



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

**PROPOSED IMPROVEMENTS TO STANDARDS OF GRAP  
(2019)**

**(ED 176)**

## **RESPONSES TO THE WRITTEN COMMENT RECEIVED ON THE PROPOSED IMPROVEMENTS TO STANDARDS OF GRAP (2019) (ED 176)**

The Accounting Standards Board (Board) approved an Exposure Draft of the proposed *Improvements to Standards of GRAP (2019)* (ED 176) in July 2019. A notice was published in the Government Gazette on 19 July 2019 (Notice 42584). The comment period closed on 31 October 2019.

Two written responses were received from the respondents listed on the next page. Their comments are summarised in this document and include the Board's responses.

In addition, ED 176 was discussed with preparers, auditors, consultants and other interested parties by way of roundtable discussions and other meetings. Comments received during these discussions are summarised in a separate document.





**ANALYSIS OF RESPONSES ON ED 176 PROPOSED  
IMPROVEMENTS TO STANDARDS OF GRAP (2019)**

<b>NO.</b>	<b>COMMENT</b>	<b>BOARD'S RESPONSE</b>
<b>1.2</b>	<b>Department of Treasury of the Free State: Education</b>	
	(b) No. It should be treated like any other expenses/payables. The understanding is that the entity providing the management services will disclose compensation paid/payable to its employees.	Noted. The entity that is providing the management service will account for the remuneration and other employee benefits paid to its employees in terms of the applicable Standard dealing with employee benefits.
<b>1.3</b>	<b>Department of Treasury of the Free State: COGTA</b>	
	(a) Yes.  (b) What will be done if the remuneration to management for compensation paid or payable by the management entity is included as part of the total service fees paid.	Noted. Refer to response 1.1.  The entity that is providing the management service will account for the remuneration and other employee benefits paid to its employees in terms of the applicable Standard dealing with employee benefits.  The entity that is receiving the management services needs to separate the total service fee paid or payable, between those services that relate to management services and those that relate to other services. The fee relating to management services needs to be disclosed as required in GRAP 20.
<b>1.4</b>	<b>Department of Treasury of the Free State: Public Works and Infrastructure</b>	
	(a) Yes, having read the examples of management services. The explanatory guidance in paragraph 27B meets the definition of that management services comprise.	Noted. Refer to response 1.1.

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NO.	COMMENT	BOARD'S RESPONSE
<b>1.5</b>	<b>Department of Treasury of the Free State: Police, Roads and Transport</b>	
	<p>(a) Yes. The concept that management services comprise of services where employees participate in the strategic direction and the financial and operation policy decision-making is in line with the concepts of “having influence” and therefore it is sufficient.</p> <p>(b) The challenge might occur when there be no management/service fee is charged by the management entity for the services provided.</p> <p>Is the assumption that only narrative will be disclosed the regarding the service received or would the fair value of the services received need to be determined and disclosed?</p>	<p>Noted. Refer to response 1.1.</p> <p>Where management services are provided to an entity at no, or for a nominal consideration, the principles in GRAP 23 on <i>Revenue from Non-exchange Transactions (Taxes and Transfers)</i> should be applied to account for the services-in-kind.</p> <p>A paragraph has been included in GRAP 20 to clarify that amounts incurred for the provision of management services include amounts paid or payable, and amounts recognised and/or disclosed in terms of the GRAP 23.</p>
<b>1.6</b>	<b>Department of Treasury of the Free State: Agriculture and Rural Development</b>	
	(a) Yes.	Noted. Refer to response 1.1.
<b>1.7</b>	<b>Department of Treasury of the Free State: FDC</b>	
	<p>(a) Yes.</p> <p>(b) The standard is not clear whether the management entity has to cost their involvement activities and bill the receiving entity accordingly or not. If it means costing and billing, the practicality of it will be addressed at consolidation level.</p>	<p>Noted. Refer to response 1.1.</p> <p>Noted. The improvement to GRAP 20 only considers the disclosure of management fees by the entity receiving the service, not from the entity providing the management service. The Board agreed not to include any additional guidance.</p>

