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MINUTES OF THE MEETING OF THE ACCOUNTING STANDARDS BOARD'S PROJECT GROUP ON EMPLOYEE BENEFITS, HELD VIRTUALLY ON 7 APRIL 2020

IN ATTENDANCE

M Hempel	PwC
N Imamshah	EY
M Mentz	Auditor-General South Africa
M Mthobisi	Solugrowth
M Phaliso	Auditor-General South Africa
A van der Burgh	University of Pretoria

EX OFFICIO

E van der Westhuizen	Project manager
J Poggiolini	Technical Director
A Botha	Project manager
T Tshoke	Project manager

Board Members: Mr V Ngobese (chair), Ms F Abba, Ms L Bodewig, Mr C Braxton,
Mr K Hoosain, Ms I Lubbe, Ms P Moalusi, Ms N Themba
Chief Executive Officer: Ms E Swart, Technical Director: Ms J Poggiolini

1. WELCOME AND APOLOGIES

- 1.1 Members were WELCOMED to the meeting. Apologies were NOTED from: A Carstens, M Haldane, N Kasch and N Soopal.

2. TECHNICAL ACTIVITIES

BACKGROUND TO THE PROJECT

- 2.1 The Secretariat EXPLAINED the background to the project with reference to the project brief.
- 2.2 The Project Group NOTED that the project objective is to align GRAP 25 on *Employee Benefits* with IPSAS 39 on *Employee Benefits*, and to consider whether any other guidance or clarification may be necessary in GRAP 25. It was NOTED that GRAP 25 will be amended and issued as a new version of the Standard. The Standard will not be renumbered.

PROPOSED AMENDMENTS TO GRAP 25

IPSAS 39 alignment: Areas where no amendments to GRAP 25 are proposed

- 2.3 The Secretariat EXPLAINED that there are certain areas where no amendments are proposed to GRAP 25, because:
- (a) the Board departed from IPSAS in the original development of GRAP 25. In some areas, IPSAS 39 is now aligned to the requirements of GRAP 25; and
 - (b) there are ongoing differences between GRAP and IPSAS where no amendments are proposed.

(a) The Board's previous decisions to depart from IPSAS 25

- 2.4 The Secretariat EXPLAINED the following two areas where amendments to IPSAS brought alignment to the current requirements in GRAP 25:

Recognition of actuarial gains and losses: Corridor approach

- 2.4.1 IPSAS 39 removed the "corridor approach" to recognising actuarial gains and losses. In developing GRAP 25, the Board departed from IPSAS by requiring that all actuarial gains and losses are recognised in surplus or deficit in the year they occur. The Board concluded that actuarial gains and losses result from changes in estimates, and as a result should be recognised in surplus or deficit when they occur, in accordance with GRAP 3 on *Accounting Policies, Changes in Accounting Estimates and Errors*.

Recognition of past service cost

- 2.4.2 IPSASB 39 no longer distinguishes vested and unvested past service cost and recognises all past service cost immediately in surplus or deficit. The Board previously agreed to not distinguish vested and unvested past service cost, because the straight lining of unvested past service cost is inappropriate as employees already rendered their service. It was also deemed unnecessarily complex. GRAP 25 already requires past service cost, whether vested or unvested, to be recognised immediately in surplus or deficit.

(b) Ongoing differences between GRAP and IPSAS

- 2.5 The Secretariat EXPLAINED the following areas where there are ongoing differences between GRAP and IPSAS and, as a result, no amendments are proposed to GRAP 25:

Placement of application guidance

- 2.5.1 GRAP 25 includes application guidance in the form of examples in the main text of the Standard similar to IAS 19 on *Employee Benefits*. This differs from IPSAS 39 that has all the application guidance located in an appendix.

Binding arrangements

- 2.5.2 The IPSASB does not have a standard definition for “binding arrangements” that is used consistently across IPSAS. The Board standardised the definition of “binding arrangements” to be used consistently across Standards of GRAP. The use of “binding arrangements” in GRAP 25 remains aligned to the Board’s standard definition.

- 2.5.3 The definition of “binding arrangement” has been included under the heading “Definitions relating to classification of plans” in the revised GRAP 25.

Discount rates

- 2.5.4 IPSAS 39 and GRAP 25 have differing guidance on 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 only refers to the government bond rate as this is the most liquid bond market in South Africa.

Minor terminology differences

- 2.5.5 GRAP 25 differs from IPSAS 39 in the use of certain terminology. For example: “profit sharing and bonuses” in IPSAS 39 are “bonus, incentive and performance related payments” in GRAP 25.

- 2.6 The Project Group AGREED that no amendments are necessary to GRAP 25 as a result of the matters above.

