meet the definition of a financial guarantee contract.	For an arrangement to be a financial guarantee contract as defined in GRAP 104, the arrangement must (a) be contractual and (b) guarantee a specific debt instrument between a borrower and a lender. General promises to guarantee shortfalls or specific expenditure will not meet the definition of a financial guarantee contract. The specific terms and conditions of the letters of support should however be examined to understand whether any specific debt is being guaranteed. The application guidance has been expanded and ~~a~~ the discussion included in the basis for conclusions to explain the definition of a financial guarantee contract. The Fact Sheet will also be updated.

NO.	COMMENT	Board's response
1.3	**Roundtable discussion (public entities)**	
1.3.1	Participants questioned whether guaranteeing to pay employees of a controlled entity if that entity is unable to meet its obligations would meet the definition of a financial guarantee contract.	See the response to comment 1.2.2 above.
1.3.2	Support was expressed for the exclusion of hedge accounting. Questions were raised about economic hedging and hedge accounting. It was questioned whether economic hedging could still be undertaken in the absence of principles for hedge accounting.	Noted. No further action required. Entities would still be able to undertake economic hedging. This explanation has been added to the basis for conclusions.
1.4	**Public Sector Accounting Forum (October)**	
1.4.1	It was questioned whether the off-market/concessionary portion of a loan received is in the scope of the proposed Standard and/or GRAP 23 on *Revenue from Non-exchange Transactions (Taxes and Transfers)*. It was noted that there should be no conflict between the requirements of the Standards.	Noted. GRAP 23 paragraph 78 explains what may constitute "transfers" in the Standard. Concessionary loans are mentioned in this paragraph.
1.4.2	It was noted that for instruments to meet the definition of a financial instrument and in the scope of GRAP 104, they must be settled in cash or another financial instrument. It was questioned whether instruments that have an option to be settled in cash, or goods and services, could be financial instruments. Participants also raised questions about whether the following transactions are financial instruments: • deposits held by municipalities for water and electricity to be provided; • instruments that would be settled by seizing assets in the event of default.	Noted. A number of issues were raised during the consultation process about the application of GRAP 104 to a range of transactions and balances. The Secretariat will issue a Fact Sheet explaining the application of the definitions of a financial instrument and the scope of GRAP 104.
1.5	**Roundtable discussion (preparers)**	
1.5.1	Support was expressed for the changes made to the scope to include financial guarantee contracts and loan commitments.	Noted. No further action required.

NO.	COMMENT	Board's response
	Participants indicated that they do not enter into transactions that require hedge accounting. Many observed that their investments are generally held until maturity, so any short term fluctuations in prices are offset over time. If derivatives are entered into, they are to address specific short term risk exposure.	
1.5.2	It was questioned whether the references to GRAP 6 *Consolidated and Separate Financial Statements*, GRAP 7 *Investments in Associates* and GRAP 8 *Interests in Joint Ventures* would be revised to reflect the issue of the new Standards of GRAP on *Investments in Other Entities*.	Noted. The references to GRAP 6, 7 and 8 will be revised once the Standards of GRAP on *Interests in Other Entities* become effective on 1 April 2020. These consequential amendments are included in GRAP 34 to 38. No action proposed.
1.5.3	It was questioned whether letters of support are financial guarantee contracts. It was also questioned what the distinction is between a letter of support and a parent subordinating a loan made to its subsidiary in favour of other creditors. It was questioned whether the subordination of the loan triggers an impairment.	Noted. See the response to comment 1.2.2 above. There is existing application guidance on subordinated loans and the potential implications for classification and measurement. No further action proposed.
1.6	**Roundtable discussion (firms)**	
1.6.1	*Definition of financial instrument* It was observed that preparers are often unaware of what transactions meet the definition of a financial instrument, and/or whether a specific transaction is in the scope of GRAP 104. It was suggested that educational material should be developed to explain whether a few commonly found transactions meet the definition of a financial instrument. The following examples were cited: • Employee benefits. • VAT and other amounts payable to SARS. • Prepayments or advance receipts. • Debtors with credit balances.	Noted. See the response to comment 1.4.2 above.

