ED 204

Responses due by 15 July 2023

ACCOUNTING STANDARDS BOARD

INVITATION TO COMMENT ON PROPOSED REVISIONS TO THE STANDARDS OF GENERALLY RECOGNISED ACCOUNTING PRACTICE ON

TRANSFER OF FUNCTIONS BETWEEN ENTITIES UNDER COMMON CONTROL (GRAP 105), TRANSFER OF FUNCTIONS BETWEEN ENTITIES NOT UNDER COMMON CONTROL (GRAP 106), AND MERGERS (GRAP 107)

(ED 204)

Issued by the Accounting Standards Board
March 2023

Commenting on this Exposure Draft

The Accounting Standards Board (the Board) seeks comment on the Exposure Draft of *Proposed Revisions to the Standards of GRAP on Transfer of Functions Between Entities Under Common Control* (GRAP 105), *Transfer of Functions Between Entities Not Under Common Control* (GRAP 106) *and Mergers* (GRAP 107) (ED 204). The Board is issuing revised Standards for comment based on international developments, including the publication of IPSAS 40 on *Public Sector Combinations* by the International Public Sector Accounting Standards (IPSASB). Changes were also published to the IFRS Accounting Standard used in developing these Standards of GRAP.

The proposals in this Exposure Draft may be modified in the final document in the light of comment received. Comment on this Exposure Draft should be submitted in writing to be received by **15 July 2023**. Email responses are preferred. Unless respondents to this Exposure Draft specifically request confidentiality, their comment is a matter of public record once the Standards are updated. Comment should be addressed to:

The Chief Executive Officer

Accounting Standards Board

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Introduction

Standards of Generally Recognised Accounting Practice

All paragraphs in this pronouncement have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This pronouncement should be read in the context of its objective, its basis for conclusions and/or the basis for conclusions of its international equivalent, if applicable, the *Preface to the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*[1].

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Directives should be read in conjunction with the applicable Standards of GRAP and Interpretations of the Standards of GRAP.

[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*.

Background to the development of this Exposure Draft

Introduction

1. During 2010, the Board approved Standards of GRAP to account for a transaction or event that involves a transfer of functions or merger. GRAP 105 on *Transfer of Functions Between Entities Under Common Control*, GRAP 106 on *Transfer of Functions Between Entities Not Under Common Control*, and GRAP 107 on *Mergers* became effective for public entities, constitutional institutions, municipalities, and municipal entities for periods commencing on or after 1 April 2015. For Parliament and the provincial legislatures, the GRAP Standards became effective for periods commencing on or after 1 April 2019.

2. When the Board developed these Standards, it agreed to develop two separate Standards to account for a transaction or event that is a transfer of functions. GRAP 105 and GRAP 106 were issued for this purpose. The Board also agreed that a separate Standard should be developed where two or more entities merge, and for this purpose, GRAP 107 was issued.

3. At the time that the Board developed the local Standards of GRAP, no equivalent International Public Sector Accounting Standard (IPSAS) existed. During 2017, the International Public Sector Accounting Standards Board (IPSASB) approved IPSAS 40 on *Public Sector Combinations.* IPSAS 40 was effective for periods commencing on or after 1 January 2019, and applies to public sector combinations that are either classified as an amalgamation, or an acquisition. An acquisition is a combination in which one party to the combination gains control of one or more operations, and in which there is evidence that the combination does not have the economic substance of an amalgamation. An amalgamation gives rise to a resulting entity (i.e., an entity that is the result of two or more operations combining) where:

   (a) no party to the combination gains control of one or more operations; or

   (b) one party to the combination gains control of one or more operations, and in which there is evidence that the combination has the economic substance of an amalgamation.

4. During 2022, the Board agreed to undertake a project to compare the principles in IPSAS 40 with those in the local Standards. The objective of the comparison was to identify similarities and differences between IPSAS 40 and the local Standards. Based on the outcome of the review, the Board agreed that the local Standards should be revised by:

   (a) including additional, authoritative guidance from IPSAS 40, where applicable;

   (b) retaining additional guidance in the GRAP Standards that is not included in IPSAS 40, but that remains relevant; and

(c) including any amendments made to IFRS Accounting Standard® on *Business Combinations* (IFRS 3), after the publication of IPSAS 40.