Secretariat

IPSAS 39 alignment: Areas where amendments are proposed to GRAP 25

- 2.7 The Secretariat EXPLAINED the following areas where amendments are proposed to GRAP 25 to align to the requirements of IPSAS 39.

Removal of guidance on composite social security programmes

- 2.8 IPSAS 39 removed guidance on composite social security programmes after confirming that such programmes rarely exist. The Secretariat confirmed that there are no composite social security programmes in South Africa when commenting to the IPSASB.
- 2.9 Instead of removing the reference in GRAP 25.03, it has been amended to “social security programmes”. This change is aligned to an indication received from the IPSASB that a similar amendment will be made to IPSAS 39 with the next Improvements to IPSAS. It is necessary to retain this broader reference to “social security programmes” that are not in exchange for employee service to be scoped out of GRAP 25.

- 2.10 The Project Group ASKED whether the proposed broader term of “social security programmes” is defined in literature and whether it would be understood locally. The Secretariat NOTED that the term is defined in Government Finance Statistics (GFS).
- 2.11 It was AGREED that the term should be amended to “social benefits”, which would be better understood locally.

Secretariat

Post-employment benefits - Defined benefit plans

- 2.12 The Secretariat NOTED that several changes related to defined benefit plans have been made by the IPSASB to align to IAS 19. Some of these changes also impacted the accounting for “other long-term employee benefits”. These changes were supported locally in commenting to the IPSASB when they developed IPSAS 39. These changes were therefore made to GRAP 25, except for matter 2 where GRAP departs from IPSAS.

Matter #1 – Changes in the components of defined benefit cost

- 2.12.1 The Secretariat NOTED the following changes in the components of defined benefit cost relevant to the revision of GRAP 25:

- grouping current service cost, past service cost and settlement costs as “service cost”;
- including curtailments as one form of past service cost, which results in the combination of requirements for plan amendments, curtailments and settlements in one section in the Standard;
- introducing net interest (links to matter 3);
- grouping actuarial gains and losses, return on plan assets and changes in the effect of the asset ceiling as “remeasurements”; and
- recognising remeasurements in net assets/equity in the period in which they occur (links to matter 2).

Matter #2 – Recognition of remeasurements

- 2.12.2 The Secretariat EXPLAINED that remeasurements are recognised in the Statement of Other Comprehensive Income (OCI) in IAS 19. Since IPSAS does not have OCI, the IPSASB determined that remeasurements should be recognised in net assets/equity to have the same accounting outcome as OCI in that there is no impact on surplus or deficit with items that have predictive values.

- 2.12.3 The Board’s previous decision that actuarial gains and losses are recognised in surplus or deficit is equally true for remeasurements. Therefore, GRAP 25 departs from IPSAS 39 and recognises remeasurements in surplus or deficit. The Board’s decision to depart is explained in the basis for conclusions.

Matter #3 - Net defined benefit liability (asset)

- 2.12.4 The Secretariat NOTED that two definitions were added: “*Net defined benefit liability (asset)*” and “*Net interest on the net defined benefit liability (asset)*”. 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.

2.12.5 The Secretariat NOTED that GRAP 25 includes guidance from IFRIC 14 on *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, which is not included in IPSAS 39. As a result, the definition of the net defined benefit liability (asset) in GRAP 25 includes, as part of deficit or surplus, any liability that may arise as a result of a minimum funding requirement.

Matter #4 – Actuarial assumptions

2.12.6 The Secretariat NOTED that guidance was added on actuarial assumptions in the areas of mortality and the impact of employee and third-party contributions on salaries, benefits and medical costs.

Matter #5 – Other changes to defined benefit plans

2.12.7 The Secretariat NOTED other minor amendments to clarify accounting for defined benefit plans:

- When to recognise past service cost.
- What constitutes a settlement and how to determine the surplus or deficit from a settlement.
- The treatment of taxation and administration costs in respect of the return on plan assets.

Termination benefits

2.13 The Secretariat NOTED that guidance has been added to assist entities with:

- Distinguishing termination benefits from other employee benefits.
- Deciding when an entity is demonstrably committed to providing termination benefits, i.e. when to recognise termination benefits. This is when the entity can no longer withdraw the offer of termination benefits or when restructuring costs are recognised in accordance with GRAP 19 on *Provisions, Contingent Assets and Contingent Liabilities*.
- The measurement of termination benefits, which follows the nature of the termination benefits.

Disclosures

2.14 The Secretariat NOTED the following amendments that were made regarding disclosures:

Placement of requirements across the ED

2.14.1 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.

Disclosure on post-employment defined benefit plans

2.14.2 *Lead-in to disclosure requirements* - The disclosure section starts by explaining the disclosure objective.

2.14.3 *Structure* - Subheadings are introduced to group the disclosure requirements.

