P O Box 7001
Halfway House
Midrand
1685
Tel. 011 697 0660
Fax. 011 697 0666
www.asb.co.za

TO:	**MEMBERS OF THE TECHNICAL COMMITTEE**
FROM:	**ELIZNA VAN DER WESTHUIZEN**
SUBJECT:	**REVIEW OF GRAP 25 ON *EMPLOYEE BENEFITS***
DATE:	**25 MAY 2020**
REFERENCE:	**ATTACHMENT 3**

BACKGROUND AND PURPOSE

Background

1. The purpose of the project is to review the requirements of the Standard of GRAP on *Employee Benefits* (GRAP 25) following amendments made to the International Public Sector Accounting Standard on *Employee Benefits* (IPSAS 25) by the International Public Sector Accounting Standards Board (IPSASB). The IPSASB amended IPSAS 25 to align it with the requirements of the International Accounting Standard on *Employee Benefits* (IAS 19). The review also considers other recent pronouncements by the IASB, IPSASB and existing local guidance related to employee benefits.

2. IPSAS 39 was issued to replace IPSAS 25, because the IPSASB concluded that the large number of changes would be easier for users to understand in a new Standard. Unlike IPSAS 39, GRAP 25 will not be renumbered. Instead a revised version of GRAP 25 will be issued. This approach is aligned to the Board's approach in other recent projects, e.g. the revision of GRAP 104 on *Financial Instruments*.

3. The project brief is included as attachment 3(b) and is provided for information purposes.

4. The proposed documents to be considered by the Technical Committee have been reviewed by a project group comprising preparers, and another comprising the auditors and firms. Three virtual project group meetings were held in April and May 2020 (one for preparers, one for the auditors and firms, and one combined session). See attachments 3(c) to 3(e) for the minutes. The project groups supported the proposed amendments to GRAP 25.

Purpose

5. The purpose of the memorandum is to present the following to the Technical Committee for its consideration:

   (a) The proposed Exposure Draft (ED) on *Revision of GRAP 25* – see attachment 3(f). The final ED published for comment will not be presented as a mark-up. The marked-up version will be published with the ED as background information.

(b) The proposed ED on *Revision of the Interpretation of the Standards of GRAP on The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IGRAP 7)* – see attachment 3(g). The final ED published for comment will not be presented as a mark-up. The marked-up version will be published with the ED as background information.

(c) The proposed Invitation to Comment (ITC) – see attachment 3(h).

PROPOSED AMENDMENTS TO THE CURRENT VERSION OF GRAP 25

IPSAS 39: AREAS WHERE NO AMENDMENTS ARE PROPOSED TO GRAP 25

6. GRAP 25 was originally issued in 2009. At the time of development, the Board made certain decisions to depart from IPSAS 25 in order to provide guidance for the local environment. No amendments are proposed to GRAP 25 in these areas, as discussed below.

Simplification of requirements in GRAP 25

7. In two instances the Board agreed to simplify the requirements in GRAP 25 compared to IPSAS 25. In both instances, the IPSASB decided on similar requirements to GRAP 25 when developing IPSAS 39. Therefore, no amendments are required to GRAP 25 as it is aligned to IPSAS 39.

8. Recognition of actuarial gains and losses: Corridor approach

   - IPSAS 39 removed the "corridor approach" to the recognition of actuarial gains or losses. In developing the current version of GRAP 25, the Board concluded that actuarial gains and losses result from changes in estimates, which are recognised in surplus or deficit in the year they occur, in accordance with GRAP 3 on *Accounting Policies, Changes in Accounting Estimates and Errors*. The Board therefore required all actuarial gains and losses to be recognised in surplus or deficit in the year they occur, and GRAP 25 does not allow the corridor approach.

9. Recognition of past service cost

   - The IPSASB changed the recognition of past service cost by no longer distinguishing between vested and unvested past service cost. The Board agreed not to distinguish vested and unvested past service cost, as the straight lining of unvested past service cost was deemed inappropriate and unnecessarily complex, because employees already rendered their service. Therefore, GRAP 25 requires past service cost, whether vested or unvested, to be recognised immediately in surplus or deficit.