5. The Board also agreed that the format of the local guidance should be retained, i.e., three separate GRAP Standards. This conclusion was based on the fact that:

   (a) entities are familiar with the separation of the guidance in the three Standards, and find it easier to identify which Standard to apply based on the nature of the transaction or event;

   (b) transfers of functions or mergers are not that frequent in the South African public sector; and

   (c) no substantive issues have been raised by stakeholders on the implementation of the Standards.

Proposed amendments to GRAP 105, GRAP 106 and GRAP 107

6. In comparing the principles in IPSAS 40 with the local Standards, the Board agreed that the principles in IPSAS 40 relating to:

   (a) an acquisition should be compared to the principles in GRAP 106. Both Standards relate to a transaction or event that occurs between entities not under common control, and in both Standards, the acquisition-method of accounting is applied to account for the transaction or event;

   (b) an amalgamation should be compared to the principles in GRAP 107. The first part of the definition of an amalgamation in IPSAS 40 requires that no party gains control of one or more operations involved in the combination. This is similar to the requirements in GRAP 107; and

   (c) an amalgamation should be compared to the principles in GRAP 105. One of the criteria in IPSAS 40 to assess if the combination has the economic substance of an amalgamation is whether the transaction occurs between entities under common control. GRAP 105 applies to a transfer of functions undertaken between entities under common control. Also, when GRAP 105 was initially developed by the Board, it agreed that the assets received and/or liabilities assumed should be measured at their carrying amounts. The measurement principles for assets acquired or received and liabilities assumed for an amalgamation in IPSAS 40 are similar.

7. Significant differences and similarities between the local Standards and IPSAS 40 prior to the revisions proposed to the local Standards are highlighted in Annexure A.

Next steps

It is anticipated that the Board will finalise the amendments to GRAP 105 to GRAP 107 in November 2023.

Once the amendments have been approved by the Board, an effective date for the revised Standards will be recommended to the Minister of Finance who is responsible to determine the effective date.

Due process and timetable

The Board invites comment on the proposals set out in this Exposure Draft from preparers, users, auditors, standard-setters, and other parties with an interest in public sector financial reporting.

Upon the closure of the comment period, the Board will consider the comment received on this Exposure Draft.

Request for comment

Comment on this Exposure Draft is invited by **15 July 2023.** The Board requests that respondents express an overall opinion on whether this Exposure Draft, in general, is supported and to supplement this opinion with detailed comment, whether supportive or critical. Respondents are also invited to provide detailed comment identifying the specific paragraphs to which it relates, explaining the issue and suggesting alternative wording, with supporting reasoning, where appropriate. The basis for accepting or rejecting significant comment will be published on the website.

The Board would particularly appreciate answers from respondents to the questions below.

Specific matters for comment

Specific matter for comment 1

In revising the Standards of GRAP dealing with transfer of functions and mergers, the Board agreed that, any amendments made to IFRS 3 after the publication of IPSAS 40, should be included in the proposed revisions to the Standards.

As a result, the guidance from IFRS 3 that sets out an optional test (the concentration test) to permit a simplified assessment of whether a transferred set of activities and assets and/or liabilities is a function or not is included in GRAP 105 and GRAP 106. In addition, guidance has also been included to assess whether a transferred process is substantive if the transferred set of activities and assets and/or liabilities does not have outputs. The guidance is included in GRAP 105.13 to .19 and Appendix A paragraphs AG1 to AG11 and GRAP 106.14 to .20 and Appendix A paragraphs AG1 to AG11.

The Board is of the view that this guidance could be useful to entities to assess if the transaction or event should be accounted for as a transfer of functions, and to assess if a transferred process is substantive.

Do you agree that this guidance is useful, and should be included in GRAP 105 and GRAP 106? Please explain the reason for your response.

