



Responses due by **15 September 2023**

ACCOUNTING STANDARDS BOARD

INVITATION TO PARTICIPATE IN THE POST-IMPLEMENTATION REVIEW OF THE STANDARD OF GRAP ON ACCOUNTING BY PRINCIPALS AND AGENTS

(GRAP 109)

(ED **xxx)**



ED XXX

Commenting on this Invitation

The Accounting Standards Board (the Board) is undertaking a post-implementation review of the Standard of GRAP on *Accounting by Principals and Agents* (GRAP 109) (the PIR). The PIR is undertaken to enable the Board to determine whether any amendments are required to GRAP 109, and whether any other guidance should be issued to address the issues raised during the review.

The responses received from stakeholders will be used by the Secretariat of the Board to make recommendations to the Board.

Responses to this Invitation should be submitted in writing so as to be received by **15 September 2023**. E-mail responses are preferred. Comment should be addressed to:

The Chief Executive Officer
Accounting Standards Board

240 Madiba Street

Pretoria

0002

Fax: +2711 697 0666

E-mail Address: info@asb.co.za

Questionnaires are available on the ASB's website at [\[link to questionnaires posted with the ED\]](#) to assist stakeholders in responding to this Invitation.

Copyright © 2022 by the Accounting Standards Board

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior permission of the Accounting Standards Board. The approved text is published in the English language.

Permission to reproduce limited extracts from the publication will not usually be withheld.

CONTENTS

Post-implementation review of the Standard of GRAP on *Accounting by Principals and Agents* (GRAP 109)

	Page
Introduction to the post-implementation review of GRAP 109	5 – 10
Background to the post-implementation review	5
Undertaking the post-implementation review	5 – 10
First phase of the post-implementation review	5 – 10
Issues specific to the application of GRAP 109	6 – 9
General issues when entities prepare financial statements	9 – 10
Second phase of the post-implementation review	10
The post-implementation review	11 – 22
What is the objective of reporting on principal-agent arrangements?	11 – 12
Identifying principal-agent arrangements	12 – 16
A binding arrangement exists	12 – 13
Purpose of a binding arrangement	12
Mechanisms from which a binding arrangement arises	12 – 13
Multiple arrangements	13
Distinguishing principal-agent arrangements from other arrangements	14 – 17
Third parties are involved and the transactions with third parties are undertaken on behalf of and for the benefit of the principal	14 – 16
The nature of the transactions	16
Economic substance over legal form applies	16 – 17
Identification of roles of parties to a principal-agent arrangement	17 – 19
Assessment of regulatory powers	18 – 19
Applying materiality to principal-agent arrangements	19
Applying GRAP 109 with other Standards of GRAP	20
Recognising assets and liabilities as an agent	20 – 22
Disclosing information about principal-agent arrangements in the financial statements	22 – 24
General information about principal-agent arrangements	22



ED XXX

Information provided by the agent in a principal-agent arrangement	22 – 23
Information provided by the principal in a principal-agent arrangement	23
Nature of transaction with third parties	24

1. Introduction to the post-implementation review of GRAP 109

Background to the post-implementation review

- 1.1 The Minister of Finance determined the effective date for the Standard of GRAP on *Accounting by Principals and Agents* (GRAP 109) as financial periods commencing on or after 1 April 2019. The transitional provisions required entities to apply the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* to initially account for principal-agent arrangements that were in progress at the effective date.
- 1.2 During the implementation of GRAP 109, Frequently Asked Questions (FAQs) were developed by the Secretariat of the Accounting Standards Board (the Secretariat) to assist entities in the preparation of their financial statements. The Office of the Accountant-General (OAG) developed a presentation to assist stakeholders with the implementation of GRAP 109 in 2022.
- 1.3 The Board agreed to undertake a post-implementation review of GRAP 109 (the PIR) with the objectives to:
 - (a) determine the extent to which GRAP 109 provides relevant and useful information to users of the financial statements, and to identify what other information users require on principal-agent arrangements in the financial statements;
 - (b) understand the implementation challenges that preparers experience, and the extent to which these challenges may impair the consistent application of the requirements of GRAP 109; and
 - (c) assess if any amendments are required to GRAP 109, and whether other actions may be required, such as:
 - (i) developing an Interpretation of the Standards of GRAP;
 - (ii) issuing or revising FAQs; and
 - (iii) engaging with the OAG on developing additional guidance on GRAP 109 and possibly undertaking other initiatives, such as capacity building.

Undertaking the post-implementation review

- 1.4 The PIR is undertaken in two phases. The first phase was completed and involved identifying issues with the application of GRAP 109 through various means, with the purpose of gathering information for the second phase. The second phase involves receiving feedback from users, preparers and auditors related to the objectives of the PIR in paragraph 1.3. The Board will decide on the appropriate next steps based on the outcomes of the second phase.