Areas of ongoing differences

10. Although the Board agreed to align the current version of GRAP 25 to IPSAS 39, there remain areas of ongoing differences between the standards where no amendments to the current version of GRAP 25 are proposed. These are as follows:

    - Placement of application guidance: GRAP 25 includes application guidance in the form of examples in the main text, which is aligned with IAS 19. IPSAS 39 has an Application Guidance appendix that includes the examples.

- Binding arrangements: The IPSASB does not have a standard definition for “binding arrangements”. The Board standardised the definition of “binding arrangements” to be used consistently among Standards of GRAP, including GRAP 25. The definition has been included under the heading *“Definitions relating to classification of plans”* in the revised GRAP 25.08.
- Discount rates: IPSAS 39 and GRAP 25 have differing guidance on appropriate discount rates that best reflect the time value of money. IPSAS 39 allows entities to use the government bond rate, corporate bond rate or the rate of another instrument. GRAP 25.92 refers to the government bond rate as this is the most liquid bond market in South Africa and therefore appropriate for the local environment.
- Minor terminology differences: GRAP 25 differs from IPSAS 39 in the use of certain terminology. For example, “profit sharing and bonuses” in IPSAS 39 are referred to as “bonus, incentive and performance related payments” in GRAP 25.

IPSAS 39: AREAS WHERE AMENDMENTS ARE PROPOSED TO GRAP 25

11. In line with the project brief, changes are proposed to GRAP 25 to align to IPSAS 39. In commenting to the IPSASB on ED 59 on *Proposed Amendments to IPSAS 25 Employee Benefits* in 2016, the Secretariat supported the amendments, except for matter 2 under *Post-employment benefits - Defined benefit plans*. Therefore, the changes discussed below have been made to the current version of GRAP 25, except for matter 2. These changes were supported by the project groups.