<u>Specific matter for comment 2</u>

IPSAS 40 allows a one year measurement period when the initial accounting for a transfer of functions is incomplete by the end of the reporting period in which the transfer occurs. The Board agreed that the local Standards should allow a measurement period of two years. This is because, from practical experience, it was observed that entities need more than one year to obtain the necessary information to identity and measure the assets acquired or received, liabilities assumed and non-controlling interests in a transfer of functions or merger.

Do you agree with the Board retaining a measurement period of two years in GRAP 105, GRAP 106 and GRAP 107? Please explain your response.

<u>Specific matter for comment 3</u>

When the Board developed GRAP 106 (2010), the principles in IFRS 3 were considered in the absence of a public sector standard at that point in time. IFRS 3 requires the recognition of goodwill at the acquisition date, measured as the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the net of the acquisition date amounts of the identifiable assets acquired or received, liabilities assumed, and any non-controlling interests. Goodwill is subject to an annual impairment test.

The Board agreed to depart from the IFRS 3 requirements on the recognition of goodwill because the excess of the purchase consideration paid (if any) over the fair value of the assets acquired or received, the liabilities assumed and any non-controlling interests is seen as a premium that is paid by the acquirer to the previous owners. Furthermore, the Board agreed that the definition of an asset or liability in terms of the *Framework for the Preparation and Presentation of Financial Statements* has not been met to support the recognition of goodwill. GRAP 106 (2010) required the excess to be recognised in surplus and deficit on the acquisition date.

In revising GRAP 106 (2010) with the principles in IPSAS 40, the Board reconsidered its previous conclusion on the treatment of the excess when it departed from the IFRS 3 requirements. The Board concluded that the arguments to not recognise the excess as goodwill, remain relevant. The Board also concluded that, even though the excess may meet the definition of an asset, the entity may not be able to reliably measure the goodwill.

Do you agree with the Board's conclusion to continue to recognise the excess of the purchase consideration paid (if any) over the fair value of the assets acquired or received, the liabilities assumed and any non-controlling interests in surplus and deficit, rather than to recognise the excess as goodwill? Please explain your response.

<u>Specific matter for comment 4</u>

The Board has included relevant illustrative examples from IPSAS 40 and IFRS 3 to illustrate the principles in GRAP 105, GRAP 106 and GRAP 107. Even though the principles that are illustrated by these examples do not always relate to new guidance included in the Standards, the Board agreed to include the examples as they are available internationally. In your view:

(a) do you agree that these examples are relevant and should be retained? Please explain your response; and

(b) are there any other illustrative examples that should be included in GRAP 105 to GRAP 107 to explain the principles in any of these Standards? Please explain your response.

Impact on the local environment

Specific matter for comment 5

Are there any specific implementation issues that the Board should be aware of? 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 6

In your view, overall, does the application of the proposed revisions to GRAP 105, GRAP 106 and GRAP 107 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 for transfer of functions and mergers? In relation to quantitative financial and resource costs and time involved to implement the proposals, 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.

General matters for comment

As with any other Exposure Draft, comment on any other matter contained in this Exposure Draft would also be welcomed. Comment is most helpful if reference is made to a specific paragraph or group of paragraphs.

ANNEXURE A – SIGNIFICANT DIFFERENCES AND SIMILARITIES BETWEEN IPSAS 40 AND THE GRAP STANDARDS PRIOR TO THE REVISIONS PROPOSED

1. The comparison outline below highlights the most significant similarities and differences between IPSAS 40 and the GRAP Standards, prior to the revisions proposed to GRAP 105, GRAP 106 and GRAP 107, in the following areas:
   - Scope
   - Definitions
   - Identifying an operation or a function
   - Binding arrangement
   - Accounting for an amalgamation versus a transfer of functions under common control and mergers (including recognition, measurement, and disclosure)
   - Accounting for an acquisition versus a transfer of functions not under common control (including recognition, measurement, and disclosure).