NO.	COMMENT	Board's response
	• Deposits.	
1.6.2	It was indicated that not all fines are statutory in nature. It was indicated that public entities often charge penalties or fines in contractual arrangements (for example, not meeting certain targets, late payments etc.). Any guidance on the application of the scope of GRAP should indicate that fines and penalties can be either contractual or statutory.	Noted. This explanation will be included in the Fact Sheet explained in comment 1.4.2.
1.6.3	*Financial guarantee contracts* Participants discussed a range of "guarantees" that are provided by public sector entities. It was agreed that only those contractual arrangements that guarantee a specific debt between a lender and a borrower would be financial guarantees as defined in GRAP 104. It was observed that more guidance (either in GRAP 104 or GRAP 19) is needed on the following types of guarantees and how they should be treated: • Letters of support (typically between a parent and a subsidiary) – the terms and conditions of the arrangement could refer to support being provided generally, in which case there is no financial guarantee. The letter of support could however indicate that it will guarantee specific debt (currently in place), or that it might guarantee any future debt. In these cases, a financial guarantee may have been issued, at least for the best already in place. The entity would need to (a) examine the terms and conditions of the letter to understand whether a financial guarantee has been issued (in whole or in part). If there is no financial guarantee, or only a partial guarantee, the principles in GRAP 19 should be considered. • Subordination of loans (typically between a parent and subsidiary) – guidance should be provided on whether this is a financial guarantee, or whether the terms and conditions of the loan have been modified in such a way that this becomes an investment in a residual interest (which may be impaired). It was suggested that making short recordings on selected topics might be helpful for preparers to understand the particular issues related to certain transactions.	Noted. See the response to comment 1.2.2. Subordinated loans are not financial guarantee contracts but may have specific consequences for classification as a loan or an investment in a residual interest, or classification for subsequent measurement purposes. There is existing guidance in the application guidance on these loans. No further action is proposed.

NO.	COMMENT	Board's response
1.6.4	Participants discussed the linkages between GRAP 104 and GRAP 34 to 38 on *Interests in Other Entities*. They observed that the use of fair value for investments may increase with the introduction of 'investment entities'. It was observed that the application of GRAP 34-38 requires careful consideration as some entities may want to apply 'investment entity' accounting on the basis that they have significant investing activities, but without being investment entities. It was suggested that guidance be issued on this by the Secretariat in the lead up to the implementation of GRAP 34 to 38.	Noted. In anticipation of GRAP 34 to 38 becoming effective, the Secretariat will develop a FAQ explaining this distinction.
2.	**RECOGNITION REQUIREMENTS OF GRAP 104**	
2.1	**Public Sector Accounting Forum (September 2018)**	
2.1	*Concessionary investments* Members questioned whether entities should be analysing grants received from a Treasury or line Ministry to assess if there is a component that represents a "contribution from owners". While members broadly agreed that they should be making this assessment, they indicated that this would require a high degree of judgement as the grantor may not be the entity's owner, nor may it be clear why the grant was provided. It was suggested that the Secretariat review the financial statements of the treasuries to assess whether "grants" provided to entities are reflected in full or in part as an investment in the entity receiving the grant.	Noted. GRAP 23 already requires entities to assess the nature of resources received in a non-exchange transaction and to distinguish between revenue and contributions from owners. Based on a review of the National Treasury's financial statements, certain transfers made to State Owned Companies were reflected as investments in the equity rather than as transfers. In classifying transfers as a transfer or as a contribution from owner, an entity should apply GRAP 23, and review the terms of the arrangements – including the budget documentation - to understand why the funding was provided and its nature.
2.2	**Public Sector Accounting Forum (October)**	
	Participants questioned whether the guidance on discounting and interest free credit periods in the proposed Standard is consistent with the principles in IGRAP 1 on *Applying the Probability Test on Initial Recognition.* The question arose in the context of recognising interest on initial	The principles in IGRAP 1 deal with credit risk, and that revenue should not be reduced on initial recognition because of exposure to credit risk. The

