

REVIEW OF GRAP 25 *EMPLOYEE BENEFITS* (ED 184)

Roundtable discussion





Disclaimer

The views and opinions expressed in this presentation are those of the individual. Official positions of the ASB on accounting matters are determined only after extensive due process and deliberation.



Content

- Background
- The changes:
 1. Defined benefit plans
 2. Other long-term employee benefits
 3. Termination benefits
 4. IGRAP 7 updated
- Transitional provisions and effective date



Background



Why review GRAP 25?

- GRAP 25 based on IPSAS 25, which IPSASB updated & issued as IPSAS 39 (2016)
- Purpose: review GRAP 25 to align with international requirements
- Consider local needs



What has been published?

<https://www.asb.co.za/ed-184/>

- ED 184 Invitation to comment
- ED 184 Revision of GRAP 25
- ED 184 Revision of IGRAP 7
- Secretariat's summary of changes per type of employee benefit
- Secretariat's executive summary



Providing comment...

- Comment deadline 30 November 2020
- Via website <https://www.asb.co.za/comment-on-proposals/>
- Email Secretariat info@asb.co.za
- Roundtable discussions

What changes are proposed?

1. Defined benefit plans

What did not change?

Actuarial valuation method

- Projected unit credit method

Frequency of measurement

- Sufficiently regular that amounts do not differ materially from what would have been determined

Use of experts

- Encouraged, but not required

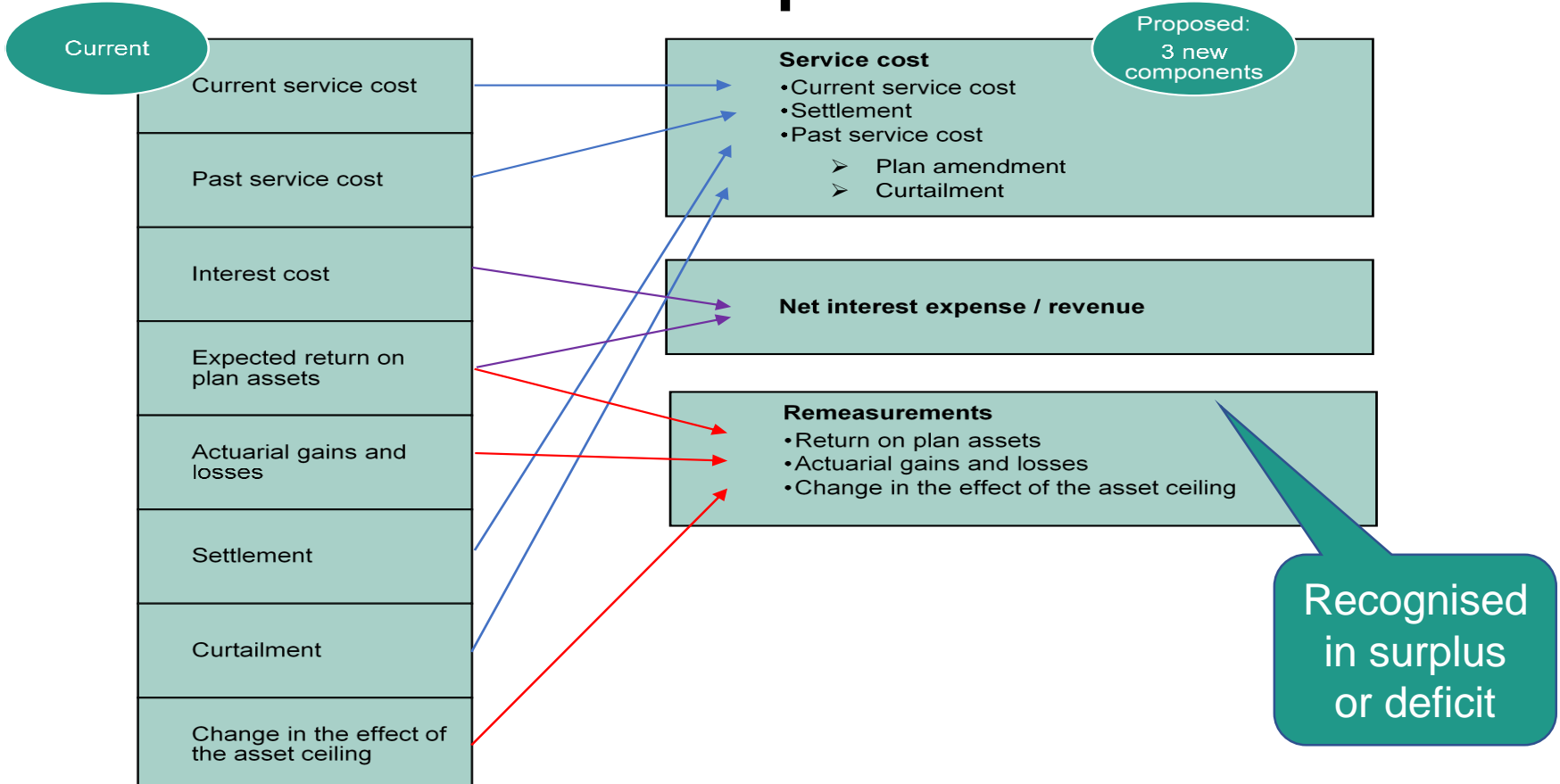


Changes to defined benefit plans

- a) Changes to components
 - Statement of financial performance & financial position
- b) Guidance on actuarial assumptions
- c) Guidance on plan amendment, curtailment or settlement
- d) Guidance on past service cost
- e) Presentation and disclosure

a) Changes to components

• Statement of financial performance



a) Changes to components

- **Statement of financial position**

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”