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NO.	COMMENT	BOARD'S RESPONSE
	<b>Department of Treasury of the Free State: FDC (continued)</b>	
	<p>The question is what if the management entity employees providing strategic guidance and or governance are also executives of the management entity, does it mean that we are exempt from disclosing their remuneration or not?</p> <p>Other than that, I don't foresee any implementation issues.</p>	<p>No. The entity that is providing the management service will account for the remuneration and other employee benefits paid to its employees in terms of the applicable Standard dealing with employee benefits. Also refer to the response to comment 1.3.</p> <p>Noted. No further action required.</p>

NO.	COMMENT	BOARD'S RESPONSE
	<b>GENERAL MATTERS FOR COMMENT</b>	
	<b>Other comment</b>	
2.1	<b>Altimax</b>	
	We are generally supportive of the amendments. Our comments on the proposals in ED 176 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.	Noted. No further action required.
	<b>GRAP 5 <i>Borrowing Costs</i></b>	
2.2	<b>Altimax</b>	
	<p><i>Clarify that an entity includes borrowings made specifically to obtain a qualifying asset in general borrowings when that qualifying asset is ready for its intended sale or use.</i></p> <p>We are of the view that the specific borrowings should not be included as part of the general borrowings once the activities necessary to prepare the asset for intended use or sale are complete.</p> <p>The Standard refers, in paragraph 18, that "...to the extent that an entity borrows funds generally <b>and</b> (own emphasis added) uses them for the purpose of obtaining a qualifying asset,...", it is our interpretation that borrowings made specifically to obtain qualifying assets, even after the qualifying assets are completed, do not fall under the specifications of paragraph 18 as it is not part of general funds, thus cannot be treated as general funds subsequent to completion of asset.</p> <p>In addition, for specific borrowings the funds would have been used to obtain the specific qualifying asset and thus no funds would be remaining to include in general funding of the completion of the qualifying asset. To include the balance of specific borrowings now in general funds would be to include funds that do not exist.</p> <p>We acknowledge that in some instances there would be funds remaining, however, that should be minimal and in rare instances. We believe that for the requirement to the calculation of the capital balance remaining on specific borrowing, the cost would outweigh the benefits.</p>	<p>Noted. The capitalisation of borrowings made specifically for the purpose of obtaining a qualifying asset ceases when the activities necessary to prepare the qualifying asset for its intended use or sale, is complete. Where specific borrowings were made to obtain a qualifying asset, any remaining borrowings following the completion of the related qualifying asset for its intended use, will become part of the funds that are available for the acquisition, construction or production of other qualifying assets. The remaining borrowings will therefore form part of general borrowings.</p> <p>A similar amendment was made to IAS 23 <i>Borrowing Costs</i> and IPSAS 5 <i>Borrowing Costs</i>, and the Board supported these amendments.</p> <p>The Board agreed that the improvement to GRAP 5 is appropriate to the South African public sector and retained.</p>

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NO.	COMMENT	BOARD'S RESPONSE
	<b>Altimax (continued)</b>	
	We propose that the clarification indicates that borrowings made specifically to obtain a qualifying asset is excluded from the calculation, even if substantially all the activities necessary to prepare the asset for its intended use or sale are complete.	The Board agreed that there is no South African public specific reason to depart from the IPSAS amendment and therefore no change was made.
	<b>GRAP 13 Leases</b>	
2.3	<b>Altimax</b>	
	<p><i>Clarify that operating leases and sale and leaseback transactions may also be assessed for impairment in accordance with the requirements of the Standard of GRAP on Impairment of Noncash-generating Assets (GRAP 21) to reflect instances where leases are entered into between entities that are not on market terms. (GRAP 21.64, .67 and .74)</i></p> <p>We support the view to clarify that GRAP 21 can be used in the impairment assessment of a leased asset.</p> <p>We, however, propose that the reason provided not refer to leases not on market terms but rather to the fact that not all leases generate a commercial return as defined in GRAP 21. The reason for this is that leases not on the traditional market terms can general a commercial return as defined in GRAP 21, which would thus result in the asset being a cash-generating asset.</p>	<p>Noted. No further action required.</p> <p>Noted. The reasons provided for the improvement was to explain why it was included in the Exposure Draft. This explanation has been deleted following the approval of the final improvements by the Board.</p>
	<b>GRAP 16 Investment Property</b>	
2.4	<b>Altimax</b>	
2.4.1	<p><i>Update the headings on classifying property as investment property or owner-occupied property. (GRAP 16.06 and .07)</i></p> <p>We support the update of the headings in these paragraphs. We note that paragraph 6 and 7 is not limited to the classification of only investment property and property, plant and equipment. Paragraph 7 to 25 also deal with classification as inventory and construction contracts.</p>	<p>Noted. The Board agreed with the comment as this section not only deals with the classification of property as investment property or property, plant and equipment, but also considers inventory and construction contracts. The heading has been amended as proposed.</p>