First phase of the post-implementation review

- 1.5 The objective of the first phase was to understand how entities apply the principles of GRAP 109, what information on principal-agent arrangements they disclose in their

financial statements, and what difficulties they experience to comply with the requirements of GRAP 109. This phase of the review considered:

- The Auditor-General's PFMA (2020/21) and MFMA (2019/20) General Reports.
- Queries received by the Secretariat.
- Matters discussed at the Public Sector Accounting Forum.
- The audited financial statements of entities applying Standards of GRAP (2020/21, or 2019/20 where 2020/21 was unavailable).
- Feedback from targeted stakeholders.

1.6 The results of the first phase were used to identify the specific issues on which the Board needs respondents' views in the PIR. These issues are summarised and explained below. The issues are pervasive and not specific to any province, or any type of entity. Most of the issues relate to the identification of principal-agent arrangements.

Issues specific to the application of GRAP 109

Issue	Specific observations
1. Awareness of GRAP 109 <i>Requirements of GRAP 109: The Minister of Finance determined the effective date of the Standard as financial years commencing on or after 1 April 2019.</i>	
Stakeholders are unaware that GRAP 109 is effective and did not apply it.	• Preparers included incorrect information on the effective date of GRAP 109 in the financial statements for periods after the effective date (1 April 2019). The information refers to the effective date as "not yet determined by the Minister of Finance", "1 April 2021", or "not yet effective". • Auditors did not identify material issues with the application of GRAP 109.
2. Identification of principal-agent arrangements <i>Requirements of GRAP 109: A principal-agent arrangement is defined as: "A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal)."</i> <i>An entity assesses whether both the following aspects are present for an arrangement to meet the definition of a principal-agent arrangement:</i> <i>(a) There is a binding arrangement between the principal and the agent.</i>	

Issue	Specific observations
<i>(b) The arrangement is such that one entity (the agent) represents the interests of another party (the principal), in dealing with identified third parties.</i>	
Entities have difficulty distinguishing principal-agent arrangements from other arrangements, and are unsure of the Standards to apply when an arrangement is not a principal-agent arrangement.	Fulfilling an agency function is a type of service provided to another party (the principal) in relation to the principal's transactions with third parties. This agency service may be difficult to distinguish from arrangements where the entity provides a service to another party.
It can be difficult to identify the capacity in which an entity is engaged in an arrangement, particularly when it is unclear what functions are assigned to the entity. This may impact the conclusion on the type of arrangement. An entity may not be able to assess whether a transaction is undertaken "on behalf of, and for the benefit of" another entity, or for its own benefit, when it is unsure where the responsibility for the function lies.	Uncertainty exists in areas such as, for example: - identifying functions formally assigned to municipalities through legislation such as the Constitution of the Republic of South Africa, and the Local Government: Municipal Structures Act; - control relationships where the mandate and functions of the entities are linked and there are various types of transactions between the entities; and - legislation that indicates entities undertake transactions for the benefit of the National Revenue Fund or a provincial Revenue Fund.
The assessment of whether an arrangement is a principal-agent arrangement is performed at the incorrect level.	Where arrangements include the fulfilment of multiple rights and obligations, the role of the parties are not analysed separately for these different rights and obligations. A single binding arrangement could include multiple principal-agent arrangements (and other types of arrangements).
There is a misconception that the classification of expenditure drives the decision on whether an arrangement is a principal-agent arrangement.	When an entity classifies a transaction with another party as a transfer payment, it is not seen as a principal-agent arrangement.
Economic substance over legal form is not applied when identifying principal-agent arrangements.	Terminology used in arrangements is confused with the accounting principles. Entities incorrectly assess the legal form of an arrangement, instead of the economic substance. The terms

Issue	Specific observations
	“implementing agent”, “agent”, “principal” and “principal-agent arrangement” may be used in arrangements, but do not necessarily have the same meaning as the terms in GRAP 109.
The transaction that the agent undertakes with third parties on behalf of the principal are misinterpreted to be financial transactions only.	Examples of principal-agent arrangements where there are no financial transactions with third parties include an agent negotiating a contract on behalf of the principal, and municipalities representing the provincial housing department in relation to housing beneficiaries.
There are certain functions known to give rise to principal-agent arrangements. Not all entities have identified these arrangements as principal-agent arrangements.	Municipalities manage the issuing of motor vehicle licences and the administration of traffic fines on behalf of the relevant provincial department of transport.
3. Criteria to assess whether an entity is an agent in a principal-agent arrangement <i>Requirements of GRAP 109: An entity that is party to a principal-agent arrangement should assess whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement. GRAP 109 includes criteria for a party to the arrangement to be the agent. If an entity concludes that it is not the agent, then it is the principal.</i>	
The criteria in GRAP 109 to assess whether an entity is an agent in a principal-agent arrangement are misunderstood. The incorrect application of the criteria leads to incorrect conclusions on the nature of arrangements.	The criteria are used to identify whether an arrangement is a principal-agent arrangement, instead of assessing an entity’s role in an arrangement that has already been assessed to be a principal-agent arrangement.
4. Disclosure of principal-agent arrangements <i>Requirements of GRAP 109: Entities with principal-agent arrangements are required to disclose qualitative information about the arrangement, as well as quantitative information about the transactions and balances related to the arrangement. General information is required about all principal-agent</i>	