NO.	COMMENT	Board's response
	recognition where the credit period is inconsistent with industry terms (i.e. separating the transaction on initial recognition between interest and the sale of goods and services), and whether this is consistent with recognising revenue based on what the entity is obligated to collect.	principles on day 1 discounting require an entity to recognise revenue in full – the full amount of revenue on initial recognition is separated between revenue and interest earned.
2.3	**Roundtable discussion (preparers)**	
2.3.1	Participants supported the recognition principles and confirmed that the use of trade date accounting is still appropriate.	Noted. No further action required.
2.3.2	In terms of the classification of instruments on initial recognition, the following questions were raised: • Whether the existence of an obligation to pay is only considered on initial recognition, or is it considered at each reporting date. • Whether contractual commitments for future expenditure are considered financial liabilities. It was questioned whether 'contractual' in this context is the same as the meaning in GRAP 104. It was noted that there are disagreements with the auditors about what is considered a contractual commitment.	Noted. • The obligation to pay is a distinguishing feature of an instrument and should be used on initial recognition to distinguish liabilities and residual interests. The effect of non-payment should be considered at each reporting date to determine if the rights and obligations in the arrangement have changed as a result of the passage of time (e.g. prescription). Guidance is included in AG3.3. • There is no requirement in Standards of GRAP to disclose contractual commitments for future expenditure, besides for commitments related to capital expenditure. The disclosure of commitments for operational expenditure was included in the GRAP Guide issued by the National Treasury. This issue has been highlighted to the National Treasury and they are in the process of revising the Guidelines.

NO.	COMMENT	Board's response
2.3	**Roundtable discussion (firms)**	
	The use of trade date accounting was confirmed.	Noted. No further action required.
2.4	**Roundtable discussion (Directive 12 public entities)**	
	It was noted that the inclusion of the requirements on contingent settlement provisions is helpful as many state-owned entities enter into arrangements where payments are dependent on contingent factors. Entities however often fail to appropriately identify these arrangements.	Noted. No further action required.
2.5	**Roundtable discussion (public entities)**	
	Participants questioned whether a loan provided to another entity without a term would be classified as a residual interest.	Noted. The classification would depend on the terms of the agreement, including whether there are any contingent repayment features. It may however be appropriate to consider whether this type of arrangement is similar to a perpetual bond, with part of the instrument being classified as a financial instrument, and part as a residual interest (particularly if there are regular interest payments made). The Board does not believe that specific guidance is needed in the Standard.
3.	**CLASSIFICATION PRINCIPLES OF GRAP 104**	
3.1	**Public Sector Accounting Forum (September)**	
3.1.1	*Retention of cost for investments in residual interests* Members noted the reasons for allowing entities to measure investments in residual interests at cost where there is no reliable measure of fair value. Concerns were however expressed that	Noted. There is currently no disclosure on the investments in residual interests measured at cost. A separate section will be added to chapter 8.

NO.	COMMENT	Board's response
	entities may use cost without properly applying their minds to whether fair value is available. The following was suggested: • There should be disclosure indicating why fair value could not be determined, and what inputs could not be determined. • Consider whether entities should only be allowed to use cost when a significant part of the value of investment is expected to be realised through service potential rather than through economic benefits.	While it is likely that the types of investments in residual interests where determining fair value may be an issue are likely to be investments held for service potential, it may be inappropriate to limit it to these instances. Guidance has been added to the implementation guidance on the methods that could be used to determine fair value in the absence of market inputs.
3.1.2	*Measurement of concessionary loans at fair value* Members expressed their concerns about measuring (some) concessionary loans at fair value. They observed that most entities in the public sector that issue concessionary loans are concerned about their collectability, rather than the valuation of any exposure to risks unrelated to a basic lending arrangement. In particular, they were concerned about measuring concessionary loans at fair value when the only criteria leading to the use of fair value is exposure to repayment risk unrelated to a basic lending arrangement. Members believed that where this is the only factor that fails the solely payments of principal and interest (SPPI) test, then these concessionary loans should be measured at amortised cost.	Noted. While the Secretariat agrees that users of the financial statements may be more interested in the amounts lent and repaid under these arrangements, this information will still be available if fair value is applied. Information is also available in the notes to the financial statements on the nominal values of new loans granted during the reporting period. Although the users may not manage the loans on the basis of their market risk, they are exposed to these risks on an ongoing basis, which in itself is useful for users to understand. The alternative would be to make a rule to require all concessionary loans to be measured at amortised cost less impairment. This approach has the following challenges: • It would be difficult to define a concessionary loan such that the preparers do not apply accounting arbitrage.

