ISSUED APRIL 2020

FEEDBACK STATEMENT – ED 176 PROPOSED IMPROVEMENTS TO STANDARDS OF GRAP (2019)

This Feedback Statement outlines feedback received on the proposed *Improvements to Standards of GRAP (2019)* (ED 176)	**Overview**	This Feedback Statement outlines decisions taken by the Accounting Standards Board (hereafter referred to as "the Board") prior to approving *Improvements to Standards of GRAP (2020)*.
	Consultation process	The Board undertook a public consultation process with users of financial statements, preparers, auditors and other interested parties on ED 176 on *Improvements to Standards of GRAP (2019)*.
	Supporting material	The Board's analysis of the written and verbal comments received on ED 176, along with its responses thereto. Final *Improvements to Standards of GRAP (2020)* (hereafter referred to as "the 2020 improvements"). These materials can be accessed on the ASB's website.
	Next steps	The Minister of Finance will determine the effective date for the 2020 improvements. An effective date for financial periods commencing on or after 1 April 2021 is proposed.

ACCOUNTING STANDARDS BOARD

FEEDBACK STATEMENT

ED 176 – PROPOSED *IMPROVEMENTS TO STANDARDS OF GRAP (2019)*

What we heard	
General support for improvements to Standards of GRAP	Respondents welcomed, and generally supported, the improvements to Standards of GRAP.
GRAP 16 on *Investment Property*	A number of amendments were proposed to GRAP 16. Amendments were proposed to the criteria on transfers to and from investment property following a change in use. ED 176 proposed that this amendment should be applied prospectively, but also allowed retrospective application if hindsight is not applied. Some respondents indicated that the option to apply the improvement retrospectively should be deleted as most entities are likely to apply the improvement prospectively to prevent the application of hindsight. To simplify the requirements of GRAP 16 and to ensure that hindsight is not applied incorrectly, the Board agreed to only require the prospective application of the improvement.
GRAP 17 on *Property, Plant and Equipment*	ED 176 proposed the deletion of the example in GRAP 17 indicating that land used in quarries and landfills may be exceptions to the principle that land has an unlimited useful life. Respondents to ED 176 supported the improvement but questioned whether any changes to depreciation should be accounted for as an error, or as a change in an accounting policy. Respondents also proposed that specific transitional provisions should be included for impairment on adoption of the improvement. The Board agreed to amend the transitional provisions to explain that: (a) any changes to depreciation should be accounted for as a change in accounting policy and not as an error. GRAP 3 on *Accounting Policies, Changes in Accounting Estimates and Errors* requires that a change in accounting policy is applied retrospectively; and (b) on adoption of the improvement, land needs to be assessed for impairment. If impaired, the impairment requirements are applied prospectively in accordance with GRAP 3.

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What we heard	
GRAP 20 on *Related Party Disclosures*	*Management services as a related party transaction* The Board requested respondents' views on the proposal to expand the definition of a related party, and the disclosure of related party transactions in GRAP 20, to include management services. The improvement to GRAP 20 proposed to include, within the definition of a related party, management services that are provided by an entity or any member of a group of which that entity is part, to the reporting entity or the controlling entity of the reporting entity. The amendment was needed to align GRAP 20 with the requirements of IAS 24 on *Related Party Disclosures.* Respondents supported the proposed improvement but made various suggestions on how to improve the proposed description of management services. They also questioned whether management services provided free of charge, or at a nominal value, are a related party transaction. Some respondents also proposed that the improvement to management services should be applied prospectively. In considering how to amend the description of management services, the Board agreed to align the description of "management services" to the definition of "management" in GRAP 20. GRAP 20 defines "management" as "those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions". This amendment is consistent with how IAS 24 was amended by the International Accounting Standards Board. In response to the observations made on management services provided free of charge or at a nominal value, the Board agreed to include a paragraph in GRAP 20 to clarify that amounts incurred for management services include amounts recognised and/or disclosed as services in kind in terms of GRAP 23 on *Revenue From Non-exchange Transactions (Taxes and Transfers).* The Board agreed that the improvement to GRAP 20 relating to management services should be applied retrospectively to ensure comparability for related party relationships that existed in prior periods.

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What we heard	
GRAP 20 on *Related Party Disclosures* **(continued)**	*Disclosure of outstanding related party balances* ED 176 proposed deleting the requirement to disclose outstanding related party balances where transactions occur within normal supplier and/or client relationships that are undertaken within normal established parameters on terms and conditions no more, or less favourable, if dealing with that individual or person in the same circumstances. Respondents to ED 176 had mixed views about the deletion of this disclosure requirement. Some respondents noted that users find the disclosure useful, while others indicated that the disclosure may have negative audit implications if amounts are misstated. The Board agreed to retain the disclosure requirement in GRAP 20 as it provides information that is relevant useful to users' decisions.
Deletion of appendices outlining illustrative examples	Some respondents to ED 176 questioned the Board's policy of deleting appendices outlining illustrative examples from the Standards of GRAP once they are effective. Respondents indicated that the illustrative examples are a valuable source of information that enable them to better understand the principles in the Standards of GRAP. The Board agreed to initially delete the appendices as the National Treasury is responsible for developing implementation guidance and it did not want to provide potentially contradictory guidance. As the GRAP Accounting Guidelines issued by the National Treasury have matured since their initial issue, it has become clear that there is a difference between the guidance in the GRAP Accounting Guidelines and the type of information included in the appendices to the Standards. The appendices illustrate the application of the principles at a high-level, while the GRAP Accounting Guidelines provide detailed implementation guidance. The Board agreed to amend its previous decision to delete the appendices. Appendices will be retained in newly issued Standards of GRAP.