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NO.	COMMENT	BOARD'S RESPONSE
	<b>Altimax (continued)</b>	
	We propose that the heading be amended as: 'Classification of property as investment property' only.	
2.4.2	<p><i>Following previous improvements to the GRAP 16, investment property under construction is within the scope of GRAP 16. A new heading is included before paragraph .82 to clarify that the paragraph provides guidance on initially measuring self-constructed investment property at fair value. Paragraph .82 is also amended to clarify that this could be prior to completion. (GRAP16.105B and .105C)</i></p> <p>We are of the view that the retrospective application of the proposed changes would contribute to a practical dilemma, i.e.: the impairment of the investment property cannot be assessed and thus performed using hindsight.</p> <p>We propose that the changes are prospective only as the ability to compile the information by many entities may not be possible.</p>	Noted. The Board agreed to only require the prospective application of the improvement to improve comparability and to prevent the application of hindsight. The option to apply the improvement retrospectively was deleted.
2.4.3	<p><i>Clarify the requirements relating to transfer of investment property to reflect the principle that a change in use would involve (a) an assessment of whether a property meets, or ceases to meet, the definition of investment property; and (b) evidence that a change in use has occurred. The list of examples in which a transfer occurs is recharacterised as a non-exhaustive list to be consistent with this principle. (GRAP 16.72 and .74)</i></p> <p>We support the proposed change relating to transfers.</p> <p>We propose in addition that the meaning of what would qualify as 'evidence' for the change in use be included as guidance to the preparer for clarification.</p> <p>We are of the opinion that there might be a different interpretation which will lead to inconsistent application of paragraph 72 to 74. For example, does "evidence for change in use" refer to:</p> <ul style="list-style-type: none"> <li>• When an entity moves into a building and physically occupies it as owner-occupied; or</li> <li>• When renovations start for owner-occupation; or</li> </ul>	<p>Noted.</p> <p>Paragraph .72 already includes examples of a change in use. An entity needs to apply judgement based on its own specific circumstances to assess if a change in use has occurred.</p>

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NO.	COMMENT	BOARD'S RESPONSE
	<b>Altimax (continued)</b>	
	<ul style="list-style-type: none"> <li>• When the board/council approves the change from investment property to owner-occupied; or</li> <li>• When the current tenant is given notice to vacate the premises.</li> </ul> <p>All four of the above could result in four different dates thus resulting in different measurement per entity.</p>	<p>The comment will be shared with the Office of the Accountant-General for their consideration in updating the applicable GRAP Accounting Guideline.</p>
	<b>GRAP 17 Property, Plant and Equipment</b>	
<b>2.5</b>	<b>Altimax</b>	
2.5.1	<p><i>As land has an unlimited useful life and cannot be consumed through its use, the example indicating that quarries and land used for landfill may be depreciated in certain cases is deleted.</i></p> <p>The proposed change in the Standard is a change in accounting policy.</p> <p>We propose that the Standard include a clarification for all preparers that this change is not an error, but a change in accounting policy.</p> <p>Improvements of Standards imply that measurement should not change and if it does then it is due to incorrect application of the Standard previously, thus a prior period error should be recognised. The deletion of the proposed wording is dealt with under improvement which implies an error if and entity treated it differently before.</p> <p>We are of the view that this is not the case, we believe that the removal of the proposed wording will result in the change of measurement of land and it will not be due to incorrect interpretation or application of the Standard. We propose that clarity be moved from improvement to amendment of the Standard and that clarity be included in the Standard that the amendment will result in a change in accounting policy and should be treated as such in terms of GRAP 8.</p>	<p>Noted. The transitional provisions have been amended to explain that the amendments should be accounted for as a change in an accounting policy, and not as an error. GRAP 3 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> requires that a change in policy is applied retrospectively.</p>