NO.	COMMENT	Board's response
		• Determining fair value on an ongoing basis may be easier than applying amortised cost for instruments that (a) do not have definite repayment terms, and (b) calculating an expected credit loss would be difficult given the contingent nature of the repayment terms. Determining expected cash flows for fair value does not require the same level of complexity as the expected credit loss model. The Board did not support any change to the principle on the basis that (a) amortised cost and the related credit losses may be difficult to determine given the exposure to market risks, and (b) it is undesirable to make a rule for specific transactions in principles-based Standards.
3.1.3	*General classification approach* Members supported the classification, including that entities' that have a strategy of both holding and selling financial assets would measure those instruments at fair value with gains and losses recognised in surplus or deficit.	Noted. No further action required.
3.1.4	Members indicated that it is unclear in practice whether gains and losses on instruments can be offset in the statement of financial performance. It seemed in practice that some entities recognised gains and losses separately. Clarity is required on this issue.	Noted. ED 167 indicates that net gains and net losses should be presented for financial assets at fair value through surplus or deficit, amortised cost and cost.
3.2	**Roundtable discussion (Directive 12 public entities)**	
3.2.1	*Measurement of investments in residual interests in cost*	Noted. See the response to comment 3.1.1 above.

NO.	COMMENT	Board's response
	Members supported the measurement of certain investments in residual interests, but noted that there should be onerous disclosure in the notes indicating why fair value could not be determined reliably.	
3.2.2	*Failure to meet SPPI* Members noted that additional guidance is needed on when the contractual cash flows of an instrument would fail the SPPI test, particularly regarding contingent repayment features. Questions were raised about whether variable rate loans would fail the SPPI criteria.	Noted. This suggestion will be communicated to the National Treasury as there are already examples in the application guidance.
3.2.3	*Management model* It was questioned at what level the "management model" is applied when investments are made in asset managers. Members questioned whether the management model is applied at the level of the investment with the asset manager, or that the asset manager may buy and sell instruments to reach certain returns.	Noted. This suggestion be communicated to the National Treasury as this is a practical implementation issue.
3.3	**Public Sector Accounting Forum (October)**	
	Participants noted that where non-recourse loans are provided, and it is clear at the outset of the loan that the lender will likely need to foreclose on an asset rather than receive payment of principal and interest, these loans are likely to fail the SPPI test. It was noted that these non-recourse loans may be prevalent in entities that provide concessionary loans. Participants expressed concern about having to measure these loans at fair value as (a) it may be difficult to determine at the outset whether settlement of the loan is likely to take place by foreclosing on an asset, and that government's objectives would be to collect as much of the outstanding principal and interest as possible, and (b) measurement of these loans at fair value did not provide users of the financial statements with useful information to hold entities accountable given that entities would aim to collect contractual cash flows and manage impairment, rather than assess performance based on market risk.	Noted. The application guidance includes a discussion on non-recourse loans. Entities in the public sector often exist to provide funding to third parties who would not otherwise qualify for credit. As a result, the transactions are inherently risky. In lieu of the risk profile, the lender will take the underlying asset, business etc. as collateral. The e lender is not intending to invest in the asset, it is intending for the loan to be repaid. The Board agreed that it is appropriate to indicate that these loans automatically fail the SPPI test. It may be appropriate to classify subsequent lending at fair value if the borrower is in financial distress.

NO.	COMMENT	Board's response
		The classification of these loans is however a practical application issue and will depend on the terms and conditions of the arrangement.
3.4	**Roundtable discussion (public entities)**	
	A participant noted that loans are provided to entities to promote certain activities, e.g. research and innovation. The loans are repaid by way of royalties earned on any technology developed. It was questioned whether these loans would meet the SPPI test.	Noted. Entities should test (a) whether there is a loan at all, and (b) if the repayment features do not represent basic lending risks, then the arrangement should be classified as an instrument at fair value through surplus or deficit. This may be a useful example to add to guidance developed by the National Treasury.
3.5	**Municipal Accounting Working Committee**	
	It was noted that some municipalities provide financial support (bursary) for employees to study. If the employee is unsuccessful in his/her studies, the financial support provided is repayable. It was questioned whether this is a loan with contingent repayment features.	Noted. At the outset, it is unclear if the bursary needs to be repaid. As a result, there is no unconditional obligation to receive cash. Only once it is clear that the bursary needs to be repaid will it be recognised as a financial liability. The Secretariat will include this example in the Fact Sheet on the application of the definition of financial instruments and the scope of GRAP 104.
3.6	**Roundtable discussion (preparers)**	
3.6.1	*Classification of instruments at amortised cost and fair value* Participants questioned whether there will be specific transitional provisions for any changes in reclassification arising from the initial application of the Standard.	Noted. The transitional provisions will be developed as the next phase in the project. There is specific guidance in the Standard on the reclassifications of

