



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

**PROPOSED TRANSITIONAL PROVISIONS FOR THE  
STANDARD OF GRAP ON FINANCIAL INSTRUMENTS  
(REVISED 2019)**

**(ED 177)**

**RESPONSES TO THE WRITTEN COMMENT RECEIVED ON THE PROPOSED TRANSITIONAL PROVISIONS FOR THE STANDARD OF GRAP ON FINANCIAL INSTRUMENTS (REVISED IN 2019)**

The Accounting Standards Board (Board) approved an Exposure Draft of the Proposed *Transitional Provisions for the Standard of GRAP on Financial Instruments* (ED 177). Notice was published in the Government Gazette on 19 July 2019 (Notice 42584). The comment period closed on 29 November 2019.

Comment letters were received from the stakeholders listed on the next page. The written comments are summarised in this document and include the Board's responses.

A summary of verbal comment received is included in a separate analysis.

**CLASSIFICATION OF WRITTEN COMMENT RECEIVED ON PROPOSED TRANSITIONAL PROVISIONS FOR THE STANDARD OF GRAP ON FINANCIAL INSTRUMENTS (REVISED IN 2019)**

No.	Name/Organisation	Preparers	Users	Auditors	Other interested parties
1.	Altimax	X		X	
2.	City of Cape Town	X			
3.	Department of Treasury Free State Province, including responses from: <ul style="list-style-type: none"> <li>• Economic, Small Business Development, Tourism and Environmental Affairs (DESTEA)</li> <li>• Provincial Treasury</li> <li>• Education</li> <li>• Social Development</li> <li>• COGTA</li> <li>• Public Works and Infrastructure</li> <li>• Police, Roads and Transport</li> <li>• Sports, Arts Culture and Recreation</li> </ul>	X			

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FOR THE STANDARD OF GRAP ON FINANCIAL INSTRUMENTS (REVISED 2019)**

NO.	COMMENT	BOARD'S RESPONSE
	<b>SPECIFIC MATTERS FOR COMMENT</b>	
<b>1.</b>	<b>Specific matter for comment 1</b> <b>Do you support the transitional provisions for GRAP 104? Are there any additional transitional provisions that should be provided?</b>	
<b>1.1</b>	<b>Altimax</b>	
	<p>Yes, we support the transitional provisions.</p> <p>We, however, would suggest an alternative to the areas where retrospective application is required. We propose that the changes be retrospective however only to the start of the year of the initial adoption of the amendment(s). This would limit the retrospective scope and this will be in line with the current application transitions provided in IFRS 9 <i>Financial Instruments</i>.</p>	<p>Agreed. Based on feedback received, the transitional provisions have been amended for receivables.</p>
<b>1.2</b>	<b>City of Cape Town</b>	
	<p>These provisions are supported without any additional transitional provisions.</p>	<p>Noted. No action required.</p>
<b>1.3</b>	<b>Department of Treasury Free State Province</b>	
1.3.1	<i>DESTEA</i>	
	<p>No comment.</p>	<p>Noted. No action required.</p>
1.3.2	<i>Provincial Treasury</i>	
	<p>Yes.</p>	<p>Noted. No action required.</p>
1.3.3	<i>Education</i>	
	<p>Yes.</p>	<p>Noted. No action required.</p>
1.3.4	<i>COGTA</i>	
	<p>Yes.</p>	<p>Noted. No action required.</p>
1.3.5	<i>Public Works</i>	
	<p>Yes.</p>	<p>Noted. No action required.</p>