Issue	Specific observations
<i>arrangements, and further requirements distinguish the information that should be provided by the principal and the agent respectively.</i>	
Entities with principal-agent arrangements do not comply with the disclosure requirements of GRAP 109, or only provide boilerplate information. The financial statements should explain the specific principles applied by an entity, tailored to its specific circumstances, and should not include generic wording from the Standard.	- No accounting policy and no note disclosure is provided. - Boilerplate information is provided in an accounting policy, but no note disclosure on the arrangement is provided. - An accounting policy and note disclosure is provided, but no information is provided on: - the significant terms and conditions of the arrangement; - whether any changes occurred during the period; - the purpose and significant risks and benefits of the relationship; and - for entities acting as a principal, the resource or cost implications if the arrangement is terminated.
Entities that do not have principal-agent arrangements provide information required by GRAP 109. The information would be misleading and inappropriate to provide for arrangements that are not principal-agent arrangements.	Entities provide the disclosure required by GRAP 109 as a means of being cautious when they are unsure whether an arrangement meets the definition of a principal-agent arrangement.

General issues when entities prepare financial statements

Issue	Specific observations
1. Materiality is not applied appropriately	
Entities include information that appears immaterial in their financial statements, and may omit information that is material. Entities may not understand how to apply materiality in the context of GRAP 109.	In the public sector, the agent in a principal-agent arrangement may not be remunerated, or may be remunerated at an insignificant amount. The “agency fee/commission” is not necessarily a reflection of the materiality of the arrangement. If the materiality assessment considers only the “agency fee/commission”, entities may come to an incorrect conclusion.

Issue	Specific observations
2. Boilerplate information is provided	
The accounting policies and notes include boilerplate information. This means the information provided on principal-agent arrangements is not specific to the entity and the entity's arrangements.	Financial statements include a boilerplate note on the Standards that were applied for the first time in the current reporting period, and the impact thereof on the financial statements. The boilerplate information provided by some entities in this note on GRAP 109 was that the first time application of the Standard in 2019/20 had no material impact on the financial statements. This information was inconsistent with information on principal-agent arrangements disclosed elsewhere in the financial statements.

Second phase of the post-implementation review

- 1.7 There are two mechanisms through which feedback is requested from users, preparers and auditors in this phase of the PIR. The first is through the completion of questionnaires, while the second mechanism involves direct consultations with stakeholders.

2. The post-implementation review

What is the objective of reporting on principal-agent arrangements?

- 2.1 Entities operating in the public sector have the primary objective of providing services that enhance or maintain the well-being of their citizens and constituents. As public sector entities are accountable to those that provide them with resources, and those that depend on them to use those resources for service delivery, accountability is the cornerstone of financial reporting.
- 2.2 The Constitution of the Republic of South Africa, 1996 (the Constitution) sets out the various responsibilities of government, and assigns activities to various spheres of government or to particular types of entities. Supporting legislation within each sphere of government sets out the mandate, authority, roles and responsibilities of specific entities in undertaking the activities outlined in the Constitution. In many cases, this legislation results in the establishment of separate entities to undertake these activities. It is, however, not feasible to establish separate entities in all instances, and it may be more efficient and effective to utilise existing entities to undertake certain activities. As a result, entities frequently have certain activities executed by another entity, or undertake activities on behalf of other entities. The ultimate responsibility for the various activities, however, still rests with the entities identified in legislation.
- 2.3 Principal-agent arrangements result from binding arrangements in which one entity (an agent) undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal). The parties to a principal-agent arrangement may be in the public sector and in the private sector. In a binding arrangement, it is important for the parties to the arrangement to correctly identify: (a) the type of arrangement – principal-agent, or something else – and, (b) if it is a principal-agent arrangement, which entity acts as the agent and the principal. The correct classification of an arrangement is important because it determines which transactions each entity accounts for that result from the activities of the arrangement.
- 2.4 Examples of typical arrangements where one entity undertakes activities on behalf of another entity in the public sector may include:
 - The collection of revenue, including taxes, fees and other charges from specific parties, e.g. motor vehicle licence fees collected by municipalities for the provincial government, and taxes collected by the revenue authority for the national government.
 - The construction of assets, e.g. houses built for beneficiaries of the reconstruction and development programme, for national and provincial housing departments and organisations.
 - The provision of goods and services to recipients, e.g. the provision of water to specific communities by municipalities on behalf of water service authorities.