NO.	COMMENT	Board's response
	It was also questioned whether any reclassifications should be accounted for using GRAP 3 *Accounting Policies, Changes in Accounting Estimates and Errors.*	financial assets when the management model changes.
3.6.2	*Cost for investments in residual interests* Participants expressed support for retaining the use of cost as a practical expedient. Participants indicated that it is difficult to determine the fair value of unlisted investments in residual interests. They indicated that valuers are contracted to determine the fair value of these investments, but that the valuers often use different valuation techniques. The acceptability of these techniques was questioned, and whether this would give rise to inconsistencies in the financial statements.	Noted. See the response to comment 3.1.1. The use of different valuation techniques to determine the value of the investments is acceptable as this is seen as an accounting estimate.
3.7	**Roundtable discussion (firms)**	
3.7.1	*Classification of bank accounts* Participants questioned whether bank accounts would meet the SPPI test. It was generally agreed that bank accounts would meet the SPPI test as they would be held to collect the principal, and the interest is usually linked to a prime lending rate. It was observed that some entities in the private sector had argued that bank accounts should be measured at fair value so that they do not need to calculate expected credit losses on bank accounts, particularly those held in other countries and/or denominated in foreign currencies. It was suggested that the Secretariat issue a Fact Sheet on how to account for bank accounts as this has been an area of divergence in the private sector.	Noted. The Secretariat will develop a Fact Sheet for bank accounts.
3.7.2	*Classification of concessionary loans*	
	Participants discussed the classification of concessionary loans, and in particular, whether all concessionary loans – regardless of their repayment features – should be measured at amortised cost. It was observed that public sector entities are unlikely to manage the "market risk"	Noted. See the comment to 3.1.2.

NO.	COMMENT	Board's response
	associated with concessionary loans, and that a case could be made to measure all concessionary loans at amortised cost. Participants agreed that concessionary loans should be tested against the SPPI criteria and that a rule should not be introduced to measure all concessionary loans at amortised cost. It was noted that it would be difficult to define a concessionary loan, and that determine expected credit losses on an instrument with contingent repayment features would be difficult.	
3.7.3	*Classification of non-recourse loans* It was observed that some development finance agencies provide non-recourse loans to third parties to invest in specific assets or activities. Where there is a high likelihood at the outset of the arrangement that the third party will default, questions were raised about whether these loans meet the SPPI criteria. In these scenarios, the lender is effectively investing in an underlying asset rather than a loan. As the development finance agencies often provide loans to third parties who cannot access credit, it would be inappropriate to conclude at the outset that these loans do not meet the SPPI test. The underlying asset or investment in a business serves as collateral for the loan. It was however noted that if further funding is provided after the initial granting of the loan, then it could be argued that the loan fails the SPPI test.	Noted. See the comment to 3.3.
3.7.4	*Classification of bursaries* It was questioned whether bursaries that become repayable meet the SPPI test. The scenario described was that entities provide bursaries to employees to further their studies, but if they do not pass, then they are required to repay the funds to the employer. It was agreed that because repayment is dependent on a future event, no financial instrument arises until such time as it is clear that the studies have been failed and the amount is due. Only at this point is financial instrument recognised.	Noted. See the comment to 3.5.
3.7.5	*Investments in residual interests* Participants supported the retention of measurement at cost where there is no reliable measure of fair value. They noted difficulties in determining fair value for unlisted equity investments. They	Noted. See the response to comment 3.1.1. Using replacement cost would be difficult for investments in residual interests as this valuation approach aims to determine the value to replace the service capacity of

