ISSUED AUGUST 2019

EXECUTIVE SUMMARY – ED 176 PROPOSED IMPROVEMENTS TO STANDARDS OF GRAP (2019)

This Executive Summary provides an overview of the proposed Improvements to Standards of GRAP (2019) (ED 176)	**Overview**	Every three years, the Accounting Standards Board (hereafter referred to as "the Board") undertakes periodic revisions of the Standards of GRAP, in line with best practice internationally among standard setters. The proposed *Improvements to Standards of GRAP (2019)* were approved by the Board in July 2019.
	Project objectives	Improvements to Standards of GRAP are aimed at aligning the Standards of GRAP with international best practice, to maintain the quality and to improve the relevance of the Standards of GRAP.
	Next steps	The proposals in ED 176 will be modified in the final documents in the light of comment received from respondents during the comment process.
	Comment deadline	Comment on ED 176 is due by 31 October 2019.

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Background to the project

History of the project	
History of the project	In accordance with its planning cycle, the Board undertakes periodic revisions of the Standards of GRAP every three years, with the last Improvements Project being undertaken in 2016. Improvements to Standards of GRAP comprise amendments to those Standards of GRAP that have been issued by the Board and for which the Minister of Finance has determined an effective date. The 2019 Improvements Project includes proposed amendments to Standards of GRAP that will become effective for financial periods commencing on or after 1 April 2020. The proposed amendments to the Standards comprise changes resulting from: • *Amendments to International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards Board (IPSASB)*: This comprise amendments to IPSAS as part of the IPSASB's 2015 and 2018 Improvements to IPSAS. • *Amendments to International Financial Reporting Standards (IFRS® Standards) issued by the International Accounting Standards Board®*: This comprises amendments to IFRS Standards resulting from: - Annual Improvements to IFRSs 2010 – 2012 Cycle; - Annual Improvements for IFRS Standards 2014 – 2016 Cycle; - Annual Improvements for IFRS Standards 2015 – 2017 Cycle; and - Other narrow scope amendments to IFRS Standards. • *General improvements*: This comprises improvements to ensure consistency between the Standards of GRAP and/or to clarify existing principles identified through consultations with stakeholders.

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Overview of ED 176	
Deletion of Appendices outlining illustrative examples	
Will Appendices outlining illustrative examples be deleted?	The Board's approach with previous Improvements Projects was to delete appendices outlining illustrative examples for effective Standards of GRAP, as the development of implementation guidance is the responsibility of the National Treasury. As the National Treasury is currently updating existing GRAP Implementation Guidelines, and/or developing Implementation Guidelines for newly effective Standards of GRAP, the Board agreed to delay the deletion of the appendices outlining illustrative examples. The deletion of the appendices will be reconsidered as part of the Board's next Improvements Project.
Proposed Improvements to Standards of GRAP	
GRAP 5 on *Borrowing Costs*	Where an entity borrows funds generally to obtain a qualifying asset, the borrowing costs eligible for capitalisation are determined by applying a capitalisation rate to the expenditure on that asset. The improvement proposed to GRAP 5 clarifies that borrowings made specifically for purposes of obtaining a qualifying asset are excluded until all the activities necessary to prepare the asset for its intended use of sale are complete. The proposed amendment is to be applied prospectively.

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Proposed Improvements to Standards of GRAP	
GRAP 13 on *Leases*	GRAP 13 currently requires an entity to apply the Standard of GRAP on *Impairment of Cash-generating Assets* (GRAP 26) to assess if the leased asset in an operating lease or in a sale and leaseback transaction is impaired. An improvement to GRAP 13 is proposed allowing an entity to also consider the Standard of GRAP on *Impairment of Non-cash-generating Assets* (GRAP 21) to assess if the leased asset in these arrangements are impaired. Applying GRAP 21 may be relevant in assessing impairment for leased assets in arrangements entered into between entities that are not undertaken on market terms. The proposed amendment is to be applied prospectively.
GRAP 16 on *Investment Property*	Four improvements are proposed to GRAP 16, i.e.: (a) An entity may consider GRAP 21, in addition to GRAP 26, to assess if an investment property is impaired. As with the proposed amendment to GRAP 13, GRAP 21 may be appropriate to consider where leases of investment property are not undertaken on market terms. (b) The headings to paragraphs .06 and .07 were deleted and a new heading “classification of property as investment property to owner-occupied property” is proposed for inclusion before paragraph .06. (c) The principle on the initial measurement of a self-constructed investment property is clarified to require that a self-constructed investment property, that will be measured using the fair value model subsequent to its initial recognition, will be carried at fair value, either on completion of the construction or development, or when the fair value becomes reliably measurable, whichever is earlier. The later part of the principle is proposed for inclusion as part of the improvements. A new heading “Guidance on initially measuring self-constructed investment property at fair value” is also proposed for this section.