- Property management services, which may include the maintenance of properties and collection of revenue for the Department of Public Works and municipalities.
- 2.5 Service concession arrangements may be an example of a principal-agent arrangement as one party (the operator) carries out certain activities on behalf of the other entity (the grantor) in relation to third parties (the public).
- 2.6 In discharging its accountability, an entity needs to provide information to users to enable them to make decisions on whether principal-agent arrangements effectively meet the purpose of the arrangement in delivering services. To meet users' needs, GRAP 109 requires information in the financial statements on principal-agent arrangements and the related transactions.
- 2.7 GRAP 109 is applied *before* considering the other Standards of GRAP and, as a result, GRAP 109 does not prescribe new recognition or measurement requirements in respect of revenues, expenses, assets and/or liabilities. In addition to the information on principal-agent arrangements provided in financial statements, entities provide information on revenue, expenses, assets and/or liabilities in accordance with other applicable Standards of GRAP.
- 2.8 To assess whether the objective of reporting on principal-agent arrangements is met, the Board identified the issues below on which it requests respondents' views in the PIR.

Identifying principal-agent arrangements

A binding arrangement exists

Purpose of a binding arrangement

- 2.9 Principal-agent arrangements usually exist as a result of a binding arrangement between the parties to the arrangement. It is unlikely that an entity would undertake activities on behalf of another entity in the absence of a binding arrangement as the arrangement imposes rights and obligations on the parties to perform in a particular manner.
- 2.10 Where no binding arrangement exists, it is assumed that the entity is acting for itself, rather than on behalf of another entity. As a result, no principal-agent arrangement exists in the absence of a binding arrangement.
- 2.11 Where a binding arrangement exists, it is important for the parties to the arrangement to identify which entity accounts for the transactions arising from the activities of the arrangement, and what resulting revenue, expenses, assets and/or liabilities should be recognised. When an entity directs another entity to undertake an activity on its behalf, it must consider whether it is a party to a principal-agent arrangement.

Mechanisms from which a binding arrangement arises

- 2.12 A binding arrangement (for purposes of GRAP 109) is any arrangement that confers enforceable rights and obligations on parties to the arrangement. These rights and obligations could arise from:

- contracts (which may take various forms including “service level agreements” and “memorandums of understanding”);
- legislation or similar means; and/or
- common law (i.e. legal precedent set through court rulings).

2.13 Principal-agent arrangements most likely arise from contracts and/or legislation or similar means. Some arrangements may be governed by both legislation (which sets the overarching framework within which certain transactions occur) and contracts (which set out the specific details of an arrangement between a principal and an agent, e.g. the activities to be undertaken, re-imbursement of costs, fees, service standards etc.). Both should be considered in deciding the nature of the arrangement and what rights and obligations exist for either parties.

Multiple arrangements

2.14 A single binding arrangement could include multiple arrangements, which may be a combination of a principal-agent arrangement(s) and another type of arrangement(s), for example a service provider arrangement. Where arrangements include the fulfilment of multiple rights and obligations, the roles of the parties are analysed for these different rights and obligations. For example, a single binding arrangement may require an entity to represent another party in its interactions with suppliers, as well as the recipients of the goods or services developed by the suppliers, i.e. the beneficiaries. The role of either party is analysed in the context of the supplier and beneficiary relationships respectively.

Preparers perspective

Preparers’ views are required on the following aspect(s):

Question P1

How do you experience identifying:

- whether a binding arrangement exists; and
- all the rights and obligations that may exist within a binding arrangement (including arrangements governed by both legislation and contracts, and multiple arrangements)?

Please describe your experience – whether positive or negative. If negative, indicate how, in your view, your challenges could be resolved.