Removal of guidance on composite social security programmes

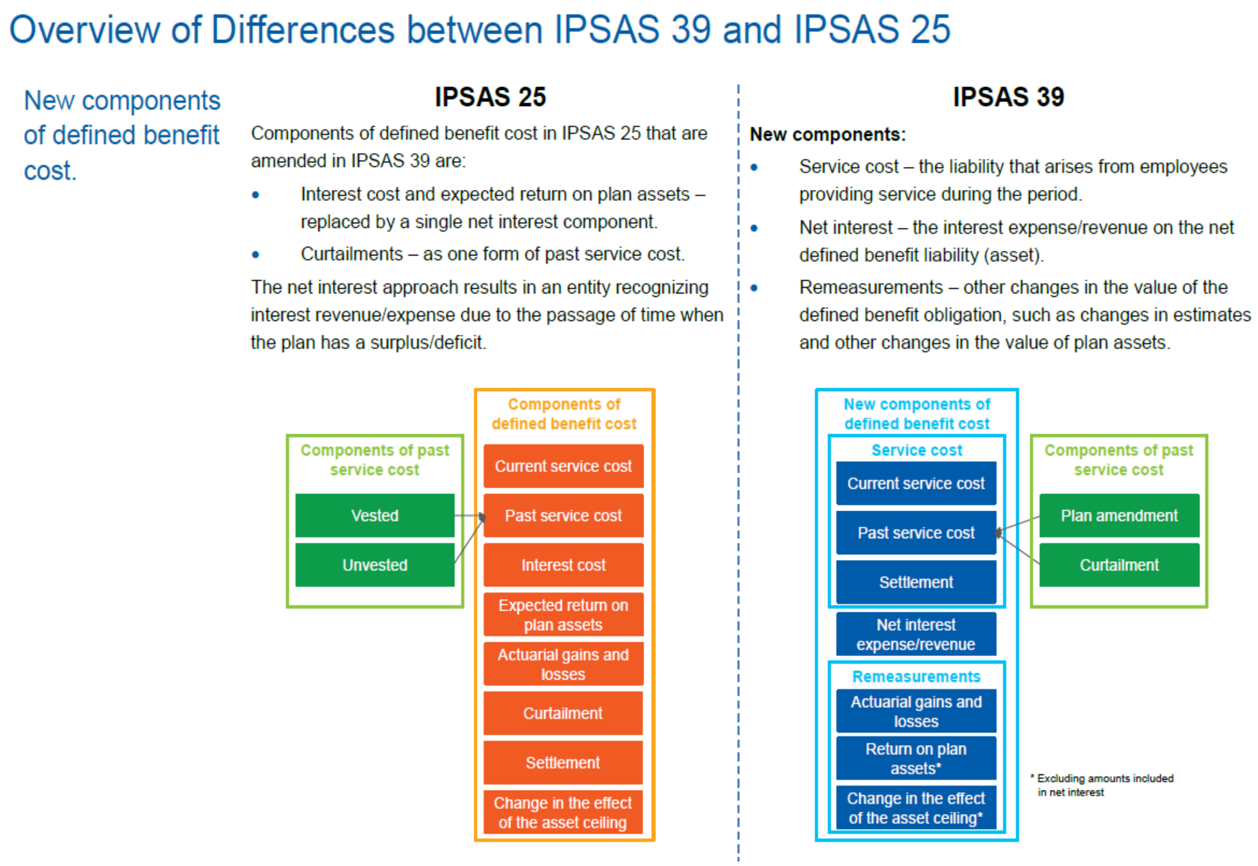
12. IPSAS 39 removed guidance on composite social security programmes. When responding to the IPSASB on ED 59, the Secretariat confirmed that there are no composite social security programmes in South Africa.
13. Therefore, the definition, references to composite social security programmes and the section thereon have been removed from the current version of GRAP 25. GRAP 25.03 is amended to rephrase “composite social security programmes” to “social benefits” for the following reasons:
    - It is necessary to make it clear that only benefits in exchange for employee benefits are in the scope of GRAP 25.
    - As it is confirmed that no “composite social security programmes” exist in South Africa, the term is changed to “social benefits” to have a broader application. An indication was received from the IPSASB that an amendment will be made to IPSAS 39 with the next Improvements to IPSAS project to refer to “social security programmes”. Although “social security programmes” is defined in Government Finance Statistics (GFS), “social benefits” may be better understood locally.

Post-employment benefits - Defined benefit plans

14. Several changes related to defined benefit plans have been made by the IPSASB to align to IAS 19. These are discussed separately below. Some of these changes also impacted the accounting for “other long-term employee benefits” and are discussed together below.

Matter 1: Changes in the components of defined benefit cost

15. IPSAS 39 changed the components of defined benefit cost. The changes can be illustrated as follows:



Source: IPSASB's "IPSAS 39 At a Glance" document

16. The changes to IPSAS 39 relevant to the revision of GRAP 25 include:

- including curtailments as one form of past service cost;
- grouping current service cost, past service cost and settlement costs as "service cost";
- combining requirements for past service cost resulting from both a plan amendment and curtailment in one section;
- replacing the expected return on plan assets and interest cost with "net interest expense/revenue" (see matter 3); and
- grouping actuarial gains and losses, return on plan assets and changes in the effect of the asset ceiling as "remeasurements" (see matter 2).

Matter 2: Recognition of remeasurements

17. IAS 19 grouped and named actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling as "remeasurements". Remeasurements are recognised in the Statement of Other Comprehensive Income (OCI) in IAS 19.

18. Since IPSAS does not have OCI, the IPSASB determined that remeasurements should be recognised in net assets/equity as this has the same accounting outcome as OCI in that

there is no impact on surplus or deficit which comprise mainly of items that have predictive values.

19. In developing the current version of GRAP 25, the Board concluded that actuarial gains and losses are recognised in surplus or deficit (see paragraph 8). The Board deemed it appropriate to recognise actuarial gains and losses in surplus or deficit because it aimed to simplify the requirements and minimise the recognition of gains and losses outside of surplus or deficit in Standards of GRAP.

