Responses due by xx xx 2020

ACCOUNTING STANDARDS BOARD

INVITATION TO COMMENT ON PROPOSED REVISIONS TO THE STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE ON EMPLOYEE BENEFITS

(ED XXX)

Issued by the
Accounting Standards Board

xxx 2020

ED xxx

Commenting on this Exposure Draft

The Accounting Standards Board (the Board) seeks comment on the Exposure Draft of the proposed revisions to the Standard of GRAP on *Employee Benefits*. Based on developments internationally to improve reporting to users of the financial statements on employee benefits and their associated risks, the Board agreed that revisions to the existing Standard are required.

The proposals in this Exposure Draft may be modified in the final document in the light of comment received. Comment should be submitted in writing so as to be received by **xx xxx 2020**. Email responses are preferred. Unless respondents to this Exposure Draft specifically request confidentiality, their comment is a matter of public record once the Standard of GRAP has been issued. Comment should be addressed to:

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Introduction

Standards of Generally Recognised Accounting Practice (GRAP)

The Accounting Standards Board (the Board) is required in terms of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), to determine generally recognised accounting practice referred to as Standards of Generally Recognised Accounting Practice (GRAP).

The Board must determine GRAP for:

(a) departments (including national, provincial and government components);

(b) public entities;

(c) trading entities (as defined in the PFMA);

(d) constitutional institutions;

(e) municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality; and

(f) Parliament and the provincial legislatures.

The above are collectively referred to as “entities” in Standards of GRAP.

The Board has approved the application of International Financial Reporting Standards (IFRS® Standards) issued by the International Accounting Standards Board® for:

(a) public entities that meet the criteria outlined in the Directive on *The Selection of an Appropriate Reporting Framework by Public Entities;* and

(b) entities under the ownership control of any of these entities.

Financial statements should be described as complying with Standards of GRAP only if they comply with all the requirements of each applicable Standard and any related Interpretations of the Standards of GRAP.

Any limitation of the applicability of specific Standards or Interpretations is made clear in those Standards or Interpretations.

All paragraphs in the Standards have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. The Standards should be read in the context of their objective, their basis for conclusions if applicable, the *Preface to Standards of GRAP,* the *Preface to the Interpretations of the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*.

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Reference may be made here to a Standard of GRAP that has not been issued at the time of issue of this Standard. This is done to avoid having to change the Standards already issued when a later Standard is subsequently issued. Paragraph .11 of the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Background to this Exposure Draft

The Board issued the Standard of GRAP on *Employee Benefits* (GRAP 25) in November 2009. GRAP 25 was based on the International Public Sector Accounting Standard on *Employee Benefits* (IPSAS 25) effective at that time. However, GRAP 25 was modified in some respects where the Board decided the requirements of the International Accounting Standard on *Employee Benefits* (IAS® 19) were more appropriate. Specifically, the Board:

- Eliminated the corridor method and required recognition of actuarial gains and losses in full in the year that they arise.
- Required the recognition of past service costs in the year that a plan is amended, rather than on the basis of whether they are vested or unvested.

Since 2009, the International Accounting Standards Board® has made several changes to IAS 19, including changes to the recognition of certain benefits, and where these changes are recognised. The IPSASB made similar changes to its standard and as a result of the extent of changes, issued IPSAS 39 on *Employee Benefits* to replace IPSAS 25 in 2016.

When the Board consulted locally on the proposed amendments to IPSAS 25 in 2016, stakeholders welcomed the amendments to align IPSAS 25 to IAS 19 and supported the changes that resulted in IPSAS 39.

In developing GRAP 25, the Board agreed to include the guidance from the IFRS Interpretation on *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (IFRIC 14®) partly in GRAP 25 and partly in the Interpretation of the Standards of GRAP on *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (IGRAP 7). The proposals in this document include amendments to GRAP 25 and IGRAP 7 as a result of changes to IFRIC 14.