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NO.	COMMENT	BOARD'S RESPONSE
	<b>Altimax (continued)</b>	
2.5.2	<p>We are of the view that the retrospective application of the proposed changes would contribute to a practical dilemma, in that many entities would not have the ability to provide this type of information retrospectively. This combined with the fact that the assessment of impairment cannot be performed in hindsight supports the fact that the retrospective application is not the most appropriate option.</p> <p>We propose that the changes be retrospective however only to the start of the year of initial adoption of the amendment. This would then require the preparer to perform the assessment of the impairment at the beginning of the current year reported, thus limiting the retrospective scope and bridging the faced dilemma. This approach will be in line with the current application transitions provided in IFRS 16 <i>Leases</i>.</p>	<p>Agreed. The transitional provisions have been amended to require an entity to assess, on adoption of the improvements, if a quarry or site used as a landfill site is impaired. If impaired, the impairment requirements are applied prospectively in accordance with GRAP 3.</p>
2.5.3	<p>We support the view that the exceptions, such as quarries and sites used for landfill, be removed from the Standard.</p> <p>We, however, note that use of the word 'unlimited' creates the expectation that the land is restored to completely its former state following the rehabilitation of the land and although the land can be used for many activities, it does in the true sense of the word, have unlimited uses.</p> <p>We, therefore, propose that the word 'unlimited' be replaced with an alternative description to reflect this fact.</p>	<p>Noted. The improvements are based on the principle that land has an unlimited life, rather than unlimited use.</p> <p>As the wording in GRAP 17 is aligned with the equivalent IPSAS and IAS dealing with property, plant and equipment, the Board agreed not to make any amendments to GRAP 17.</p>

**ANALYSIS OF RESPONSES ON ED 176 PROPOSED IMPROVEMENTS TO STANDARDS OF GRAP (2019)**

NO.	COMMENT	BOARD'S RESPONSE
	<b>GRAP 20 <i>Related Party Transactions</i></b>	
<b>2.6</b>	<b>Altimax</b>	
2.6.1	<p><i>Amending the disclosure requirement that requires the disclosure of outstanding related party balances where transactions occur within normal supplier and/or client/recipient relationships, and within normal established operating parameters. (GRAP 20.34)</i></p> <p>We differ from the proposed changes in this Standard.</p> <p>We are of the view that all relationships, transactions and outstanding balances with related parties be disclosed.</p> <p>Some of the world's largest corporate scandals occurred due to the misuse and non-disclosure of related party transactions. One of the principles in the Framework is also transparency, thus enabling the user of the financial statements to make informed decisions.</p> <p>The Standard states that transactions at 'armslength' do not need to be disclosed, only a narrative.</p> <p>The definition in the Standard of what would constitute at 'arms-length' is very wide and open to interpretation.</p> <p>We propose that a narrower definition be included in the Standard.</p>	<p>Noted. The Board agreed to retain the disclosure of outstanding related party balances based on its relevance and usefulness to users' decisions.</p> <p>Noted. GRAP 20 requires narrative information about transactions undertaken within normal supplier and/or client/recipient relationships that are undertaken on terms and conditions no more or less favourable if dealing with that individual or person in the same circumstances. The Board agreed that the description in GRAP 20 is sufficient to understand the types of transactions that are exempted, and therefore, no amendment was made.</p> <p>The comment will be shared with the Office of the Accountant-General for their consideration in providing additional guidance when updating the applicable GRAP Accounting Guideline.</p>