2.14.4 *Alignment of disclosure requirements* - The GRAP 25 disclosure requirements have been aligned to IPSAS 39, except for paragraph .150 that is aligned to the Pension Fund Act, Regulation 28.

2.15 The Project Group CONFIRMED the following:

2.15.1 The alignment of GRAP 25 to IPSAS 39.

2.15.2 The departure from IPSAS 39 to recognise remeasurements in surplus or deficit in GRAP 25, instead of in net assets/equity as in IPSAS 39.

2.16 The Project Group REVIEWED the proposed changes to the text of GRAP 25 and NOTED the following:

Scope and Short-term employee benefits

2.16.1 The Secretariat NOTED that the preparers' Project Group suggested that paragraph .10 be aligned to paragraph .05.

Other long-term employee benefits

2.16.2 A member NOTED that the Standard does not include any specific disclosure requirements for other long-term employee benefits. In practice, the disclosure of other long-term employee benefits is inconsistent among entities and often limited. The Project Group ACKNOWLEDGED that the nature and extent of entities' other long-term employee benefits vary, and it may therefore be appropriate that disclosure varies. The Project Group AGREED to add a disclosure objective, together with more examples of disclosure requirements in other Standards that may be appropriate for entities to consider.

Secretariat

Termination benefits

2.16.3 Although the Project Group acknowledged that termination benefits are usually less complex than some other long-term employee benefits, they AGREED that adding a disclosure objective to the section would be helpful.

Secretariat

2.17 A Project Group member ASKED whether there are defined benefit plans without assets in practice and what legislation may govern them. The Project Group NOTED that defined benefit plans without assets have been seen for medical benefits, but not for pension benefits. How liabilities are funded and plan assets managed would depend on legislative requirements as well as the terms and conditions of the plan. The Pension Fund Act and related regulations govern pension funds, but the Project Group was unaware of specific legislation governing medical benefits.

Inclusion of guidance from IFRIC 14 and the development of IGRAP 7

2.18 The Secretariat EXPLAINED that in developing GRAP 25, the Board agreed to include the guidance from IFRIC 14 in the local guidance as indicated below. IPSAS 39 did not follow this approach.

- *In GRAP 25* - When a minimum funding requirement might give rise to a liability.

- *In IGRAP 7 on The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* - 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.
- 2.19 It was NOTED that amendments have been made to IFRIC 14 that are necessary to GRAP 25 and IGRAP 7 to maintain alignment with IFRIC 14, as follows:
- the removal of an unintended consequence arising from the treatment of prepayments of future contributions in some circumstances when there is a minimum funding requirement; and
 - consequential amendments to IFRIC 14 when IAS 19 became effective.
- 2.20 The Project Group CONFIRMED the proposed amendments to GRAP 25 and IGRAP 7 without amendment.

Secretariat

Changes based on Improvements projects (IPSASB and IASB)

- 2.21 The Secretariat EXPLAINED that *Improvements to IPSAS, 2018* amended IPSAS 39 with amendments from IAS 19 on *Plan Amendment, Curtailment or Settlement*. The amendments also impact other long-term employee benefits. The amendments to IPSAS 39 were supported locally and have been made to GRAP 25. The amendments clarify that:
- An entity determines current service cost and net interest based on information determined at the start of the reporting period. Entities then use the updated assumptions from remeasurements associated with a plan amendment, curtailment or settlement to determine current service cost and net interest for the remainder of the period.
 - An entity does not consider the effect of the asset ceiling when determining past service cost or gains or losses on settlement. The effect of the asset ceiling is considered only after the plan amendment, curtailment or settlement.
- 2.22 The Secretariat NOTED that no other improvements to IPSAS or IASB Improvements projects that impacted IAS 19, IFRIC 14 or IPSAS 39 were identified.
- 2.23 The Project GROUP CONFIRMED the proposed amendments to GRAP 25. A Project Group member NOTED that the IASB is reviewing the disclosure requirements of IAS 19 and SUGGESTED that the IASB project be tracked in case amendments are made to IAS 19 that this project should consider.

Secretariat

IFRIC agenda decisions

- 2.24 The Secretariat NOTED the IFRIC agenda decisions published on IAS 19 and IFRIC 14 that may be relevant in revising GRAP 25. It was NOTED that no additional guidance necessary to GRAP 25 was identified from reviewing the agenda decisions. The Project Group CONFIRMED that no additional guidance is necessary to GRAP 25.

Secretariat

Changes based on FAQs and queries

2.25 The Secretariat NOTED that as part of reviewing GRAP 25, it considered whether any other amendments are necessary to the Standard to provide additional guidance or clarify requirements. The Secretariat considered:

- FAQs issued by the Secretariat; and
- queries received by the trilateral parties (i.e. the Secretariat, the Office of the Accountant-General (OAG) and the Auditor-General South Africa).