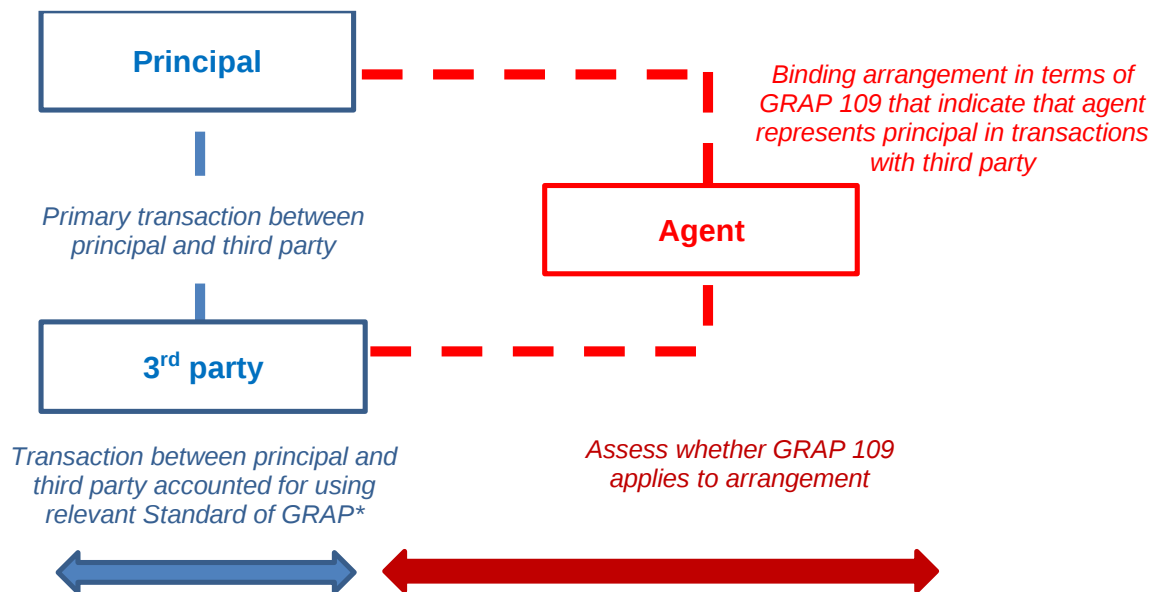
Question P2

Are you aware of binding arrangements that contain multiple rights and obligations, which arise from principal-agent arrangements and other type of arrangements? If yes, please provide details and examples.

Distinguishing principal-agent arrangements from other arrangements

Third parties are involved and the transactions with third parties are undertaken on behalf of and for the benefit of the principal

- 2.15 The definition of a principal-agent arrangement refers to an entity acting on behalf of another entity in relation to transactions with third parties. In the absence of transactions with third parties, the arrangement is not a principal-agent arrangement, and the entity then acts in another capacity rather than as an agent.
- 2.16 On the other hand, a common misconception is that any transaction with more than two parties is a principal-agent arrangement. This is not the case. In a principal-agent arrangement, the agent represents the principal and administers the transaction(s) between the principal and the third parties, and it does so according to the specific direction given by the principal. The agent generally does not have discretion in terms of the type of goods or services to be rendered, the price at which these goods or services are to be rendered, and to whom, nor is the agent exposed to variability in the results of the transaction. The agent facilitates any transactions or interactions between the principal and the third parties in respect of the binding rights and obligations that are established between the principal and the third parties.
- 2.17 Where there are specific transactions undertaken between the principal and the third parties, the agent would be involved in facilitating or executing the transaction but would not be responsible for fulfilling the rights and obligations in the transaction. In analysing the rights and obligations between the parties, the rights and obligations between the principal and the third parties are likely to be substantive in nature, i.e. they relate to the direct fulfilment of the rights and obligations of the arrangement. The agent's rights and obligations in relation to the transactions between the principal and the third parties are likely to be protective or administrative in nature.
- 2.18 A key characteristic of these transactions is often that the principal and the third parties are the counterparties to the transaction rather than the agent and the third parties (although there are exceptions). The diagram below illustrates the relationships in a principal-agent arrangement:



**Transaction between third party and principal will be governed by a separate binding arrangement.*

2.19 The assessment of transactions with third parties may be particularly relevant to the following two scenarios that are often encountered in the public sector:

- (a) Entities, particularly national and provincial departments, are required by legislative arrangements to collect money from public entities or other agencies and to subsequently deposit the money into the relevant revenue fund. In these arrangements, although the departments seemingly undertake activities on behalf of the revenue fund, the arrangements do not provide specific direction in relation to the transactions with third parties and the arrangements may be administrative in nature. As a result, such arrangements may not meet the definition of a principal-agent arrangement.
- (b) The structure and operation of the public sector means that entities frequently control other entities in accordance with the Standard of GRAP on *Consolidated Financial Statements*. Although these control relationships mean that the controlling entity is able to direct the activities of an entity so that it benefits from those activities, these relationships by themselves do not indicate the existence of a principal-agent arrangement. Only where a controlling entity specifically directs a controlled entity to undertake transactions with third parties for the controlling entity's benefit may a principal-agent arrangement exist. In control relationships, it is possible for one or more principal-agent arrangements to exist within the context of a control relationship. This is particularly relevant in assessing the nature of grant and transfer arrangements between controlled and controlling entities.

2.20 It is important to correctly identify all the transactions with third parties that stem from the activities in the binding arrangement. Not identifying all transactions with third parties may lead an entity to an incorrect conclusion on whether an arrangement is a principal-agent arrangement, and could result in the incorrect accounting for transactions.

Preparers perspective

Preparers' views are required on the following aspect(s):

Question P3

How do you experience identifying whether:

- (a) an arrangement includes transactions with third parties; and
- (b) the transactions with third parties are undertaken (by the agent) on behalf of and for the benefit of another party (the principal)?

Please describe your experience – whether positive or negative, and provide examples where available. If your experience is negative, indicate how, in your view, your challenges could be resolved.

The nature of the transactions

- 2.21 The nature of the transactions with third parties is linked to the type of activities carried out by the agent in accordance with the binding arrangement. Based on these activities, “transactions with third parties” in the context of GRAP 109 includes the execution of a specific financial transaction with a third party, e.g. a sale or purchase transaction, but it also includes interactions with third parties where the agent represents the interest of the principal, e.g. when an agent is able to negotiate with third parties on the principal's behalf.