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Summary of key improvements	
GRAP 5 on *Borrowing Costs*	GRAP 5 explains that to the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity determines the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditure of that asset. Funds borrowed specifically for the purpose of obtaining a qualifying asset comprise the actual borrowing costs incurred on that borrowing during the period, less any investment income earned on the temporary investment of those borrowings. Capitalisation of the specific borrowing costs ceases when the activities necessary to prepare the qualifying asset for its intended use or sale, is complete. Where funds are borrowed generally to obtain a qualifying asset, a capitalisation rate is applied to determine the borrowing costs eligible for capitalisation. The improvement to GRAP 5 clarifies that borrowings made specifically for purposes of obtaining a qualifying asset are excluded from the calculation of borrowing costs eligible for capitalisation, until substantially all the activities necessary to prepare the asset for its intended use of sale, are complete. From this point, any remaining borrowings made specifically for the purpose of obtaining a qualifying asset, will become part of general borrowings. The improvement is applied prospectively.
GRAP 13 on *Leases*	The Standard of GRAP on *Impairment of Cash-generating Assets* (GRAP 26) is applied to assess if a leased asset in an operating lease, or in a sale and leaseback transaction, is impaired. The improvement to GRAP 13 clarifies that an entity also needs to consider the Standard of GRAP on *Impairment of Non-cash-generating Assets* (GRAP 21) to assess impairment, as some arrangements involve leases that are not undertaken on market terms. The improvement is applied prospectively.

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Summary of key improvements	
GRAP 16 on *Investment Property*	The Board approved the following key improvements to GRAP 16: • An entity needs to assess investment property for impairment using both GRAP 26 and GRAP 21, as leases may not be undertaken on market terms. • A self-constructed investment property, that will be carried at fair value subsequent to initial recognition, should initially be measured at fair value at the earlier of completion of the construction or development, or when fair value becomes available. • The criteria for transferring property to and from investment property, have been amended to explain that a transfer will only occur when there is a change in use. A change in use occurs when the property meets, or ceases to meet the definition of investment property, and there is evidence of the change in use. The list of examples of a change in use is not exhaustive. Other than the improvement on the initial measurement of a self-constructed investment property, all the improvements to GRAP 16 are to be applied prospectively. The improvement on the initial measurement of a self-constructed investment property is applied retrospectively in accordance with GRAP 3.

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Summary of key improvements	
GRAP 17 on *Property, Plant and Equipment*	Based on conclusions reached in developing the Guideline on *Accounting for Landfill Sites*, the improvement to GRAP 17 deleted the example indicating that land used for quarries and in landfills could be exceptions to the principle that land has an unlimited useful life. Any changes in the depreciation of land following the adoption of the improvement, is accounted for as a change in an accounting policy and not as an error. GRAP 3 requires that a change in accounting policy is applied retrospectively. On adoption of the improvement, land used in a quarry or a landfill site should be assessed for impairment. If impaired, the requirements in GRAP 21 or GRAP are applied prospectively in accordance with GRAP 3.
GRAP 20 on *Related Party Disclosures*	The Board approved the following improvements to GRAP 20 relating to management services: • Amend the definition of a related party, as well as the related party disclosures, to include management services that are provided by an entity or any member of a group of which it is part, to the reporting entity or the controlling entity of the reporting entity. The description of what “management services” entail, is aligned with the definition of “management” in GRAP 20. • Clarify that amounts incurred for the provision of management services include amounts paid or payable, and amounts recognised and/or disclosed as services in-kind in terms of GRAP 23. These improvements are applied retrospectively.

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Summary of key improvements	
GRAP 24 on *Presentation of Budget Information in Financial Statements*	The improvement to GRAP 24 amended the term “primary financial statements” to either “financial statements” or “the face of the financial statements”. This improvement was made for consistency with wording used elsewhere in the Standards of GRAP. The improvement is applied retrospectively.
GRAP 31 on *Intangible Assets*	An entity is required to assess an intangible asset for impairment in accordance with GRAP 21 or GRAP 26, where the intangible asset is measured under the cost model and the asset’s useful life is reassessed from indefinite to finite. The improvement to GRAP 31 extends this requirement to intangible assets that are measured using the revaluation model. The improvement is applied prospectively.
GRAP 32 on *Service Concession Arrangements: Grantor*	The improvement clarifies the disclosure requirements for service concession assets, i.e. the carrying amount of each material service concession asset recognised at the reporting date, should be disclosed as part of the disclosure requirements under this Standard. The improvement is applied retrospectively.
GRAP 37 on *Joint Arrangements*	The improvement clarifies the application guidance on accounting for a previously held interest in a joint operation when an entity obtains joint control in the operation for the first time. Where a party participated in a joint operation, and only subsequently obtains joint control in the joint operation, the previously held interest in the joint operation is not be remeasured. No transitional provisions are required for the improvement as it relates to application guidance.

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Summary of key improvements	
GRAP 106 on *Transfer of Functions Between Entities Not Under Common Control*	The improvement clarifies that when a party obtains control of a joint operation, but had rights to assets, and obligations to liabilities relating to the joint operation before the acquisition date, the transaction is an acquisition achieved in stages. GRAP 106 requires the entity to then remeasure its previously held interest in the joint operation at the acquisition-date fair value, with any resulting gain or loss recognised in surplus or deficit. The improvement is applied for transactions for which the acquisition date is on or after the reporting period in which the improvement is first applied.
Directive 7 on *Application of Deemed Cost*	The improvement clarifies that the principles in Directive 7 may be applied to determine a deemed cost for bearer plants.
How to access information	
Access information on the ASB and its work programme online	Visit our website on www.asb.co.za Subscribe to our Newsletter Access the translated versions of the Standards ASB@ASB_SA https://www.linkedin.com/company/accounting-standards-board https://www.facebook.com/AccountingStandardsBoard/

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