A. Scope

Similarities between IPSAS 40 and the GRAP Standards

2. The following similarities were noted:

   (a) both IPSAS 40 and GRAP 106 include a scope exclusion for the formation of a joint arrangement; and

   (b) a scope exclusion is included in IPSAS 40, GRAP 105 and GRAP 106 for the transfer of individual assets and liabilities that do not meet the definition of an operation or a transfer of functions.

Differences between IPSAS 40 and the GRAP Standards

3. The following differences are noted:

   (a) IPSAS 40 includes a scope exclusion explaining that the Standard does not apply to the acquisition by an investment entity of an investment in a controlled entity that is required to be measured at fair value through surplus or deficit;

   (b) the GRAP Standards include additional scope exclusions for transfers or mergers that are not within the Standard's scope. As IPSAS 40 addresses all combinations, a similar scope exclusion is not relevant;

   (c) the GRAP Standards include explanatory guidance on the scope exclusions in the Standards. Similar explanatory guidance for the scope exclusions is not included in IPSAS 40; and

(d) GRAP 107 does not include a scope exclusion for the transfer of individual assets and liabilities.

B. Definitions

Differences between IPSAS 40 and the GRAP Standards

4. IPSAS 40 separates the definitions in the Standard between "general definitions relating to all public sector combinations", "definitions relating to amalgamations" and "definitions relating to acquisitions". The GRAP Standards include definitions relevant to the type of transfer or merger within the scope of the particular Standard. Other differences include:

   (c) terminology differences – this is because IPSAS 40 provides guidance on amalgamations and acquisitions, and GRAP classifies the transactions or events as either a transfer of function or a merger. For example, IPSAS 40 refers public sector combinations, amalgamation, and acquisition date, and resulting entity, whereas the GRAPs refer to a transfer of functions, transfer, acquisition, or merger date, and acquiree and combining entity; and

   (c) definitions not included in the GRAP Standards and vice versa – for example, IPSAS 40 includes definitions for mutual entity and goodwill, while the GRAP Standards define residual value, non-controlling interests, and binding arrangement.

C. Identifying an operation or function

Similarities between IPSAS 40 and the GRAP Standards

5. For a transaction or event to be accounted for as a combination, IPSAS 40 requires that the assets and liabilities constitute an operation. IPSAS 40 defines an operation as "an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for purpose of achieving an entity's objectives, by providing economic benefits or service potential". The requirement for the assets and liabilities to constitute an operation, is similar in the GRAP Standards.

Differences between IPSAS 40 and the GRAP Standards

6. IPSAS 40 defines an operation as "an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for purposes of achieving an entity's objectives, either by providing economic benefits or service potential." The definition of a function in the GRAP Standards is similar, except that it excludes "and related assets and/or liabilities".

7. The guidance explaining what an integrated set of activities comprises, is similar between IPSAS 40 and the GRAP Standards. Other than using different terms (i.e., GRAP 105 and GRAP 106 refer to "a function" whereas IPSAS 40 refers to "an operation"), IPSAS 40 includes additional guidance to explain that, determining if a particular set of activities and the related assets and liabilities are an operation, should

be based on whether the integrated set is capable of being conducted and managed as an operation by another entity.

D. Binding arrangement

Similarities between IPSAS 40 and the GRAP Standards

8. The GRAP Standards explain that the terms and conditions of the transfer or function or merger are set out in a binding arrangement. A binding arrangement is defined as "an arrangement that confers enforceable rights and obligations on the parties to the arrangement as if it were in the form of a contract. It includes rights from contracts or other legal rights.

9. The GRAP Standards requires that a binding arrangement be assessed to determine the parties to the transfer or merger, the acquisition or merger date, and the assets and/or liabilities that are transferred or assumed.

10. IPSAS 40 does not explicitly require the existence of a binding arrangement. However, the application guidance explains that the circumstances in which a combination occur include (a) a mutual agreement of (b) by compulsion for example legislation.

11. Despite IPSAS 40 not specifically referring to a "binding arrangement", the existence of an agreement between the parties to the combination or transfer is implicitly required in IPSAS 40.

E. Accounting for an amalgamation versus a transfer of functions under common control and mergers

12. Both IPSAS 40 and GRAP 107 applies the modified pooling of interest method to account for an amalgamation or merger. GRAP 105 does not "label" the accounting method used to account for the transfer for functions.