Preparers perspective

Preparers' views are required on the following aspect(s):

Question P4

In your experience, what type of transactions are undertaken by an agent with third parties on behalf of and for the benefit of the principal? Please provide details and examples, including transactions that represent the interests of the principal rather than it being a financial transaction.

Economic substance over legal form applies

- 2.22 The financial statements are prepared by applying “substance over form”. This means that transactions or events are accounted for based on their economic substance and economic characteristics, rather than their legal form.
- 2.23 Applying substance over form is necessary to assess whether a principal-agent arrangement exists. The terms “principal” and “agent” are described in law. As such, arrangements might stipulate that “this arrangement is (or is not) a principal-agent arrangement”, or “entity X is (or is not) the agent” and “entity Y is (or is not) the principal”, or that an entity “acts on behalf of XXX” or is the “implementing agent”. An entity needs to assess if the definition of a principal-agent arrangement in GRAP 109 is met when

accounting for the arrangement, irrespective of the terminology used in the binding arrangement or the legal interpretation of the arrangement.

Preparers perspective

Preparers' views are required on the following aspect(s):

Question P5

- (a) How do you experience applying substance over form when assessing whether an arrangement meets the definition of a principal-agent arrangement? Please describe your experience – whether positive or negative. If negative, indicate how, in your view, your challenges could be resolved.
- (b) Please provide details and examples of instances when you have applied substance over form in assessing whether an arrangement meets the definition of a principal-agent arrangement. Please describe how any challenges identified in (a) were overcome.

Question P6

Please provide details of any other challenges you experience to assess whether an arrangement meets the definition of a principal-agent arrangement, and how, in your view, these challenges could be resolved.

Question P7

How do you experience applying the definition of a principal-agent arrangement in GRAP 109 to assess whether GRAP 109 should be applied to an arrangement? Please describe your experience – whether positive or negative. If negative, indicate how, in your view, your challenges could be resolved.

Identification of roles of parties to a principal-agent arrangement

- 2.24 Only if an entity concludes that an arrangement is a principal-agent arrangement, does the entity proceed to determine whether it is acting as the principal, or as the agent in a principal-agent arrangement.
- 2.25 Principal-agent arrangements are governed by a binding arrangement. The requirements of these binding arrangements, particularly the rights and obligations established for the various parties, inform an entity's assessment of whether it undertakes transactions for its own benefit (i.e. it is the principal), or for the benefit of another entity (i.e. it is the agent). The terms and conditions of the binding arrangement are assessed to determine the roles, responsibilities and authority of parties in relation to the activities and resulting transactions undertaken in terms of that arrangement.
- 2.26 An entity applies the criteria in GRAP 109.25 to assess if it is an agent. All three of the criteria in paragraph .25 must be present for an entity to be an agent. If the criteria are not met, the entity is by default the principal.

.25 *An entity is an agent when, in relation to transactions with third parties, all three of the following criteria are present, except as outlined in paragraph .26:*

(a) *It does not have the power to determine the significant terms and conditions of the transaction.*

(b) *It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.*

(c) *It is not exposed to variability in the results of the transaction.*

2.27 As with the identification of principal-agent arrangements, an entity applies substance over form to assess whether it is a principal or an agent in a principal-agent arrangement. A binding arrangement may use the term “principal” or “agent” for specific parties to the arrangement. Even if these terms are legally assigned to specific parties in the arrangement, an entity assesses whether it is the principal or agent by applying the criteria in GRAP 109.25.

Preparers perspective

Preparers’ views are required on the following aspect(s):

Question P8

How do you experience applying the criteria in GRAP 109.25 to assess whether an entity is the agent in a principal-agent arrangement?

Please describe your experience – whether positive or negative. If negative, indicate how, in your view, your challenges could be resolved.

Question P9

In your view, are there any other criteria that should be included in GRAP 109.25 to identify whether an entity is an agent in a principal-agent arrangement? Please provide details.

Assessment of regulatory powers

2.28 There is one exception to an agent meeting all three criteria in paragraph .25, as described in paragraph .26:

.26 *Where an entity has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria in paragraph .25(a) to conclude that is an agent. Entities shall apply judgement in determining whether such powers exist and whether they are relevant in assessing whether an entity is an agent.*

2.29 There may be instances when legislation grants powers to an entity to determine the terms and conditions of particular transactions. This is particularly the case where an entity acts in a regulatory capacity or as an enforcement agency. Where these powers are granted to entities, the criteria in paragraph .25(a) may not be a useful determinant in assessing whether an entity is an agent or a principal. In these instances, the criteria

in paragraphs .25(b) and (c) are more relevant because even though these entities may have the power to determine the significant terms and conditions, they are often unable to use all, or substantially all, of the resources that result from the transaction, nor are they exposed to variability in the results of the transactions.