20. As the Board's decision on recognition of actuarial gains and losses is equally true for remeasurements, the revised GRAP 25 recognises remeasurements in surplus or deficit. A specific matter for comment has been included in the ITC (see attachment 3(h)), and the matter is included in the basis for conclusions of the revised GRAP 25.

Matter 3: Net defined benefit liability (asset)

21. The following definitions were added:

    - "Net defined benefit liability (asset)": the deficit or surplus (the present value of the defined benefit obligation less the fair value of plan assets *plus liabilities as a result of minimum funding requirements*), adjusted for any effect of the asset ceiling.
    - "Net interest on the net defined benefit liability (asset)": the change during the reporting period in the net defined benefit liability (asset) that arises from the passage of time.

22. The current version of GRAP 25 includes guidance from IFRIC 14 on *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (see *Inclusion of guidance from IFRIC 14, and IGRAP 7* below). As a result, the definition of the net defined benefit liability (asset) in the revised GRAP 25 includes, as part of deficit or surplus, any liability that may arise as a result of a minimum funding requirement.

23. With the new definitions, IPSAS 39 replaced the gross presentation of the defined benefit liability and plan assets; as well as interest cost and the expected return on plan assets with net presentation in accordance with the definitions.

Matter 4: Actuarial assumptions

24. Guidance was added on the following actuarial assumptions:

    - mortality; and
    - the impact of employee and third-party contributions on salaries, benefits and medical costs. An example from the IPSAS 39 application guidance was added to the revised GRAP 25.

Matter 5: Plan Amendment, Curtailment or Settlement (Improvements to IPSAS, 2018)

25. The IPSASB amended IPSAS 39 as part of the *Improvements to IPSAS, 2018*. The amendments stemmed from amendments to IAS 19 on *Plan Amendment, Curtailment or Settlement* which affect the recognition and measurement of post-employment defined benefit plans, also impacting other long-term employee benefits.

26. The amendments were to clarify that:

    - An entity does not consider the effect of the asset ceiling when determining past service cost or gains/losses on settlement. The effect of the asset ceiling is considered only after the plan amendment, curtailment or settlement.

- An entity determines current service cost and net interest based on information determined at the start of the annual reporting period.
- Where a plan amendment, curtailment or settlement occurs, the above items are determined for the remainder of the reporting period using the information that became available from the plan amendment, curtailment or settlement.

Matter 6: Other changes to defined benefit plans

27. Other changes to defined benefit plans include:

    (1) When to recognise past service cost - at the earlier of:

    - when the plan amendment or curtailment occurs; and
    - when the entity recognises relating restructuring costs (in accordance with the Standard of GRAP on *Provisions, Contingent Assets and Contingent Liabilities* (GRAP 19)) or termination benefits.

    (2) More guidance on settlements, by clarifying:

    - A gain or loss on settlement is the difference between the present value of the defined benefit obligation being settled and the settlement price.
    - Settlements include payments of benefits that is not set out in the terms of the plan.

    (3) Clarifying the treatment of taxation and administration costs in respect of the return on plan assets as follows:

Deduct	**Do not deduct**
Tax payable by the plan itself (other than tax included in the actuarial assumptions used to measure the present value of the defined benefit obligation)	Other administration costs
The costs of managing plan assets	

Termination benefits

28. Guidance has been added to assist entities with:

- Distinguishing termination benefits from other employee benefits, with reference to the event that gives rise to the obligation.
- Deciding when an entity is demonstrably committed to providing termination benefits, i.e. when to recognise termination benefits. This is at the earlier of:
    - when the entity can no longer withdraw the offer of termination benefits; and
    - when the entity recognises costs for a restructuring that is within the scope of GRAP 19 and involves the payment of termination benefits.
- The measurement of termination benefits, which follows the nature of the termination benefits.

Disclosures

29. The following amendments were made regarding disclosures across the ED:

- Placement: All disclosure requirements have been moved to the end of the relevant sections. Some disclosure requirements were previously included in the earlier text of a relevant section.
- Lead-in to disclosure requirements: the sections on defined benefit plans, other long-term employee benefits and termination benefits start by explaining the disclosure objective.
- Structure: Subheadings are introduced that groups the disclosure requirements of defined benefit plans.