13. The similarities between IPSAS 40 and GRAP 105 and GRAP 107 are:

    Assessing control

    (a) IPSAS 40 is explicit that the principles in IPSAS 35 should be applied to assess control in deciding on the nature of the combination. Even though GRAP 105 (and GRAP 106) are not explicit that the principles in GRAP 35 on *Consolidation Financial Statements* should be applied to assess if the transfer was undertaken between entities within the same economic entity, entities indirectly apply GRAP 35 to assess control because the Standard refers to "economic entity".

    Identifying the amalgamation (transfer/merger) date, assets, and liabilities

    (b) All three Standards require that a resulting entity (acquirer/combined entity), and an amalgamation (transfer/merger) date be identified.

    Future costs

(c) All three Standards clarify that future costs to be incurred by the resulting entity (acquirer/combined entity) to affect the amalgamation or transfer, are not a liability at the amalgamation (transfer/merger) date.

Assets and liabilities transferred

(d) All three Standards require that the assets transferred, and liabilities assumed be measured at their carrying amounts on the amalgamation (transfer/merger) date.

(e) All three Standards require that the assets acquired, and liabilities assumed should meet the definition of an asset and liability in the relevant Conceptual Framework's for them to be recognised in the financial statements of the resulting entity (acquirer/combined entity).

(f) IPSAS 40 requires the resulting entity to adjust the carrying amounts of the identifiable assets and liabilities of the combining operations after the acquisition, to conform to the resulting entity's accounting policies.

GRAP 105 requires the acquirer to adjust the basis of accounting used for the assets and liabilities to align with the Standards of GRAP if, on the transfer date, the transferor did not apply the Standards of GRAP. GRAP 105 also requires that the assets acquired, and liabilities assumed should subsequently be measured using the applicable Standard of GRAP.

GRAP 107 requires that a single uniform set of accounting policies be adopted by the combined entity. The combined entity recognises the assets acquired and the liabilities assumed of the combining entities on the merger date at their existing carrying amounts and subsequently adjusts their accounting to conform with the combined entity's accounting policies.

(g) The requirements for the subsequent measurement of the assets acquired and liabilities assumed in IPSAS 40 are similar to the requirements in GRAP 105 and GRAP 107, i.e., that the assets and liabilities are measured in accordance with IPSASs, or the Standards of GRAP.

Calculation and presentation of the excess in the combination (transfer/merger)

(h) Neither IPSAS 40 nor GRAPs 105 and 107 requires the recognition of goodwill in calculating the excess in the combination.

(i) IPSAS 40 requires the excess in the combination to be recognised as a component of net assets/equity. GRAP 105 and GRAP 107 require that the excess be recognised in accumulated surplus/deficit, which is a component of net assets.

Costs incurred to affect the amalgamation (transfer/merger)

(j) The treatment of amalgamation-related costs in IPSAS 40 is similar to the treatment of acquisition-related costs and expenditure incurred in relation to the merger in GRAP 105, i.e. that these costs should be expensed in the period incurred.

Measurement period

(k) The increase or decrease in the provisional amount in applying the principles on the measurement period, is recognised as an adjustment to the relevant component in net assets/equity in IPSAS 40. GRAP 105 and 107 require that the provisional amount be adjusted against accumulated surplus or deficit, which is a component of net assets.

14. Differences between the requirements in IPSAS 40 and GRAP 105 and GRAP 107 are:

Assessing control

(a) GRAP 105 is not explicit that the principles in GRAP 35 should be applied to assess control.

Outline of the Standards

(b) In IPSAS 40, application guidance is included as an annexure to the Standard. GRAP 105 and GRAP 107 do not have any application guidance, as all the principles are included in the Standard itself.

Identifying amalgamation (transfer/merger) date, assets, and liabilities

(c) GRAP 105 and GRAP 107 explains that the terms and conditions of the binding arrangement should be considered to identify the acquirer/combined entity, the assets and liabilities, and the transfer/merger date. GRAP 105 and GRAP 107 also include guidance to identify the acquirer/combined entity when it is not clear from the binding arrangement.