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NO.	COMMENT	BOARD'S RESPONSE
1.3.6	<i>Police, Roads and Transport</i>	
	Yes.	Noted. No action required.
1.3.7	<i>Sports, Arts and Culture</i>	
	No comment.	Noted. No action required.
1.3.8	<i>Free State Social Development</i>	
	No comment.	Noted. No action required.
<b>2.</b>	<b>Specific matter for comment 2</b> <b>Do you agree with the effective date of 1 April 2024? If no, explain why.</b>	
<b>2.1</b>	<b>Altimax</b>	
2.1.1	We do not agree with the effective date of 1 April 2024. Is the information that must be collected for the ECL calculation available in the accounting records and databases of all the municipalities and public entities? If not, the timeframe to determine how long it would take to collect the information and we believe that in many cases, the implementation date of 1 April 2024 would not be sufficient time.	The General Report published by the Auditor-General of South Africa in 2018 for local government indicated that 25% of municipalities had issues with receivables. The audit assertions which were most often not met include completeness, classification, rights and obligations, and valuation and allocation. While 25% is a high number, it does not mean that this is a pervasive enough issue to prevent or delay the implementation of revised GRAP 104.  The concerns raised reflect a poor financial management environment as a result of a lack of basic internal controls. These issues will remain irrespective of the accounting requirements.
2.1.2	Further to this, the principles in IGRAP 1 <i>Applying the probability test on initial recognition of revenue</i> , has not been amended to reflect the changes in IFRS 15 <i>Revenue from contracts with customers</i> . We propose that consideration be given to implementing the changes in revenue and that of financial instruments concurrently.	The IPSASB is in the process of developing an IPSAS equivalent of IFRS 15. The process is likely to be completed in the second quarter of 2021. The Board will consider convergence with the IPSAS on

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		<p>revenue in its next work programme cycle (i.e. 2024-2026).</p> <p>In the absence of implementing equivalents of IFRS 15 and IFRS 9 on <i>Financial Instruments</i> concurrently, a number of amendments have been made to harmonise IGRAP 1 with the principles of IFRS 9. These are as follows:</p> <ul style="list-style-type: none"> <li>• The recognition of interest revenue has been scoped out of IGRAP 1 given the changes to the amortised cost method in IFRS 9 for the recognition of interest on credit impaired instruments.</li> <li>• Receivables are not subject to the principles for “purchased or originated credit-impaired” instruments to ensure that revenue is always recognised in full on transaction date.</li> </ul>
2.1.3	<p>The implementation may require the entities to incur costs to upgrade or acquire systems to produce the required information. An analysis of the cost of amending GRAP 104 must be performed. The cost of implementing the standard in an already pressured financial environment may outweigh the need to implement the Standard by 1 April 2024 and rather require the indefinite delay of the implementation.</p>	<p>Noted. In deciding to align with IFRS 9, the Board considered that there is benefit to the users of the financial statements to change the classification and impairment requirements of GRAP 104. In particular, the Board observed that having predictive data about debtors would ensure that users have information at their disposal to make proactive rather than reactive decisions about an entity's exposure to credit risk.</p> <p>No other comments have been received about indefinitely delaying the implementation of GRAP 104. No change is therefore proposed.</p>
<b>2.2</b>	<b>City of Cape Town</b>	
	No adverse comment on the effective date of 1 April 2024.	Noted. No action required.

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NO.	COMMENT	BOARD'S RESPONSE
<b>2.3</b>	<b>Department of Treasury Free State Province</b>	
2.3.1	<i>DESTEA</i>	
	No comment.	Noted. No action required.
2.3.2	<i>Provincial Treasury</i>	
	Yes.	Noted. No action required.
2.3.3	<i>Education</i>	
	Yes.	Noted. No action required.
2.3.4	<i>COGTA</i>	
	Yes.	Noted. No action required.
2.3.5	<i>Public Works</i>	
	Yes.	Noted. No action required.
2.3.6	<i>Police, Roads and Transport</i>	
	Yes.	Noted. No action required.
2.3.7	<i>Sports, Arts and Culture</i>	
	No comment.	Noted. No action required.
2.3.8	<i>Free State Social Development</i>	
	No comment.	Noted. No action required.
<b>3.</b>	<b>Specific matter for comment 3</b>	
	<b>Are there any specific implementation issues that the Board should be aware of?</b>	
3.1	<b>Altimax</b>	
3.1.1	As part of our experience in the application and implementation of IFRS 9 <i>Financial Instruments</i> , the complex nature of the Standard, impacts the implementation of the Standard.	Noted and agreed. Consideration will be given to establishing this workgroup once the transitional provisions are finalised.