2.26 The Project Group INDICATED that no additional guidance is needed to GRAP 25, but implementation guidance may need to be developed by the trilateral parties on the scope and presentation of items in GRAP 25 compared to GRAP 19.

Secretariat

2.27 A Project Group member ASKED why the Standard does not include specific presentation requirements. It was NOTED that the requirements follow IAS 19 and IPSAS 39 which are not prescriptive.

2.28 It was AGREED that the Secretariat should review what guidance has been included by the OAG in the Accounting Guidelines on the scope and presentation of GRAP 25 compared to GRAP 19.

Secretariat

2.29 A Project Group member ASKED about the Board's process to include disclosure objectives in other Standards of GRAP, and to clarify lists of requirements that may have been perceived as "minimum requirements" rather than assessing whether they are material. The Secretariat RESPONDED that the Board will follow international counterparts in including disclosure objectives in Standards of GRAP and clarifying minimum disclosure requirements. Most recently:

2.29.1 disclosure objectives were included in GRAP 104 on *Financial Instruments* as part of revising the Standard; and

2.29.2 GRAP 1 will be amended to clarify "minimum" requirements do not override materiality assessments, as an outcome of the Board developing a Guideline on materiality.

3. TRANSITIONAL PROVISIONS AND EFFECTIVE DATE

3.1 The Secretariat NOTED that the only amendments proposed to GRAP 25 relate to alignment with IPSAS 39. The Secretariat is not aware of any reasons that would require more extensive transitional provisions locally than those in IPSAS 39. Therefore, the proposed transitional provisions were aligned to IPSAS 39.

3.2 The Secretariat EXPLAINED that the transitional provisions 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.

3.3 The Secretariat NOTED amendments necessary to attachment 4 Appendix A to correct the numbering of the sections from B2. - B7. to A1. – A6.

Secretariat

3.4 The Project Group ENQUIRED about the pervasiveness of post-employment defined benefit plans, as some of the changes to this section of the Standard may be challenging to implement retrospectively and may require more time. This could be the case for smaller entities with less resources available to implement the changes. The Secretariat SHARED that it had asked the preparers' Project Group about the extent of these plans. Some entities still had defined benefit plans, but they did not raise concerns with the proposed transitional provisions or effective date. The Secretariat NOTED that it will continue to ask about the pervasiveness of defined benefit plans and the appropriateness of the transitional provisions as the project progresses.

Secretariat

3.5 On the basis of 3.4 above, the Project Group AGREED with the proposed transitional provisions and CONFIRMED that no local reasons to depart from the IPSAS 39 transitional provisions were identified.

Secretariat

3.6 The Secretariat EXPLAINED the timeline for the Board to approve the proposed amendments and the Minister of Finance to approve the proposed effective date. Following the Board's policy that pronouncements should be in the public domain for at least a year before becoming effective, an effective date of 1 April 2023 is proposed.

3.7 The Project Group CONFIRMED the proposed effective date, on the basis of 3.4 above.

Secretariat

4. REVIEW OF ED AND RELATED DOCUMENTS

4.1 The Project Group REVIEWED the Exposure Draft (ED) and related documents.

4.2 A Project Group member ENQUIRED about the Board's due process, and whether it requires feedback from stakeholders on all proposed changes. The member ASKED if it may be necessary to include more questions as specific matters for comment in the Invitation to Comment document. Apart from due process, it may be necessary to raise awareness about all the changes proposed to the Standard, not just the key changes.

4.3 The Secretariat EXPLAINED that the Board's due process does not require specific responses from stakeholders on all changes and usually specific matters for comment focus on key matters where feedback is required.

4.4 The Secretariat NOTED that an executive summary will be prepared after the Board has approved the ED and will be published with the ED. The executive summary provides further information on the key changes. It was also NOTED that the mark-up version of GRAP 25 and IGRAP 7 will be published with the ED to show the full extent of changes. This is mentioned in the Invitation to Comment.

4.5 The Project Group AGREED that the executive summary published with the ED, as well as the mark-up version showing all changes, are sufficient to raise awareness

about the full extent of proposed changes. The onus is on preparers to familiarise themselves with all the proposed changes.

Secretariat

5. WAY FORWARD

- 5.1 The Secretariat EXPLAINED the way forward regarding the Board's process to finalise the ED. A standard consultation period of three months is proposed.
- 5.2 The Secretariat NOTED that the virtual Project Group meeting will be followed by a face-to-face Project Group meeting in May 2020. Should a face-to-face meeting not be possible, further communication on the project will be shared with the Project Group.
- 5.3 Members were THANKED for their participation in the Project Group meeting.

Prepared by: E van der Westhuizen

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