Key amendments to GRAP 25

The Board agreed to align GRAP 25 with IPSAS 39, but that local issues and the local environment need to be considered. As a result of this decision, there are areas where GRAP 25 departs from the requirements of IPSAS 39. The Board's decision to depart is explained in the basis for conclusions.

The proposed amendments to GRAP 25 are extensive and mostly affect the accounting for defined benefit plans. A new renumbered Standard of GRAP (e.g. GRAP 39) will not be issued, but rather a new version of the current GRAP 25. A full-mark-up of the amendments to GRAP 25 is available on the ASB's website for information purposes.

The Exposure Draft proposes the following key amendments to GRAP 25, mostly related to defined benefit plans:

Statement of financial position

A surplus is recognised as a net defined benefit asset and a deficit as a net defined benefit liability.

Components of defined benefit cost

The components of defined benefit cost changed, as follows:

Overview of Differences between IPSAS 39 and IPSAS 25

New components of defined benefit cost.

IPSAS 25

Components of defined benefit cost in IPSAS 25 that are amended in IPSAS 39 are:

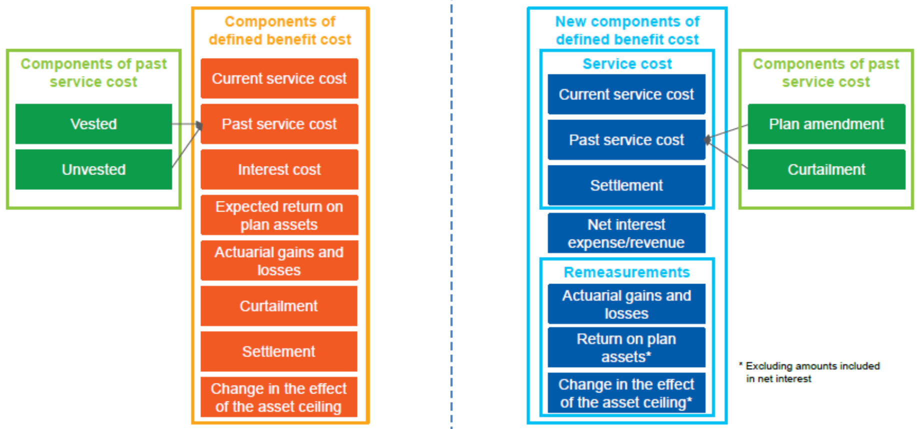
- Interest cost and expected return on plan assets – replaced by a single net interest component.
- Curtailments – as one form of past service cost.

The net interest approach results in an entity recognizing interest revenue/expense due to the passage of time when the plan has a surplus/deficit.

IPSAS 39

New components:

- Service cost – the liability that arises from employees providing service during the period.
- Net interest – the interest expense/revenue on the net defined benefit liability (asset).
- Remeasurements – other changes in the value of the defined benefit obligation, such as changes in estimates and other changes in the value of plan assets.



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

The most notable changes are:

- including curtailments as one form of past service cost;
- grouping current service cost, past service cost and settlement costs as "service cost";
- replacing interest cost and expected return on plan assets with a single net interest component; and
- grouping actuarial gains and losses, return on plan assets and changes in the effect of the asset ceiling as "remeasurements" (*).

The Exposure Draft further clarifies the effect of employee and third-party contributions on service cost and remeasurements.

(*) The Exposure Draft departs from the requirements of IPSAS 39 in that remeasurements are recognised in surplus or deficit in GRAP 25, and not in net assets/equity as in IPSAS 39.

Disclosure

Aligned with IPSAS 39, the Exposure Draft introduces disclosure objectives for defined benefit plans according to their characteristics, risks associated with them and their relationship with the entity`s financial statements.

Other long-term employee benefits

As a consequence of changes to the accounting for defined benefit plans, changes were made to the recognition and measurement of other long-term employee benefits.