IPSAS 40 does not provide guidance on what should be considered to identify the resulting entity, the assets, and liabilities to be transferred or assumed, or the transfer date.

Pre-existing relationship

(d) GRAP 105 includes guidance on identifying, and accounting for, a pre-existing relationship between the acquirer and transferor that is not part of the transfer of functions. Similar guidance is not included in IPSAS 40 (or in GRAP 107).

Calculation of the excess in the combination (transfer/merger)

(e) The excess in the combination (transfer or merger) is calculated as the difference between the carrying amounts of the assets acquired and liabilities assumed, and any adjustments made to conform the accounting policies of the combining operations (transferor/combining entities) to those of the resulting entity (acquirer/combined entity). The following elements are different:

- GRAP 105 also includes the consideration paid in the calculation, whereas IPSAS 40 is silent on whether the consideration should be included in the calculation; and
- in addition to recognising the identifiable assets and liabilities, IPSAS 40 includes the carrying amount of the combining operation's non-controlling interest and the effect of any adjustments made to eliminate transactions between the combining entities in the calculation of the excess. Neither GRAP 105 nor GRAP 107 require these components to be included when calculating the excess of the combination.

Assets and liabilities transferred

(f) IPSAS 40 requires that the resulting entity should classify or designate the assets and liabilities received in an amalgamation using the classifications or designations previously applied by the combining operations. The resulting entity is not allowed to adopt different classifications or designations on initial recognition, even if this is permitted by other IPSASs.

This is different to the requirements in GRAP 105 and GRAP 107 that require the acquirer/combined entity to classify or designate the assets acquired and liabilities assumed to apply the Standards of GRAP. The classifications or designations are made on the basis of the terms of the binding arrangement, economic conditions, the acquirer's operating or accounting policies and other relevant conditions that exist at the transfer date.

There is, however, and exception included in GRAP 105 and GRAP 107 relating to the classification of leases, and the classification of a contract as an insurance contract. Similar exceptions are not included in IPSAS 40,

Measurement period

(g) IPSAS 40, GRAP 105 and GRAP 107 allow for a measurement period if the initial accounting for the amalgamation (transfer/merger) is incomplete by the end of the reporting period in which the amalgamation (transfer/merger) occurs. In IPSAS 40 the measurement period should not exceed one year from the amalgamation date. GRAP 105 and GRAP 107 allow two years.

Presentation

(h) As per GRAP 107, the combined entity need not present comparative information in the first reporting period. GRAP 105 does not include a similar requirement as the transfer of functions is only effective from the transfer date and the entity combines the assets and liabilities of the transferor with its own at that date. As the transfer of functions does not impact the acquirer's prior year information, the acquirer's comparative information need not be adjusted.

In IPSAS 40, the resulting entity has an option to not present financial statements for periods prior to the amalgamation date. Where the resulting entity elects to present financial statements, specific disclosures are required for each combining operation.

15. Guidance is included in IPSAS 40 in the following areas, but not in GRAP 105 and GRAP 107:

- exceptions to the recognition and measurement principles for a license or similar right, forgiveness of amounts of income taxes, and employee benefits;
- the subsequent measurement of a transfer, concessionary loans and similar benefits received by the combining operation on the basis of criteria that may change as a result of the amalgamation;
- measurement requirements when the carrying amounts of the combining operation's assets and liabilities in its separate financial statements are different to the carrying amounts of these assets and liabilities in the controlling entity's financial statements;
- accounting for amalgamations that occur during a reporting period;
- the composition of the resulting entity's first set of financial statements following the amalgamation where the resulting entity is not a new entity. Specific disclosures are also required;
- specific disclosures relating to adjustments made to the carrying amounts of assets and liabilities, an analysis of net assets/equity, and information on tax due that was forgiven; and
- specific disclosures if, at the time the financial statements of the resulting entity are authorised for issue, the last reporting date of any of the combining entities does not immediately precede the amalgamation date.