NO.	COMMENT	Board's response
	indicated that it would be useful if guidance could be provided on potential valuation techniques that could be applied. It was also suggested that the Board explore using a replacement cost valuation methodology where the investments are made to achieve specific public policy objectives and hence generate service potential rather than economic benefits.	an asset. As these are monetary assets, this approach would be difficult to apply and not a widely accepted technique for measuring monetary assets.
4.	**INITIAL MEASUREMENT**	
4.1	**Public Sector Accounting Forum (October)**	
	Participants questioned whether the interest rates published by National Treasury which are to be used for debts owing to government would be considered "market rates" for purposes of the proposed Standard. It was argued that because government operations are unique, that these rates are "the market". Other participants were of the view that because these rates do not apply to local government, these rates do not constitute the market rates across the public sector. It was suggested that these rates be used as an example of market rates for debts owing to government.	Noted. The rates determined by the National Treasury are based on the repo and prime lending rates. These are already examples of rates that could be used as a basis for certain debts. No change is proposed.
4.2	**Roundtable discussion (public entities)**	
4.2.1	Participants supported the measurement of investments in residual interests using the approach in IFRS 9 on *Financial Instruments.* They indicated that if the investment only generates service potential and this cannot be measured reliably, then cost should be permitted.	Noted. As most respondents supported retaining the use of cost when there is no reliable measure of fair value, no change is proposed. Additional guidance will be added to the implementation guidance on how to measure fair value.
4.2.2	A participant indicated that it provides its employees a price concession for the goods and services it supplies. It was questioned whether this would be considered similar to a concessionary loan.	Noted. Price concessions are considered when determining how much revenue is due to the entity. Price concessions, rebates etc. are seen as foregone

NO.	COMMENT	Board's response
		revenue rather than an off-market element related to a financial instrument.
4.3	**Roundtable discussion (preparers)**	
4.3.1	*Concessionary loans* Participants observed that many concessionary loans are either (a) not measured at fair value on initial recognition, or (b) are accounted for as a transfer to a third party.	Noted. An entity should analyse the transaction to identify the loan and subsidy components. If the loan or subsidy component is immaterial, it may be appropriate to (a) measure the loan at the transaction price (if the subsidy component is immaterial), or (b) recognise the transaction in full as a subsidy (if the loan component is immaterial). An entity should however demonstrate that it has considered the concepts and that the accounting outcome is driven by the application of judgement based on materiality.
4.3.2	*Concessionary investments* Participants supported the inclusion of the guidance. They indicated that the identification of non-exchange components of the transaction should be based on substance over legal form and not solely on the terms and conditions of the contract as indicated in the Exposure Draft. It would be helpful if the Exposure Draft could explain the meaning of "unclear" in the requirement which indicates that if it is unclear from the transaction if there is an investment and a non-exchange component, then the transaction is accounted for as an investment.	Noted. The Board agrees with the proposal as applying substance over form is consistent with the Framework. The application guidance will be amended accordingly.
4.4	**Roundtable discussion (firms)**	

NO.	COMMENT	Board's response
4.4.1	The inclusion of guidance on concessionary investments was supported as it reminds entities about the requirements of the Standard. They indicated that substance over form should be applied rather than focusing explicitly on the terms and conditions of the arrangement.	Noted. See the response to comment 4.3.2.
4.4.2	It was noted that preparers often do not correctly consider the effects of day 1 discounting. They generally do not consider the effect of discounting on originating the transaction; entities would take the outstanding balance at year end and calculate interest on that balance and separate between revenue and interest.	Noted. The Secretariat will issue a FAQ to deal with the issue.
5.	**SUBSEQUENT MEASUREMENT**	
5.1	**Public Sector Accounting Forum (September)**	
5.1.1	*Modifications of financial assets* It was observed that in practice it is difficult to decide when changes in the terms of an arrangement are a modification or derecognition of a financial asset. It was noted that if entities apply the principles on write-offs correctly, then there may not be a need for a modification. It was observed that changes to the terms of an instrument to ensure collection of the cash flows is usually a modification. It was noted that when entities provide goods and services to other public sector entities, there is often a high risk of uncollectability. As a result, they often need to renegotiate the terms and conditions of the instrument. It was questioned whether this would be a modification or a write-off. It was noted that where there is no reasonable expectation of collecting the amounts due, then this a write off rather than a modification. It was observed that inter-governmental debt is seen by some entities as fully impaired if it has not been collected in 12 months.	Noted. Distinguishing between a modification and derecognition is a matter of judgement. Depending on the extent of the change, it may be a modification, write-off or derecognition. Preparers in other Forums observed that inter-governmental debt usually has a high impairment, but this is because of delayed payment rather than uncollectability.
5.1.2	*Impairment model* Members agreed that the impairment model was appropriate for the public sector. They agreed that there should be practical expedients for receivables, but that for all other instruments the	Noted. Entities are required to assess lifetime losses for receivables and can use a provision matrix. No further action required.