30. Furthermore, the disclosure requirements of defined benefit plans are now largely aligned to IPSAS 39.

Additional guidance on disclosure to respond to local needs

31. The revised GRAP 25 includes additional guidance on disclosure of other long-term employee benefits and termination benefits compared to IPSAS 39, which responds to local needs. IPSAS 39 does not include any specific disclosure requirements or disclosure objectives for these employee benefits.

32. The first project group meeting with the firms noted that there is inconsistent disclosure about other long-term employee benefits in practice, and disclosure is often limited. Because the nature and extent of entities' other long-term employee benefits may vary, it may be appropriate that disclosure varies. In line with the project group's suggestion, a disclosure objective is added to the ED for other long-term employee benefits, together with additional examples of disclosure requirements in other Standards of GRAP that may be appropriate for entities to consider in order to meet the disclosure objective.

33. The project group also suggested a disclosure objective for termination benefits, although termination benefits may not be as complex as other long-term employee benefits. To allow entities to decide what disclosure is appropriate, based on the termination benefits provided, the same disclosure objective and additional examples have been added to termination benefits as for other long-term employee benefits.

34. The matter of additional guidance provided on disclosure has been added to the basis for conclusions of the revised GRAP 25.

INCLUSION OF GUIDANCE FROM IFRIC 14, AND IGRAP 7

Background on guidance from IFRIC 14

35. In developing the current version of GRAP 25, the Board agreed to include the guidance from IFRIC 14 in the local guidance, as follows:

- In the current version of GRAP 25: *When a minimum funding requirement might give rise to a liability*. IPSAS 39 does not include this guidance.
- In IGRAP 7: *When refunds or reductions in future contributions should be regarded as "available"* and *How a minimum funding requirement might affect the availability of reductions in future contributions*.

Updates to IFRIC 14 affecting local guidance

36. Since IFRIC 14's issue, it has been amended by:

- Removing an unintended consequence arising from the treatment of prepayments of future contributions in some circumstances when there is a minimum funding requirement (November 2009), affecting IGRAP 7.
- Consequential amendments to IFRIC 14 when IAS 19 became effective (2011), affecting the revised GRAP 25 and IGRAP 7.

37. The local guidance was aligned to IFRIC 14, as the underlying requirements in GRAP 25 are aligned to IAS 19. These amendments have been made in the revised GRAP 25 and IGRAP 7 and were supported by the project groups.

ACTION REQUESTED #1

The Technical Committee is requested to:

(a) CONFIRM the proposed amendments to align GRAP 25 to IPSAS 39.

(b) CONFIRM the Board's previous decision to recognise remeasurements, which includes actuarial gains and losses, in surplus or deficit.

(c) CONFIRM additional guidance on disclosure in GRAP 25 compared to IPSAS 39.

(d) CONFIRM the proposed amendments to GRAP 25 and IGRAP 7 resulting from IFRIC 14.

(e) REVIEW the proposed amendments in attachments 3(f) and 3(g).

OTHER CONSIDERATIONS IN REVIEWING GRAP 25

Improvement projects (IASB and IPSASB)

38. Apart from the *Improvements to IPSAS, 2018* as discussed in matter 5 above, the project considered whether there were any other Improvements to IPSAS or IASB Improvements that impacted IPSAS 39, IAS 19 or IFRIC 14. None were identified.

39. The Secretariat will monitor an ongoing IASB project to review disclosure requirements to assess if amendments are made to IAS 19 that should be considered in revising GRAP 25.

IFRIC agenda decisions

40. The project considered the agenda decisions published by the IFRIC on IAS 19 since its revision in June 2011 and on IFRIC 14 since 2009 when the current version of GRAP 25 was issued. These agenda decisions were considered to assess if additional guidance should be added to GRAP 25 or IGRAP 7 as an outcome of IFRIC deliberations. None of the agenda decisions resulted in changes to IAS 19 or IFRIC 14.