Preparers perspective

Preparers' views are required on the following aspect(s):

Question P10

- (a) Please provide details of instances where you applied GRAP 109.26 to determine whether an entity is an agent in a principal-agent arrangement.
- (b) Please indicate whether the guidance in GRAP 109 is helpful to identify whether an entity is the agent in a principal-agent arrangement in the circumstances described in GRAP 109.26. If not, please provide details on how the guidance could be improved.

Applying materiality to principal-agent arrangements

- 2.30 The Standard of GRAP on *Presentation of Financial Statements* requires entities to present each material class of similar items separately in the financial statements. Items of a dissimilar nature or function are presented separately unless they are immaterial. Applying the concept of materiality also means that a specific disclosure requirement in a Standard of GRAP need not be satisfied if the information is immaterial.
- 2.31 The Guideline on *The Application of Materiality to Financial Statements* provides guidance on applying materiality to financial statements. The Guideline explains the various phases during a reporting period when materiality is considered (determining accounting policies, the treatment of transactions during a reporting period, and the presentation and disclosure of information in financial statements at the end of the reporting period). The Guideline also provides considerations to assist entities to determine materiality qualitatively and quantitatively.
- 2.32 Materiality should be applied when making accounting and reporting decisions about principal-agent arrangements, and should consider both qualitative and quantitative aspects of each arrangement.

Preparers perspective

Preparers' views are required on the following aspect(s):

Question P11

How do you experience applying materiality to account for, and report on, principal-agent arrangements in the financial statements?

Please describe your experience – whether positive or negative. If negative, indicate how, in your view, your challenges could be resolved.

Applying GRAP 109 with other Standards of GRAP

- 2.33 As explained in paragraph 2.7, GRAP 109 is applied before considering the other Standards of GRAP. When an entity concludes that an arrangement is a principal-agent arrangement, GRAP 109 is applied to identify which transactions in the arrangement each party accounts for. The principal accounts for the transactions with third parties, while the agent accounts for the revenue and expenses associated with performing the agency service. An agent may account for assets and liabilities from the arrangement in certain circumstances (see “Recognising assets and liabilities as an agent” below). The other Standards of GRAP prescribe the recognition, measurement, presentation and disclosure requirements for the items related to those transactions. In addition, the disclosure requirements of GRAP 109 is applied.
- 2.34 A principal-agent arrangement may at the same time meet the definition of another type of arrangement. The Secretariat has issued FAQs on *What is the interaction between GRAP 32, GRAP 36 and GRAP 37, and GRAP 109?* and *What is the interaction of Standards of GRAP where two or more Standards have similar requirements?*, which may be helpful in these instances.

Preparers perspective

Preparers’ views are required on the following aspect(s):

Question P12

How do you experience applying other Standards of GRAP with GRAP 109?

Please describe your experience – whether positive or negative. If negative, indicate how, in your view, your challenges could be resolved.

Recognising assets and liabilities as an agent

- 2.35 Whether an entity is a principal or an agent, the entity applies the principles in the applicable Standards of GRAP to recognise assets and liabilities arising from a principal-agent arrangement.
- 2.36 A principal-agent arrangement often gives rise to the agent holding resources on behalf of the principal in order to undertake transactions with the relevant third parties. This may mean that the agent recognises assets and related liabilities for these resources held. An agent may also need to recognise assets and liabilities as a result of rights and obligations arising from principal-agent arrangements. An entity refers to the *Framework for Preparation and Presentation of Financial Statements*¹ and other Standards of GRAP to determine whether or not assets and liabilities arising from (or related to) principal-agent arrangements should be recognised.
- 2.37 Where the assets held by an agent for the principal are indistinguishable from its own assets, it may be appropriate for the agent to recognise such items as assets under its

¹ In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

control. This would be the case where, for example, inventory items are homogenous and cannot be separately identified, such as water reserves held by the agent to distribute to both its customers as well as to those of the principal. A corresponding liability is recognised when there is an obligation to transfer resources to the principal in respect of the assets held.

- 2.38 Where an agent is required to collect amounts owing to a principal or another entity, consideration is given to whether or not it is appropriate for the agent to recognise the amounts to be collected as a receivable, along with the corresponding liability to pay over the amounts still-to-be collected to the principal. Similarly, an agent may need to consider whether it should recognise a payable, along with a corresponding receivable, for amounts which it is obligated to settle on behalf of the principal.
- 2.39 An agent should assess whether it is appropriate to recognise receivables and payables based on the rights and obligations established in the binding arrangement, and after considering any relevant facts and circumstances. GRAP 109.57 includes indicators that may be useful to assess whether an agent should recognise a receivable or a payable:
- (a) The debt is due to, or due by, the agent, i.e. the agent is the counterparty in the transaction with the third party.
 - (b) The agent has the legal right to enforce collection of the debt, or the agent has the legal obligation to settle the debt.
 - (c) The agent determines the amount that must be paid by, or to, the third party based on the policies determined by the principal.
 - (d) The agent determines the manner and timing of settlement.
 - (e) The agent has the power and discretion to write off debts owing by third parties.
 - (f) The agent has an obligation to undertake certain activities, which it is required to do in terms of the binding arrangement.