NO.	COMMENT	Board's response
	requirements are appropriate. This is because, if for example, an entity's core activity is granting loans, then it should have sophisticated information about credit risk and expected credit losses.	
5.2	**Roundtable discussion (Directive 12 public entities)**	
	Write-offs in the public sector It was observed that entities in the public sector are often not allowed to write off debt unless specific legal requirements are met. The legal write-off of debt and write-off for accounting purposes may be different.	Noted. There is guidance in the application guidance that deals with this issue. There is also a disclosure requirement in ED 167 that indicates that where an entity is still pursuing collection of a debt that has been written off, specific disclosure is required.
5.3	**Public Sector Accounting Forum (October)**	
5.3.1	*Write-offs in the public sector* It was observed that entities in the public sector are often not allowed to write off debt unless specific legal requirements are met. The legal write-off of debt and write-off for accounting purposes may be different.	Noted. See the response to comment 5.2.
5.3.2	*Application of impairment approach to receivables* Participants suggested that guidance should be developed explaining to municipalities what the implications of the impairment principles are on determining provision matrices for municipalities (e.g. what are the implications on determining future credit losses in calculating the provision matrix).	Noted. This is an implementation issue which will be suggested to the National Treasury for inclusion in their guidance.
5.4	**Roundtable discussion (public entities)**	

NO.	COMMENT	Board's response
5.4.1	Participants noted that what is considered "undue cost and effort" may result in disagreements with the auditors. What is considered undue cost and effort should be agreed between the Board and the AGSA.	Noted. Guidance is included in the application guidance of ED 167.
5.4.2	Participants requested clarity on the difference between calculating expected credit losses using 12 month versus lifetime ECL.	Noted. There is guidance in the application guidance, but this will also be added to the Fact Sheets.
5.4.3	It was noted that the transitional provisions for the initial adoption of the Standard should indicate that the new impairment requirements should be applied prospectively.	Noted. This will be considered in developing the transitional provisions.
5.5	**Roundtable discussion (preparers)**	
5.5.1	Participants questioned whether the fair value of investments in listed equity instruments should be calculated including or excluding the accrued dividends. This issue has been contentious in practice and it would be useful if guidance could be provided.	Noted. This is a practical issue that will be highlighted to the National Treasury.
5.5.2	Participants questioned whether the 30 days past due is an appropriate indication that there has been a significant change in credit risk, particularly for receivables in local government.	Noted. Impairment on receivables is calculated based on the lifetime credit losses. Municipalities would therefore not be required to determine if there has been a significant change in credit risk.
5.5.3	Concerns were raised about the potential system implications of the different interest calculations proposed in the revisions. It was observed that the effective interest rate calculations are currently done outside the system. The introduction of a credit adjusted effective interest rate would mean that the manual calculation would become more onerous. The Board should consider these implementation issues when it decides on a potential effective date for the changes.	Noted. This will be considered in developing the transitional provisions and the effective date.

NO.	COMMENT	Board's response
5.5.5	Some participants indicated that there is a high degree of judgement involved in determining amortised cost, particularly the calculation of the impairment loss.	Noted. The degree of estimation depends on the complexity of the instrument and its features. Significant judgements and estimates should be disclosed in the financial statements.
5.6	**Roundtable discussion (firms)**	
5.6.1	*Treatment of interest on loans that are no longer credit impaired* The treatment of interest on the curing of a credit impaired debt instrument was discussed. It was noted that the treatment had become an issue in practice in the private sector, and the guidance in IFRS 9 is not immediately clear on whether any interest recovered on a credit impaired debt should be recognised as revenue or as a reversal of an impairment loss. It was noted that the IFRIC had issued a tentative agenda decision (still to be issued for comment), indicating that any interest should be treated as a reversal of an impairment rather than as interest revenue. It was debated whether guidance should be included in the revisions to GRAP 104. It was agreed that it may be helpful to explain the issue in the basis for conclusions so that preparers are aware of the issue and the treatment.	Noted. The Secretariat proposes issuing a FAQ explaining the impact of the IFRIC's agenda decision as a more detailed discussion may be needed than would ordinarily be consistent with the basis for conclusions.
5.6.2	*Calculation of expected credit losses* Participants raised concerns about the treatment of debt owing between government departments. They indicated that because government debt does not prescribe, there may be a high impairment loss reflected on the receivables because of the delayed payment and because interest is not levied on outstanding amounts. It was agreed that the principles in GRAP 104 are appropriate, but that there should be adequate disclosure in the financial statements about the assumptions applied so that users understand the reasons for the impairment losses.	Noted. No further action required.