16. Guidance is included in GRAP 105 and GRAP 107 in the following areas, but not in IPSAS 40:

- GRAP 105 provides guidance to the transferor on the derecognition of assets transferred and liabilities relinquished. Similar guidance is not included in IPSAS 40;
- GRAP 107 provides guidance to the combining entities on the transfer of assets and de-recognition of liabilities. Similar guidance is not included in IPSAS 40; and
- GRAP 105 prescribed disclosures to be provided by both the acquirer and transferor, while GRAP 107 prescribe disclosures for the combining entities and the combined entity. IPSAS 40 only prescribes disclosures for the resulting entity.

F. Accounting for an acquisition versus a transfer of functions not under common control

17. The similarities between IPSAS 40 and GRAP 106 are:

Method used to account for the combination or transfer

(a) Both Standards apply the acquisition-method to account for the acquisition or transfer. This method requires:

(ii) identifying the acquirer;

(iii) determining the acquisition date;

(iv) recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and

(v) recognising the difference between (c) and the consideration transferred to the seller.

Assessing control

(b) IPSAS 40 is explicit that the principles in IPSAS 35 are applied to assess control in deciding on the nature of the combination. Even though GRAP 106 is not explicit that the principles in GRAP 35 should be applied to assess if the transfer was undertaken between entities within the same economic entity, entities indirectly applied GRAP 35 to assess control.

Assets and liabilities transferred

(c) Both Standards require that the assets acquired, and liabilities assumed should meet the definition of an asset and liability in their respective Conceptual Frameworks.

(d) Both Standards provides guidance on the recognition of operating leases and intangible assets acquired. There are additional examples included in both IPSAS 40 and GRAP 106.

(e) Both Standards require that the assets transferred, and liabilities assumed be measured at their acquisition-date fair values on the acquisition date.

(f) Both Standards require that the acquirer should classify or designate the assets acquired and liabilities assumed using the IPSAS or the Standards of GRAP. The classifications or designations is made on the basis of the terms of the binding arrangement, economic conditions, the acquirer's operating or accounting policies and other relevant conditions that exist at the acquisition date.

IPSAS 40 and GRAP 106 provides similar examples of classifying and designating assets based on their condition.

Exceptions to the classification or designation of assets acquired and liabilities assumed on the acquisition date, is also similar between IPSAS 40 and GRAP 106.

(g) Both Standards provide exceptions to the recognition or measurement principles for (on the acquisition date and for subsequent measurement):

(ii) Contingent liabilities

(iii) Employee benefits

(iv) Indemnification assets

(v) Reacquired rights

Future costs

(h) Both Standards clarify that future costs to be incurred by the resulting entity or acquirer/combined entity to affect the amalgamation or transfer, for example to terminate the employment of, or relocate employees, are not part of the liabilities at the acquisition date.

Pre-existing relationship

(i) Both Standards provide guidance on the effective settlement of a pre-existing relationship between the acquirer and acquiree.

Calculation of the excess in the acquisition

(j) The excess in the combination is calculated in a similar manner by taking into account the consideration transferred; any non-controlling interests previously held; for an acquisition achieved in stages, the equity interests in the acquired operation; and the net of acquisition-date amounts for the identifiable assets and liabilities.

(k) Both Standards include similar guidance on the consideration transferred and the treatment of a contingent consideration.

Costs incurred to effect the acquisition

(l) The treatment of acquisition-related costs in IPSAS 40 and GRAP 106 are similar, i.e., that these costs should be expensed in the period incurred.

(m) Similar guidance on the treatment of acquisition related costs.

18. Differences between the requirements in IPSAS 40 and GRAP 106 are:

Outline of the Standards

(a) In IPSAS 40, application guidance is included as an annexure to the Standard. GRAP 106 does not have an application guidance section as all the principles are included in the Standard itself.

Assessing control

(b) GRAP 106 is not explicit that the principles in GRAP 35 should be applied in assessing control.