Preparers perspective

Preparers' views are required on the following aspect(s):

Question P13

How do you experience applying the requirements of GRAP 109 to recognise rights and obligations from principal-agent arrangements as assets and liabilities (under the circumstances explained in GRAP 109)?

Please describe your experience – whether positive or negative. If negative, indicate how, in your view, your challenges could be resolved.

Question P14

Are the indicators in GRAP 109.57 helpful to assess whether an agent should recognise a receivable or a payable?

If not, please provide details, and include information on the indicators that would be more helpful.

Disclosing information about principal-agent arrangements in the financial statements

- 2.40 In discharging its accountability, an entity needs to provide information to users to enable them to make decisions on whether principal-agent arrangements effectively meet the purpose of the arrangement in delivering services. To meet users' needs, information is included on principal-agent arrangements in the financial statements to enable users to assess the matters in paragraphs 2.41 to 2.44. In order for the information to be useful, an entity provides information specific to the entity's principal-agent arrangements (i.e. the information is not be generic), and all the relevant information is provided (i.e. the information is complete in meeting the requirements of GRAP 109).

General information about principal-agent arrangements

- 2.41 An entity that is party to a principal-agent arrangement discloses information on the nature and risks of the arrangement as follows:
- The entity's role in the arrangement (principal or agent) and its judgements in making this assessment.
 - The purpose, terms and conditions of the arrangement, the significant risks and benefits of the relationship, and whether any changes occurred during the reporting period.
 - The transactions undertaken from the arrangement.

Information provided by the agent in a principal-agent arrangement

- 2.42 An entity that is the agent discloses the following information to help users assess the accountability of the agent in relation to the transactions undertaken with third parties on behalf of the principal:
- The items recognised in the agent's financial statements from the principal-agent arrangement, including:
 - resources held on behalf of the principal that the agent recognised, information on the remittance of such resources and the risks transferred from the principal to the agent;
 - revenue recognised as compensation for the transactions carried out on behalf of the principal; and
 - a description of liabilities incurred on behalf of the principal that the agent has recognised and any corresponding rights of reimbursement recognised as assets.

2.43 When useful to users in assessing the accountability of the agent in relation to the transactions undertaken with third parties, and when the transactions with third parties are financial transactions, an agent also discloses:

- information about the revenue and expenses that relate to transactions with third parties, including the category and amount of revenue received or to be received, and of expenses paid or accrued on behalf of the principal; and
- a reconciliation of the carrying amounts at the beginning and end of the period of any receivables or payables the agent recognises.

Information provided by the principal in a principal-agent arrangement

2.44 An entity that is the principal discloses the following information on the resource implications of the arrangement:

- The resources of the principal that are under the custodianship of the agent and information on the remittance of such resources.
- The fee paid as compensation to the agent.
- The resource implications for the principal if the arrangement is terminated.

Users perspective

Users' views are required on the following aspect(s):

Question U1

Is the information required by GRAP 109 relevant and useful to hold an entity that is party to a principal-agent arrangement accountable, and to make decisions about the entity and the arrangement?

If yes, what decisions are made with this information?

If no, please provide reasons why the information is not relevant and useful, and indicate what information, in your view, will be relevant and useful.

Question U2

What other information on principal-agent arrangements will you find relevant and useful to hold an entity accountable, and to make decisions about the entity? Please explain why this information will be relevant.

Preparers perspective

Preparers' views are required on the following aspect(s):

Question P15

How do you experience providing the information required by GRAP 109 in the financial statements?

Please describe your experience – whether positive or negative. If negative, indicate how, in your view, your challenges could be resolved.

Question P16

What other information on principal-agent arrangements do you think users will find relevant and useful for accountability and to make decisions? Please explain your response.

Nature of transactions with third parties

- 2.45 In a principal-agent arrangement where the transactions with third parties are interactions rather than financial transactions (see paragraph 2.21), not all the disclosures required by GRAP 109 may be relevant. For example, general information about arrangements is relevant in all instances, and information about the resource implications for the principal if the arrangement is terminated. However, disclosures required by an agent about the items recognised in the agent's financial statements and the financial transactions with third parties may not be relevant.

Users perspective

Users' views are required on the following aspect(s):

Question U3

Is information (as may be relevant) useful in the financial statements of the principal and the agent respectively about principal-agent arrangements that do not result in financial transactions between the principal and third parties, but are interactions between the principal and third parties?

If the information required by GRAP 109 is not useful, please provide details of the information that is needed in the financial statements of the principal and agent respectively for accountability and decision making purposes, if any.