



**ANALYSIS AND RESPONSES TO WRITTEN  
COMMENT RECEIVED ON**

***PROPOSED TRANSITIONAL PROVISIONS FOR THE  
INITIAL ADOPTION OF THE STANDARDS OF GRAP  
ON INTERSTS IN OTHER ENTITIES***

**(ED 157)**



**RESPONSES TO THE WRITTEN COMMENT RECEIVED ON THE *PROPOSED TRANSITIONAL PROVISIONS OF THE STANDARDS OF GRAP ON INTERESTS IN OTHER ENTITIES (GRAP 34 TO GRAP 38)***

The Accounting Standards Board (Board) approved the exposure of the *Proposed Transitional Provisions for the Initial Adoption of the Standards of GRAP on Interests in Other Entities (GRAP 34 to GRAP 38)*(ED 157) in July 2017 for comment. A Notice was published in the Government Gazette on the 11<sup>th</sup> August 2017 (Notice 41037). The comment period closed on 31 October 2017.

The Board received a comment letter from the Department of Treasury of the Free State Province, which include submissions from the entities listed in the table on the next page.

The Secretariat has also, through the National Treasury, drafted a request to the chief financial officers of national and provincial public entities, municipalities and municipal entities, requesting them to consider the proposed transitional provisions for the initial adoption of GRAP 34 to GRAP 38.

The results of the formal comment process and the comment received from the request to public entities, municipalities and municipal entities are summarised in this document, and include the Board's responses to the comment received.

In addition to the comment letters received, ED 157 was also discussed with preparers, auditors and consultants by way of a roundtable discussion. The summary of comment received during this discussion is included in a separate analysis.

**CLASSIFICATION OF WRITTEN COMMENT RECEIVED ON THE *PROPOSED TRANSITIONAL PROVISIONS FOR THE INITIAL ADOPTION OF THE STANDARDS OF GRAP ON INTERESTS IN OTHER ENTITIES (ED 157)***

No.	Name/Organisation	Preparers	Users	Other interested parties
1.	Submission by the Free State Department of Treasury, including inputs from the following entities: <ul style="list-style-type: none"> <li>• Department of Economic, Small Business Development, Tourism and Environmental Affairs (DESTEA)</li> <li>• Education</li> <li>• Provincial Treasury</li> <li>• Social Development</li> <li>• Free State Development Corporation</li> <li>• Public Works and Infrastructure</li> <li>• Police, Roads and Transport</li> <li>• Sports, Arts, Culture and Recreation</li> </ul>	√  √  √ √ √ √ √	√	
2.	Office of the Accountant-General	√		
3.	EThekwini Municipality	√		
4.	Bergrivier Municipality	√		



**ANALYSIS AND RESPONSES TO COMMENTS ON THE PROPOSED  
TRANSITIONAL PROVISIONS FOR THE INITIAL ADOPTION OF THE  
STANDARDS OF GRAP ON INTERESTS IN OTHER ENTITIES (ED 157)**

<b>COMMENTS ON ED 157 PROPOSED TRANSITIONAL PROVISIONS FOR THE INITIAL ADOPTION OF THE STANDARDS OF GRAP ON INTERESTS IN OTHER ENTITIES (GRAP 34 TO GRAP 38)</b>		
<b>No.</b>	<b>Comments</b>	<b>Board's response</b>
	<b>GENERAL MATTERS FOR COMMENT</b>	
<b>1.</b>	<b>Free State Department of Treasury</b>	
1.1	All of the departments and entity agreed with the matters as per the exposure drafts as it will align the GRAP standards and the relevant Directives for separate and consolidated AFS reporting.	Noted. No further action required.
<b>2.</b>	<b>Office of the Accountant-General</b>	
2.1	<p>After internal discussion we submit the following inputs:</p> <p>(a) The National Treasury will need more time to evaluate the legal consolidation requirements found in PFMA section 8(1) and 19(1) in comparison to the new GRAP standard on consolidations. We believe a conflict may arise between the legal requirement to perform the national and provincial consolidation and the GRAP requirements for consolidation which has expanded scope now. This may result in non-compliance in terms of the PFMA requirements and / or the GRAP requirements.</p>	<p>Noted.</p> <p>The Board has initiated a project to understand the practical issues relating to the preparation of the legislative consolidated financial statements.</p> <p>The comment was considered as part of the initial research into the challenges experienced by the national and the provincial treasuries. Feedback on the outcome of the Board's research results will be shared with the National Treasury.</p>



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No.	Comments	Board's response
2.1	<p>(comment continues)</p> <p>(b) Currently GRAP 6.44 allows the consolidation of entities when the difference between the end of the reporting period and the reporting period of the controlled entity and that of the controlling entity more than three months. National Treasury consolidates eight Water Boards with a 30 June financial year end in line with paragraph .44. The revised GRAP standard contains no specific limit on controlled entities but rather states that the latest available financial statements of the controlled entity should be used. The Water Board's 30 June financial year end is after the controlling entity financial year end of 31 March and their financial statements are only finalised 30 September each year so their latest available financial statements might be those from the previous financial year. To consolidate those statements would result in a complete misalignment of financial period in the consolidation and affect the quality of the consolidated financial statements. The National Treasury needs more clarity on this issue in the new GRAP consolidation standard to avoid any negative impact on the national public entity consolidation.</p> <p>(c) We would like the Technical Committee to consider moving the effective date back by one year to 1 April 2020 as this will allow the National Treasury, Provincial Treasuries and affected entities more time to prepare for implementation.</p>	<p>Noted. The Board received a similar comment during the exposure of the proposed Standards of GRAP on <i>Interests in Other Entities</i> (ED 144 to ED 148) that were subsequently approved as final Standards of GRAP by the Board during March 2017.</p> <p>As noted in the response to comment 2.1(a), the Board included a research project on its 2017 work programme to consider practical issues relating to the preparation of the consolidated financial statements by the national and provincial treasuries in terms of the PFMA. In finalising ED 144 to ED 148 the Board concluded that the exclusion of a specific time period will not impact the preparation of consolidated financial statements as entities will still be required to adjust for the effects of significant transactions or events. The Board therefore agreed that the comment should be considered as part of its research project.</p> <p>Feedback on the outcome of the Board's research results will be shared with the National Treasury.</p> <p>Noted. The Board recommended an implementation date of 1 April 2020 for GRAPs 34 to GRAP 38.</p>