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NO.	COMMENT	BOARD'S RESPONSE
	<b>Altimax (continued)</b>	
	<p>During our internal consultation session, it became clear that there are different interpretations of paragraph 34 as it currently stands. The interpretation can be summarised as follows:</p> <ul style="list-style-type: none"> <li>• Paragraph 34 requires narrative disclosures about the nature of the transactions and narrative disclosures about the nature of the related outstanding balances</li> <li>• Paragraph 34 requires narrative disclosures about the nature of the transactions and requires the disclosure of the amounts outstanding of the related outstanding balances</li> </ul> <p>These are two widely different interpretations which will result in different disclosures.</p> <p>We thus propose that instead of removing the disclosure requirement rather include clarity on what is required to be disclosed for the outstanding balances as per paragraph 34.</p>	<p>Noted. The principle in paragraph .34 requires the disclosure of narrative information about (a) the nature of the transactions and (b) the outstanding balance with related parties. A comma has been included to clarify the requirement.</p> <p>The comment will also be shared with the Office of the Accountant-General for their consideration in providing additional guidance when updating the applicable GRAP Accounting Guideline.</p>
2.6.2	<p><i>Clarifying how payments to entities providing management services that are not undertaken within the same economic entity should be disclosed, and what these services comprise. (GRAP 20.10, .27A, .27B, .35A and .39A)</i></p> <p>The disclosure and use of the word 'management entity in paragraph 27 when compared to the definition of what is considered as management services in paragraph 10(b)(viiA) appears to be much narrower as intended in the definition.</p> <p>We propose that the intention for the disclosure of payments to entities providing management services be revisited before the proposed change is implemented.</p>	<p>Noted. The functions performed by employees of the management entity are similar to those functions performed by the management of the reporting entity.</p> <p>Also refer to response 1.1.</p>

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NO.	COMMENT	BOARD'S RESPONSE
	<b>Altimax (continued)</b>	
2.6.3	<p>We believe that this change could lead to an unwanted outcome in the disclosure due to different interpretations and disclosures by different preparers.</p> <p>We support the fact that this could indicate a problem within the entity especially when an external party is effectively the major roleplayer in decision-making of the strategic direction, financial and operating policies of the entity.</p> <p>We, however, question whether the financial statements would be the appropriate report to reflect this?</p> <p>We note the retrospective application of the changes in the Standard, but propose that the changes be prospective only.</p>	<p>The improvement to GRAP 20 is similar to the amendment included in IAS 24 <i>Related Party Disclosures</i>. The objective of the improvement is to address the divergent practice in identifying the nature of these arrangements as a related party transaction. The functions performed by employees of the management entity are similar to those performed by the management of the reporting entity, and therefore result in a related party relationship as defined in GRAP 20. Disclosing these related party relationships will provide useful information to users to hold entities accountable and to enable decision-making. The Board therefore agreed that the amendment to GRAP 20 should be retained.</p> <p>The amendment to GRAP 20 only impacts the disclosure requirements in the financial statements. As these relationships may have existed in prior periods, and to ensure comparability, the Board agreed to retain the retrospective application of the amendment.</p>

NO.	COMMENT	BOARD'S RESPONSE
2.6.4	<p>Paragraph 27B <i>“Management services comprise those services where employees of the management entity participate in the strategic direction and financial and operating policy decision-making of an entity.”</i></p> <p>During our internal consultation session, it became clear that there are different interpretations of paragraph 27B as it currently stands. The interpretation can be summarised as follows:</p> <ul style="list-style-type: none"> <li>• <b>All three should be met:</b> participation in strategic direction <b>and</b> financial <b>and</b> operating policy decision-making for the services to be management services.</li> <li>• <b>Only one of the three should be met:</b> participation in strategic direction <b>or</b> financial <b>or</b> operating policy decision-making for the services to be management services.</li> </ul> <p>These are two widely different interpretations which will result in different disclosures.</p> <p>We, thus propose that paragraph 27B be clarified or amended to clearly set out the intention.</p>	Noted. Refer to response 2.6.2.

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NO.	COMMENT	BOARD'S RESPONSE
	<b>Annexure A</b>	
2.7	<b>Altimax</b>	
	<p><i>Part A (b). Deletion of appendices outlining illustrative examples in the Standards of GRAP</i></p> <p>We do not support the proposed deletion of the illustrative examples.</p> <p>We support the Guidelines as issued by National Treasury, however, we believe that the accompanying illustrative examples provided with the Standard itself, is an invaluable source of information to understand the Standard and the selected principles contained therein.</p>	<p>Noted. The Board previously agreed to delete appendices outlining illustrative examples once the applicable GRAP Accounting Guideline is developed by the Office of the Accountant-General. This is to avoid any inconsistencies between the illustrative examples and the guidance provided in the GRAP Guides.</p> <p>Archived appendices to the Standards of GRAP have been provided to the Office of the Accountant-General to assess whether they should be included in the GRAP Accounting Guidelines.</p> <p>Based on the feedback received, the Board agreed to amend its previous decision to delete all appendices outlining illustrative examples once a Standard becomes effective.</p>