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<b>NO.</b>	<b>COMMENT</b>	<b>BOARD'S RESPONSE</b>
	<p>Further to that, the availability, collection and preparation of the information for the implementation presents an overall challenge throughout the implementation.</p> <p>We, therefore, support the proposal of an active and interactive workgroup, to educate entities on the amended Standard and to assist entities to implement the Standard.</p> <p>We, propose, that the workgroup incorporate a diverse representation of entities, including entities from smaller towns and not only entities from the bigger city centres.</p>	
3.1.2	<p>Further to our experience, the ECL calculation may lead to an increase in impairment as opposed to the current GRAP 104. Taking into account the current fragile state and economic climate in the country with regards to the public sector, it is imperative to determine what the full impact of the amended GRAP 104 will be for from an accounting perspective but also from a funding and investment perspective.</p>	<p>Noted. While there is a potential for an increase in impairment losses, this will not automatically be the case. In the private sector, there has not always been a direct correlation between the implementation of IFRS 9 and an increase in impairment losses.</p> <p>When discussing the issue of increased impairment losses with stakeholders, some observed that many municipalities are already including both past and current information in their impairment tests. General future economic data on its own (e.g. x% unemployment, GDP growth or contraction, etc.) is unlikely to increase impairment losses. The size of impairment losses may only be affected where specific events exist, e.g. closure of a specific entity in an area.</p> <p>While the Board notes the potential increase in impairment losses, the Expected Credit Loss (ECL) model provides users of the financial statements with better predictive information to make decisions before actual losses arise.</p>
3.1.3	<p>The impact of the assessment of going concern from the auditors' viewpoint may be affected due to the increase of the impairment in entities.</p>	<p>Noted. A number of factors are considered by auditors when assessing going concern. The</p>



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NO.	COMMENT	BOARD'S RESPONSE
		increase in impairment losses alone is unlikely to change auditors' assessments of going concern.
3.1.4	Tariff setting in municipalities must take the impairment of receivables into account per legislation and per guidelines from National Treasury. The implementation of the amended GRAP 104 may lead to an increase in tariffs affecting the consumers in the country that the majority of cannot pay for services currently and thus leading potentially to greater economic pressures on the consumers.	Noted. This has been discussed with the National Treasury.
3.1.5	The implementation will potentially lead to the assessment of government debt as high risk, whereas with the current GRAP 104 this is not the case. The impact on the AFS as well as the potential perception and results of the overall sector must be fully assessed as the impact may not be one that South Africa can afford as a country.	Noted. While accepting that the application of the revised GRAP 104 may impact on credit ratings, the Board is of the view is that the ECL model provides users of the financial statements with better predictive information to make decisions before actual losses arise.
<b>3.2</b>	<b>City of Cape Town</b>	
	Apart from possible changes required to the accounting for a portion of the City's investments currently at fair value, we are not aware of any specific implementation issues.	Noted. No action required.
<b>3.3</b>	<b>Department of Treasury Free State Province</b>	
3.3.1	<i>DESTEA</i>	
	No comment.	Noted. No action required.
3.3.2	<i>Provincial Treasury</i>	
	None.	Noted. No action required.
3.3.3	<i>COGTA</i>	
	Currently Department don't have any financial instruments.	Noted. No action required.
3.3.4	<i>Public Works</i>	
	No.	Noted. No action required.

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NO.	COMMENT	BOARD'S RESPONSE
3.3.5	<i>Police, Roads and Transport</i>	
	The Department is not aware of any at this point in time.	Noted. No action required.
3.3.6	<i>Sports, Arts and Culture</i>	
	No comment.	Noted. No action required.
3.3.7	<i>Free State Social Development</i>	
	None.	Noted. No action required.
<b>4.</b>	<b>GENERAL</b>	
<b>4.1</b>	<b>Altimax</b>	
	<p>We are pleased to provide comments on ED 177. The comments outlined in this letter are those of the Professional Practices departments of Altimax and the Board. The comments have been formulated following an internal consultation session.</p> <p>We are generally supportive of the amendments. Our comments on the proposals in ED 177 are outlined in Annexure A. We have only included areas where additional commentary or differences are set out. It may be assumed that we agree on the areas where no mention is made in this letter.</p>	Noted. No action required.
<b>4.2</b>	<b>Department of Treasury Free State Province</b>	
4.2.1	<i>DESTEA</i>	
	No comment.	Noted. No action required.
4.2.2	<i>Provincial Treasury</i>	
	None.	Noted. No action required.
4.2.3	<i>COGTA</i>	
	None.	Noted. No action required.
4.2.4	<i>Public Works</i>	
	None.	Noted. No action required.

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<b>NO.</b>	<b>COMMENT</b>	<b>BOARD'S RESPONSE</b>
4.2.5	<i>Police, Roads and Transport</i>	
	None.	Noted. No action required.
4.2.6	<i>Sports, Arts and Culture</i>	
	None.	Noted. No action required.