Termination benefits

The Exposure Draft clarifies the requirements on when an entity recognises an obligation regarding termination benefits, which is at the earlier of:

- when the entity can no longer withdraw the offer of those benefits; and
- when the entity recognises costs for a restructuring that is within the scope of the Standard of GRAP on *Provisions, Contingent Assets and Contingent Liabilities,* and involves the payment of termination benefits.

Guidance from IFRIC 14

Since the issue of GRAP 25, IFRIC 14 has been amended by:

- *Prepayments of a Minimum Funding Requirement,* which clarifies the treatment of prepayments of future contributions when there is a minimum funding requirement; and
- consequential amendments when IAS 19 became effective.

The Exposure Draft includes similar changes to GRAP 25 and IGRAP 7.

Transitional provisions

The proposed transitional provisions are aligned to IPSAS 39 and require entities to apply the amendments retrospectively in accordance with the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* (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.

Next steps

It is currently anticipated that the Board will finalise the amendments to GRAP 25 in the first quarter of 2021.

After the amendments are approved by the Board, a submission will be made to the Minister of Finance to approve an effective date. An effective date of 1 April 2023 is proposed.

Due process and timetable

The Board invites comment on the proposals set out in this Exposure Draft from preparers, users, auditors, standard-setters and other parties with an interest in public sector financial reporting.

Upon the closure of the comment period, the Board will consider the comment received on the Exposure Draft.

Request for comment

Comment on this Exposure Draft is invited by **xx xx 2020**. The Board requests that respondents express an overall opinion on whether the Exposure Draft, in general, is supported and to supplement this opinion with detailed comment, whether supportive or critical. Respondents are also invited to provide detailed comment identifying the specific paragraphs to which it relates, explaining the issue and suggesting alternative wording, with supporting reasoning, where appropriate. The basis for accepting or rejecting significant comment will be published on the website.

The Board would particularly appreciate answers from respondents to the questions posed below.

Specific matters for comment

Recognition of remeasurements

The IPSASB determined that remeasurements should be recognised in net assets/equity as it has the same accounting outcome as “other comprehensive income” (remeasurements are recognised in the Statement of Other Comprehensive Income in IAS 19) in that it does not impact surplus or deficit with items that have predictive values.

In developing GRAP 25, the Board concluded that, in essence, actuarial gains and losses result from changes in estimates, which are recognised in surplus or deficit in accordance with GRAP 3. The Board also noted that it aimed to eliminate accounting policy choices, and that it had minimised the recognition of gains and losses outside of surplus or deficit in other Standards of GRAP. For these reasons, actuarial gains and losses were recognised in surplus or deficit in GRAP 25.

The Board’s decision on the recognition of actuarial gains and losses are equally appropriate for remeasurements. The Exposure Draft therefore requires the recognition of remeasurements in surplus or deficit.

Question 1

Can you confirm the Board’s decision that remeasurements are recognised in surplus or deficit in the year they arise? If not, please provide the reasons supporting your view.

Transitional provisions and effective date

Question 2

Do you support the transitional provisions for GRAP 25? Are there any additional transitional provisions that should be provided?

Question 3

Do you agree with the effective date of 1 April 2023? If no, explain why.

Impact on the local environment

Question 4

Are there any specific implementation issues that the Board should be aware of?

Are there any regulatory or other issues that exist in the South African environment that may affect the implementation of the proposed Standards of GRAP?

If yes, please provide details of these regulatory or other issues that should be considered in finalising the proposed Standards of GRAP.

Question 5

In your view, overall, does the application of the proposed amendments to GRAP 25 and IGRAP 7 result in financial statements that would be useful to users? Please explain your response.

In your view, what are the costs and benefits of the proposals relative to the current accounting for employee benefits? In relation to quantitative financial costs, the ASB would be interested to understand the nature and estimated amounts of any expected incremental costs, or cost savings, of the proposals relative to the existing accounting.

General matters for comment

As with any other Exposure Draft, comment on any other matter contained in this Exposure Draft would also be welcomed. Comment is most helpful if reference is made to a specific paragraph or group of paragraphs.