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No.	Comments	Board's response
<b>3.</b>	<b>EThekwini Municipality</b>	
3.1	<p>The objective of this memorandum is to provide comments on the transitional provisions on GRAP 34 to 38: Interest in other entities.</p> <p><b><u>GRAP 34 Separate Financial Statements</u></b></p> <p>Ethekwini Municipality agrees with the transitional provisions of this standard and proposed effective date of 1 April 2019</p>	<p>Noted.</p> <p>Noted. The Board recommended an implementation date of 1 April 2020 for GRAPs 34 to GRAP 38 to ensure that the Standards of GRAP and the transitional provisions to be applied in the initial adoption of GRAP 34 to GRAP 38 are in public domain at least one year prior to their effective date.</p>
3.2	<p><b><u>GRAP 35 Consolidated Financial Statements</u></b></p> <p>Ethekwini Municipality agrees with the transitional provisions of this standard and proposed effective date of 1 April 2019.</p>	<p>Noted. Refer to the response to comment 3.1.</p>
3.3	<p><b><u>GRAP 36 Investments in Associates and Joint Ventures</u></b></p> <p>Ethekwini Municipality agrees with the proposed effective date of 1 April 2019 and the transitional provisions of this standard which are in terms of GRAP 37: Joint Arrangements. Comments are provided on GRAP 37.</p>	<p>Noted. Refer to the response to comment 3.1.</p>



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No.	Comments	Board's response
3.4	<p><b><u>GRAP 37 Joint Arrangements</u></b></p> <p>Ethekwini Municipality agrees with the transitional provisions of this standard and proposed effective date of 1 April 2019.</p> <p>However, guidance is further sought in terms of the transition from proportionate consolidation to the equity method. Paragraph 25 of the proposed transitional provisions states that the initial investment shall be measured as the aggregate of the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated, which is regarded as the deemed cost of the investment at initial recognition in terms of paragraph 26.</p> <p>The municipality currently applies the equity method on its separate financial statements and proportional consolidation on the group financial statements for investments in joint ventures. This accounting treatment was allowed as an exception to paragraph 59 of GRAP 6: <i>Consolidated and Separate</i> financial statements which states that these investments should be accounted for at cost or fair value. This exception (equity method on separate financial statements) has since been introduced in the new GRAP 34 on <i>Separate Financial Statements</i>.</p> <p>This will therefore result in the municipality applying the equity method on both the consolidated and separate financial statements on adoption of these new standards.</p>	<p>Noted. Refer to the response to comment 3.1.</p> <p>Noted.</p> <p>GRAP 6 only allows an entity to apply cost or fair value to account for investments in controlled entities, jointly controlled entities and associates in its separate financial statements. GRAP 34 <i>Separate Financial Statements</i> introduced the equity method as an additional accounting method for investments in the entity's separate financial statements. The transitional provisions to GRAP 34 require that all changes resulting from the application of the equity method shall be accounted for in accordance with the requirements of GRAP 3 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>.</p>



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No.	Comments	Board's response
3.4	<p>(comment continues)</p> <p>As a result, the Municipality seeks guidance in terms of the following questions to ensure a smooth transition when the new standards are adopted and become effective:</p> <ol style="list-style-type: none"> <li>1. On initial adoption, will the deemed cost in terms of paragraphs 25 and 26 for consolidation purposes also be the deemed cost for the purposes of separate financial statements given that investments in joint ventures on both the separate and group financial statements will be accounted for both using the equity method?</li> </ol> <p>The concern is that if the deemed cost is not applied to the separate financial statements, the investment in joint ventures in the group financial statements will differ to that in the separate financial statements, whereas the accounting treatment will be the same (equity method). This might be confusing for the users of the financial statements when analyzing both the separate and consolidated financial statements, especially when it comes to investments in joint ventures that have the same accounting policy for such investments (equity method), but different balances.</p> <ol style="list-style-type: none"> <li>2. If the deemed cost in terms of paragraphs 25 and 26 is applied to the separate financial statements, will the difference between this deemed cost and the investment in the joint venture using the equity method on the separate financial statements be adjusted to accumulated surplus in the similar manner applied for joint operations in terms of paragraph 33 of these transition provisions?</li> </ol>	<p>The Board cannot specifically comment on the measurement of the investment in a joint venture and in its separate financial statements.</p> <p>The principles in Directive 7 <i>The Application of Deemed Cost</i> maybe considered, depending on the circumstances.</p> <p>Noted. Refer to the comment on matter no 1 above.</p>
3.5	<p><b><u>GRAP 38 Disclosure of Interests in Other Entities</u></b></p> <p>Ethekwini Municipality agrees with the disclosure requirements in terms of GRAP 38.</p>	<p>Noted. No further action required.</p>





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No.	Comments	Board's response
4.	<b>Bergrivier Municipality</b>	
4.1	Bergrivier Municipality has reviewed the proposed transitional provisions for GRAP 34 to GRAP 38 and has no comments / input to submit.	Noted. No further action required.