Proposed Improvements to Standards of GRAP	
GRAP 16 on *Investment Property* **(continued)**	(d) The requirement on transfers to and from investment property was clarified to explain that a transfer will only occur when there is a change in use, i.e. when the property meets, or ceases to meet the definition of investment property and there is evidence of the change in use. The list of examples of a change in use is also indicated as being non-exhaustive. The proposed improvement on: • considering GRAP 21 to assess the leased asset for impairment, and the inclusion of a new heading before paragraph, are to be applied prospectively; • the initial measurement of a self-constructed investment property is to be applied retrospectively; and • the clarification on transfers to and from investment property is to be applied prospectively. Entities are, however, permitted to apply the improvement on transfers to and from investment property retrospectively if hindsight is not applied.
GRAP 17 on *Property, Plant and Equipment*	GRAP 17 currently explains that land has an unlimited useful life and is therefore not depreciated. An example of quarries and land used for landfill is included as exceptions to this principle. As land will not be consumed through its use, the proposed improvement to GRAP 17 deletes the example of quarries and land used for landfill. The proposed improvement is to be applied retrospectively.

Proposed Improvements to Standards of GRAP	
GRAP 20 on *Related Party Disclosures*	GRAP 20 currently exempts the disclosure of related party transactions where transactions occur within a normal supplier and/or client/recipient relationship, when terms and conditions are no more or less favourable if dealing with that individual or entity within normal established operating parameters. GRAP 20 currently requires the disclosure of certain narrative information about the nature of these transactions undertaken between the related parties, as well the outstanding balances. The proposed improvement to GRAP 20 deletes the requirement to disclose the related outstanding balances where these transactions occur within normal supplier and/or client/recipient relationships. The second proposed improvement to GRAP 20 indicates that the definition of a related party includes transactions that arise when an entity, or a group of which the entity is part, provides management services to the reporting entity, or the controlling entity of the reporting entity. The proposed amendment requires the disclosure of any service fee paid, or payable, along with the disclosure of any other related party transactions with the management entity. The proposed improvement further includes explanatory guidance that management services comprise services where employees of the management entity participate in the strategic direction, and financial and operating policy decision-making of an entity. It is proposed that both improvements to GRAP 20 are applied retrospectively.
GRAP 24 on *Presentation of Budget Information in Financial Statements*	This proposed improvement involves amending the term “primary financial statements” to either “financial statements” or “the face of the financial statements” for consistency with wording used elsewhere in the Standards of GRAP. The proposed improvement is to be applied retrospectively.

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GRAP 31 on *Intangible Assets*	GRAP 31 currently requires the entity to assess an intangible asset measured under the cost model for impairment, following the reassessment of the intangible asset's useful life from indefinite to finite. The proposed improvement to GRAP 31 proposes to extend the requirement to assess an intangible asset measured under the revaluation model, for impairment following the reassessment of the intangible asset's useful life as finite rather than indefinite. It is proposed that the amendment to GRAP 31 is applied prospectively.
GRAP 32 on *Service Concession Arrangements: Grantor*	A minor amendment is proposed to GRAP 32 to clarify that the carrying amount of each material service concession asset recognised at the reporting date, should be disclosed as part of the disclosure requirements under this Standard. The proposed amendment is to be applied retrospectively.
GRAP 37 on *Joint Arrangements*	The application guidance to GRAP 37 explaining the accounting for a previously held interest in a joint operation when the entity obtains control in the operation for the first time, has been clarified. The guidance explains that where a party participated in a joint operation, and only subsequently obtains joint control in the joint operation, the previously held interest in the joint operation should not be remeasured. As the improvement relates to application guidance, no transitional provisions are required for the proposed improvement.
GRAP 106 on *Transfer of Functions Between Entities Not Under Common Control*	The proposed improvement to GRAP 106 clarifies that when a party obtains control of a joint operation, but had rights to assets, and obligations to liabilities relating to the joint operation before the acquisition date, the transaction is an acquisition achieved in stages. The entity needs to remeasure its previously held interest in the joint operation at the acquisition-date fair value. Any resulting gain or loss is recognised in surplus or deficit. The proposed improvement is to be applied for transactions for which the acquisition date is on or after the reporting period in which the improvement is first applied.

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Proposed Improvements to Standards of GRAP	
Directive 7 on *Application of Deemed Cost*	The proposed improvement clarifies that the principles in Directive 7 may be applied to determine a deemed cost for bearer plants.
What are the specific matters for comment on which the Board requests respondent's views?	The Board requests specific comment on the proposed improvement to GRAP 20 to understand whether respondents: (a) agree with the explanatory guidance included in GRAP 20 on what management services comprise; and (b) foresee any practical implementation issues applying the amendment.
How to access information	
Access information on the ASB and its work programme online	Visit our website on www.asb.co.za Subscribe to our Newsletter Access the translated versions of the Standards

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