



**Proposed Standards of  
GRAP on  
*Interests in Other  
Entities***



# Background

- Alignment of GRAP 6, 7 and 8 with equivalent IPSASs issued during 2014
  - ED 144 – *Separate Financial Statements*
  - ED 145 – *Consolidated Financial Statements*
  - ED 146 – *Investments in Associates and Joint Ventures*
  - ED 147 – *Joint Arrangements*
  - ED 148 – *Disclosure of Interests in Other Entities*



# Significant changes to current GRAPs

- New definition of control
- Investment entities
- Structured entities
- Classification of joint arrangements
- Removal of proportionate consolidation
- Disclosure requirements in one Standard
- Guidance on separate financial statements in one Standard





# New definition of control

- Revised definition includes 3 elements i.e. a controlling entity's
  - Power over controlled entity
  - Exposure, or rights to variable benefits from its involvement with controlled entity
  - Ability to use its power over controlled entity to affect nature and amount of controlled entity's benefits



# New definition of control

- Focus of new definition on entity's ability to influence nature and amount of benefits through its power over the other entity
- Guidance to assist with control assessment
- Guidance on how to apply control principle
  - When voting or similar rights give investor power
  - Voting rights are not dominant factor
  - Investee has control over specified assets of investee



# Investment entities

- Investment entity is an entity that:
  - Obtains funds from one or more investor with purpose to provide investment management services
  - Has the purpose of investing funds solely for returns from capital appreciation, investment revenue or both
  - Measures and evaluates performance of substantially all of its investments on fair value basis



# Investment entities

- Specific accounting guidance
  - Investment entity shall not consolidate its controlled entities → measure investment at FV
  - If investment entity has a controlled entity that is not itself an investment entity and whose activities are to provide services that relate to an investment entity's investment activities → consolidate the controlled entity in accordance with ED 145



# Investment entities

- Specific accounting guidance
  - A controlling entity of investment entity that is not in itself an investment entity must present consolidated fin statements in which:
    - Investment of controlled investment entity is presented at fair value in consolidated financial statements (GRAP 104)
    - Other assets/liabilities/revenue/expenses consolidated in accordance with ED 145








# Structured entities

- Examples include
  - Partnership between gov'n and private party other than joint venture
  - Securitisation vehicles
  - Asset backed financing
  - Some investment funds
- Specific features included in Application guidance






# Structured entities

- Apply principles in ED 145 to assess if structured entity is controlled → apply ED 145 to consolidate
  - ED 148 has specific disclosures for structured entities that are not consolidated
  - Objective → assist users to assess current/potential future impact of these entities on economic entity's financial position/performance
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# Classification of Joint Arrangements

- GRAP 8 *Joint Ventures*
    - Jointly controlled entities/operations/assets
  - ED 147 *Joint Arrangements*
    - Joint operation
      - Rights to assets and obligations to liabilities
      - Account for REAL ito applicable GRAP
    - Joint venture
      - Rights to net assets
      - Account for investment in joint venture → equity method unless exempted
- 




# Removal of proportionate consolidation

- GRAP 8
  - Equity method or proportionate consolidation to account for jointly controlled entity
- ED 146 removed proportionate consolidation
  - IASB concluded that inappropriate as parties neither have rights to assets nor obligations for liabilities → IPSASB concurred with conclusion
- ED 146 → combined accounting for associates and joint venture in single std





# One disclosure Standard

- One Standard to bring together all disclosures in relation to controlled entities, associates, joint arrangements and structured entities
  - Also includes new disclosure requirements
  - Additional application guidance to understand disclosures related to interests in other entities
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# Specific matter for comment

- The proposed Standard of GRAP on *Disclosure of Interests in Other Entities* (GRAP 38) brought together all the disclosure requirements on interests in other entities.

Do you find the inclusion of the disclosure requirements proposed in GRAP 38 useful in meeting the user's information needs, or, in your view, could some of the disclosure requirements be eliminated?

Please explain your response





# Guidance on separate f/s in one Standard

- Guidance in one Standard (ED 144)
- Includes guidance when entity ceases to be investment entity → apply above accounting methods





# Specific matter for comment

- The proposed Standard of GRAP on *Separate Financial Statements* (GRAP 34) allows an entity to account for similar investments in controlled entities, joint ventures and associates in its separate financial statements either:

- (a) at cost;

- (b) in accordance with the Standard of GRAP on *Financial Instruments*; or

- (c) using the equity method as described in the Standard of GRAP on *Investments in Associates and Joint Ventures*.







# Specific matter for comment

- GRAP 6 does not permit the use of the equity method,
- which was in line with the IASB thinking at the time that GRAP 6 was developed. The equivalent IPSAS 6 did allow the use of the equity method

In August 2014, the IASB reinstated the equity method following support from stakeholders to permit the use of the equity method.

In line with international practice, the Board has therefore agreed to also permit the use of the equity method in separate financial statements – Do you agree?





# ED 145 Consolidated f/s

- Length of proposed Standard
  - Once approved detailed illustrative examples will be included in guidance to be issued by OAG (also examples in ED 147)





# Specific matter for comment

- The proposed Standards of GRAP on *Consolidated Financial Statements* (GRAP 35) and *Joint Arrangements* (GRAP 37) include detailed examples to illustrate the application of the principles proposed in the Standards.

In line with past practice, these illustrative examples will be removed from the Standards of GRAP when....





# Specific matter for comment

- .....the Office of the Accountant-General develops the implementation guidance for the specific Standard of GRAP.

In your view, do you agree that the proposed illustrative examples included in proposed GRAP 35 and GRAP 37 reflect South African public sector circumstances? Should any of these examples be eliminated, or should any additional examples be included? Please explain your response





# ED 145 Consolidated f/s

- Different reporting dates
  - GRAP 6 prescribe that it should not be more than three months
  - ED 145 requires use of most recent f/s adjusted for effects of significant tx and events





# Specific matter for comment

#4

Are there any regulatory or other issues that exist in the South African environment that may affect the implementation of the proposed Standards of GRAP?

If yes, please provide details of these regulatory or other issues that should be considered in finalising the proposed Standards of GRAP.





# Specific matter for comment



#5

In your view, should the National Treasury consider the development of any other implementation guidance, in addition to the GRAP Implementation Guideline that will be developed? Please explain your response





# Specific matter for comment

#6

In your view, overall, does the application of the proposed Standards of GRAP result in financial statements that would be useful to users?

Please explain your response







# Specific matter for comment

#7

In your view, what are the costs and benefits of the proposals relative to the current accounting that are applied by entities in assessing their interests in other entities. In relation to quantitative financial costs, the ASB would be interested to understand the nature and estimated amounts of any expected incremental costs, or cost savings, of the proposals relative to the existing accounting





# Other comment

- GRAP 34 – ED 144
- GRAP 35 – ED145
- GRAP 36 – ED 146
- GRAP 37 – ED 147
- GRAP 38 – ED 148



# Transitional provisions and effective date

- Transitional provisions
  - To be considered as a separate project once comment on ED 144 to 148 received
- Effective date
  - Based on comment received Board will assess if new effective date needs to be determined by Minister of Finance

**Comment EDs 14 to 148 due → 30 Nov 2016**



**Thank you**