NO.	COMMENT	Board's response
5.6.3	It was suggested that the National Treasury issue standard guidance to be used in forecasting general economic conditions, e.g. inflation, interest rates etc. As this is an area that is technical, individual entities should not be paying consultants to come up with an entity view of these factors. There should be a single source that is considered to ensure comparability, but also to reduce costs incurred by entities.	Noted. While this may be feasible for general forecasts of economic conditions, judgement should still be applied at each entity (e.g. assessing economic conditions within a particular municipal area). The suggestion will be made to the National Treasury.
5.6.4	Guidance should be provided to entities on how to calculate an impairment matrix.	Noted. See the response to comment 5.3.2.
6.	**PRESENTATION**	
6.1	**Public Sector Accounting Forum (October)**	
	It was questioned whether set-off is possible given the legal framework in South Africa. It was suggested that the guidance should be modified to make it clear that the legal environment within which an entity operates would need to be considered in assessing whether set-off applies.	Noted. This is already mentioned in the application guidance.
6.2	**Roundtable discussion (firms)**	
	It was observed that set off in the local environment is unlikely to occur due to the insolvency laws.	Noted. See the response to comment 6. The basis for conclusions has also been updated to reflect this observation.
7.	**DISCLOSURES**	
7.1	**Public Sector Accounting Forum (October)**	
	Participants observed that from a private sector perspective, some entities have been disclosing categories of financial assets on the face of the statement of financial position. It was questioned whether this would be required by the Board.	Noted. ED 167 indicates that the presentation of the carrying amounts of the different categories of financial assets can be done on the face of the

NO.	COMMENT	Board's response
		statement of financial position or in the notes to the financial statements.
7.2	**Roundtable discussion (preparers)**	
7.2.1	Some participants indicated that it is difficult in practice to separate either exchange or non-exchange receivables into contractual and statutory amounts as required by GRAP 104 and GRAP 108 on *Statutory Receivables*.	Noted. The IPSASB is revisiting the need for distinguishing exchange and non-exchange receivables. Developments on the project will be monitored and the issue raised with them if necessary.
7.2.2	Support was expressed for the more comprehensive disclosures on concessionary loans. There was however no support for the disclosures of the nominal values of credit impaired concessionary loans. It was observed that it may not be possible to provide these disclosures if an entity's view of credit risk is included in the rate it uses to determine fair value rather than the cash flows. The request for disclosure of information in this way may lead to a particular valuation practice which may not be appropriate in all instances.	Noted. The requirements have been deleted.
8.	**GENERAL**	
8.1	**Roundtable discussion (Directive 12 public entities)**	
	Members noted that many of the concepts explained in GRAP 104 relate to complex financial instruments. It was noted that the ASB should communicate the principles for basic receivables, payables, bank accounts etc. in an easily understandable format.	Noted. The Secretariat published "Fact Sheets" with the Exposure Draft which summarise the accounting requirements for specific transactions.
8.2	**Roundtable discussion (public entities)**	
	Participants questioned if they would be prohibited from undertaking economic hedging in the absence of guidance on hedge accounting.	Noted. Entities are not prohibited from undertaking economic hedging. This has been explained in the basis for conclusions.

NO.	COMMENT	Board's response
8.3	**Roundtable discussion (preparers)**	
	Participants questioned whether the issuing of guidance is best suited with the National Treasury or the ASB. Participants questioned why the IASB issues guidance but the ASB does not. It was indicated that it would be desirable for the ASB to issue the Standards, Interpretations and guidance so that there is consistency in the material produced.	Noted. The IFRS Foundation – which is independent from the IASB – issues implementation guidance to ensure that the standard-setter maintains its independence. The National Treasury is required to provide implementation support as part of its mandate.