41. No additional guidance was deemed necessary as a result of IFRIC agenda decisions

42. The project groups confirmed that no additional guidance in necessary in GRAP 25 as a result of the IASB or IPSASB Improvements projects and IFRIC agenda decisions.

FAQs and queries

43. FAQs issued by the Secretariat and queries received by the trilateral parties on the current version of GRAP 25 were considered to determine if any guidance should be added in the

review of GRAP 25.

44. Two potential areas where implementation guidance may be necessary on GRAP 19 compared to GRAP 25 were identified:

(1) the items that are in the scope of GRAP 25 compared to GRAP 19; and

(2) the presentation of employee benefit obligations as part of other liabilities.

45. Based on the project group's suggestion, the Secretariat reviewed the implementation guidance that is provided in the OAG's Accounting Guidelines on GRAP 19 and GRAP 25 on these two matters. No additional guidance was identified for inclusion in the current version of GRAP 25. The second project group confirmed that no additional guidance is necessary in GRAP 25 on these matters but noted the need for implementation guidance may need to be monitored as entities implement the changes to GRAP 25.

ACTION REQUESTED #2

The Technical Committee is requested to CONFIRM that no additional guidance is necessary in GRAP 25.

TRANSITIONAL PROVISIONS AND EFFECTIVE DATE

Transitional provisions

46. The proposed transitional provisions are aligned to IPSAS 39 and require entities to apply the amendments retrospectively in accordance with GRAP 3, except for:

- adjusting the carrying amount of assets outside the scope of GRAP 25 for changes in employee benefit costs included in the carrying amount before the date of initial adoption; and
- presenting comparative information for the disclosures about the sensitivity of the defined benefit obligation.

47. The only amendments proposed to GRAP 25 relate to alignment with IPSAS 39, and no local reasons were identified that would require more extensive transitional provisions than those included in IPSAS 39. The project groups confirmed the proposed transitional provisions as appropriate but noted it may be necessary to understand the pervasiveness of defined benefit plans in practice to determine whether any additional transitional provisions would be required locally.

48. The proposed transitional provisions are included in the ED as consequential amendments to the applicable Directives.

Effective date

49. The Board is scheduled to approve the final amendments to GRAP 25 in March 2021, and thereafter a submission will be made to the Minister of Finance to approve an effective date. Following the Board's policy, pronouncements should be in the public domain for at least a year before becoming effective.

50. An effective date of 1 April 2023 is proposed, to allow time for the Minister of Finance to approve an effective date and to comply with the Board's policy. The project groups confirmed the proposed effective date as appropriate.

ACTION REQUESTED #3

The Technical Committee is requested to:

(a) CONFIRM the proposed transitional provisions and effective date.

(b) REVIEW the proposed transitional provisions in attachment 3(f).

REVIEW OF ED AND RELATED DOCUMENTS

51. As noted in paragraph 5, the purpose of the memorandum is to present the ED and related documents to the technical committee for its consideration.

ACTION REQUESTED #4

The Technical Committee is requested to:

(a) REVIEW the proposed ED and related documents (attachments 3(f) to 3(h)).

(b) RECOMMEND them to the Board for approval.

NEXT STEPS

52. Subject to the approval of the proposed ED by the Board in July 2020, the Secretariat proposes to engage with relevant stakeholders by way of workshops, meetings and roundtable discussions. Presentations on the ED will be made available on the ASB's website.

53. The standard consultation period for EDs is three months. This means the comment period would close mid-October 2020. The standard consultation period may need to be extended to allow for more stakeholder consultation, because:

- no face-to-face engagements with stakeholders were possible prior to presenting the ED to the Technical Committee and Board; and
- other EDs out for comment during the same time, i.e. the IPSASB proposed changes to revenue and transfer expenses, impacts:
    - stakeholder capacity to take part in the consultation process for this ED; and
    - the Secretariat's capacity to consult stakeholders on this ED.

54. As a result of paragraph 53, the Secretariat proposes a comment deadline of 30 November 2020 for this ED to allow for sufficient stakeholder engagement.

ACTION REQUESTED #5

The Technical Committee is requested to CONSIDER extending the comment period.