Identifying acquisition date, assets, and liabilities

(d) GRAP 106 explains that the terms and conditions of the binding arrangement should be considered to identify the acquirer and the acquisition date. GRAP 106 also includes guidance to identify the acquirer/combined entity when it is not clear from the binding arrangement.

IPSAS 40 does not provide guidance on what should be considered to identify the resulting entity.

(e) GRAP 106 require that the terms and conditions in the binding arrangement should be considered to determine the acquisition date, and the assets and liabilities to be transferred.

IPSAS 40 is not as specific that a binding arrangement needs to be in place to determine the acquisition date. To identify the assets and liabilities to be transferred or assumed, IPSAS 40 merely refers to "must be what the acquirer and acquiree has exchanged".

Non-controlling interests

(f) Additional guidance is included in GRAP 106 on the measurement of a non-controlling interest in an acquiree.

Subsequent measurement

(g) For the subsequent measurement of a reacquired right, IPSAS 40 distinguishes between a right with a finite and indefinite period. A similar distinction is not made in GRAP 106.

Calculation of the excess in the acquisition

(g) GRAP 106 requires that the excess in transfer of functions be recognised in surplus and deficit. IPSAS 40 requires that the excess be recognised as goodwill. As a result, IPSAS 40 includes additional guidance on the recognition and measurement of goodwill, which is not included in GRAP 106.

Acquisition achieved in stages

(h) Both Standards include similar guidance on the accounting for an acquisition achieved in stages, except for the treatment of the resulting gain or loss.

IPSAS 40 requires that the gain or loss be recognised in surplus or deficit or in net assets/equity, whereas GRAP 106 requires it to be recognised in surplus or deficit only.

Measurement period

(i) Both IPSAS 40 and GRAP 106 allow for a measurement period if the initial accounting for the acquisition is incomplete by the end of the reporting period, in which the acquisition occurs. In IPSAS 40 the measurement period should not exceed one year from the acquisition date. GRAP 106 allows two years.

The increase or decrease in the provisional amount is recognised in goodwill in IPSAS 40, while the provisional amount is adjusted against surplus or deficit in GRAP 106.

Pre-existing relationship

(j) Both Standards include similar guidance on determining what is part of the acquisition transaction if there was a pre-existing relationship between the acquirer and the acquiree.

However, IPSAS 40 includes an additional principle to explain that a transaction entered into before the acquisition, by or on behalf of the acquirer or primarily for the benefit of the acquirer, is likely to be a separate transaction.

IPSAS 40 also includes additional guidance of factors to be considered to determine if a transaction is part of the exchange of the acquired operation.

19. Guidance is included in IPSAS 40 in the following areas, but not in GRAP 106:

- exceptions to the recognition or measurement principles for income tax and share-based payment transactions, and related disclosures;
- subsequent measurement of transfers, concessionary loans and similar benefits received by an acquirer or acquired operation;
- acquisitions occurring during the reporting date;
- forgiveness of amounts of tax due in an acquisition;
- accounting for bargain purchases;
- applying the acquisition method where an acquisition is achieved through changes in voting rights, by contract alone, and similar circumstances in which no /consideration is transferred;
- accounting for a non-exchange acquisition without the transfer of consideration;
- reverse acquisitions and non-controlling interests;
- assets that the acquirer intends not to use, or to use in a way that is different from the way other market participants would use them;
- special considerations in applying the acquisition-method to combinations of mutual entities;
- arrangements for contingent payments to employee or selling shareholders;
- preparation and presentation of consolidated financial statements;
- applying the acquisition method where an acquisition is achieved through changes in voting rights, by contract alone, and similar circumstances in which no consideration is transferred;

- transfers, concessionary loans, and similar benefits received by an acquirer on the basis of criteria that may change as a result of the acquisition; and
- disclosure relating to goodwill.

20. Guidance is included in GRAP 106 in the following areas, but not in IPSAS 40:
    - residual interest;
    - how an acquirer may obtain control of an acquiree;
    - examples of how a transfer may be structured;
    - examples of other Standards of GRAP that provide guidance on subsequent measurement; and
    - requirements to disclose the excess in the combination as a separate line item in the statement of financial performance.