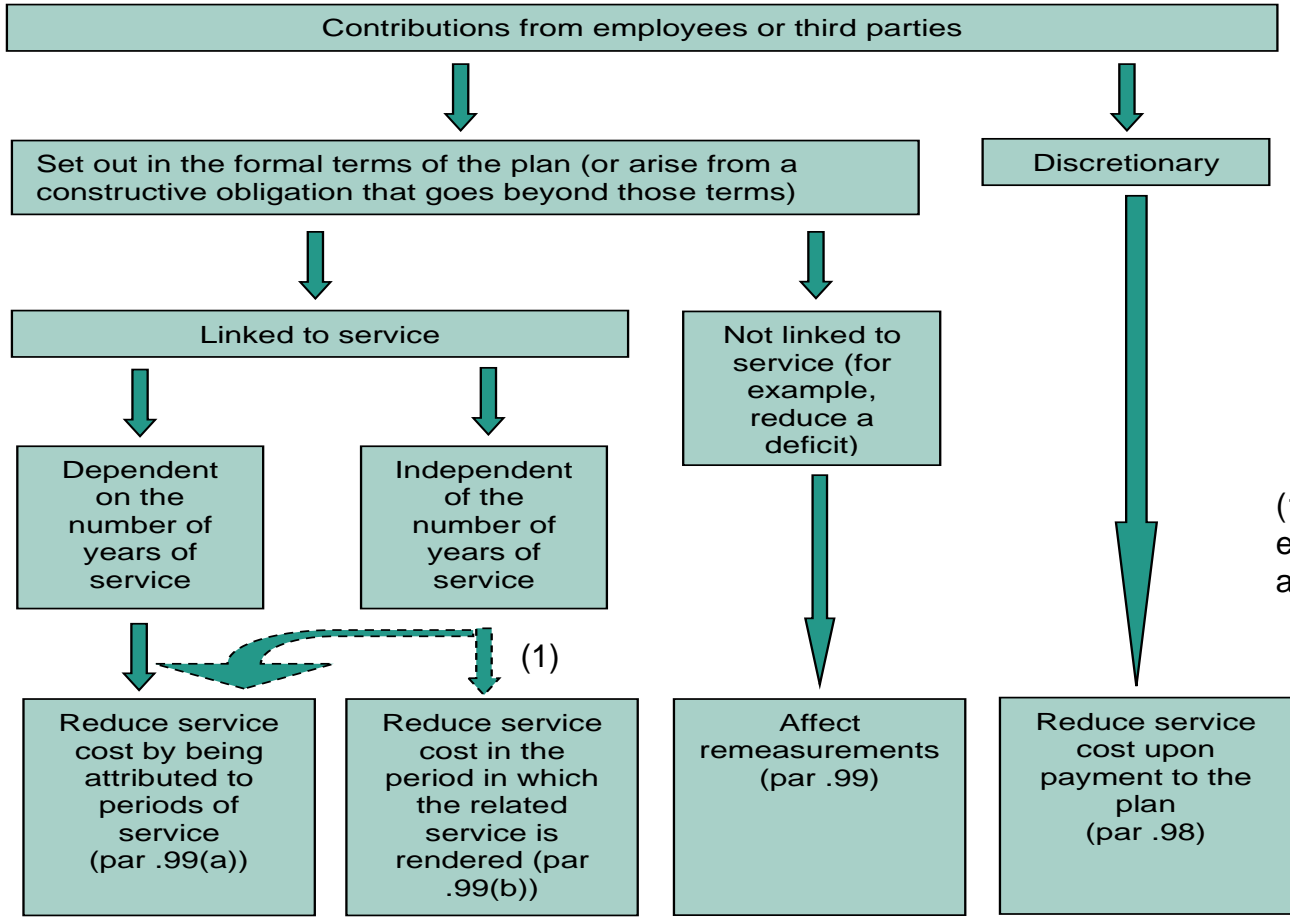


b) Actuarial assumptions

Guidance added on:

- Mortality
- Effect of any limit on employer's share of cost of future benefits
- Treatment of tax & administration costs in respect of return on plan assets
- Impact of employee & third-party contributions on salaries, benefits and medical costs

b) Actuarial assumptions



(1) The dotted arrow means that an entity is permitted to choose either accounting



c) Plan amendment, curtailment or settlement

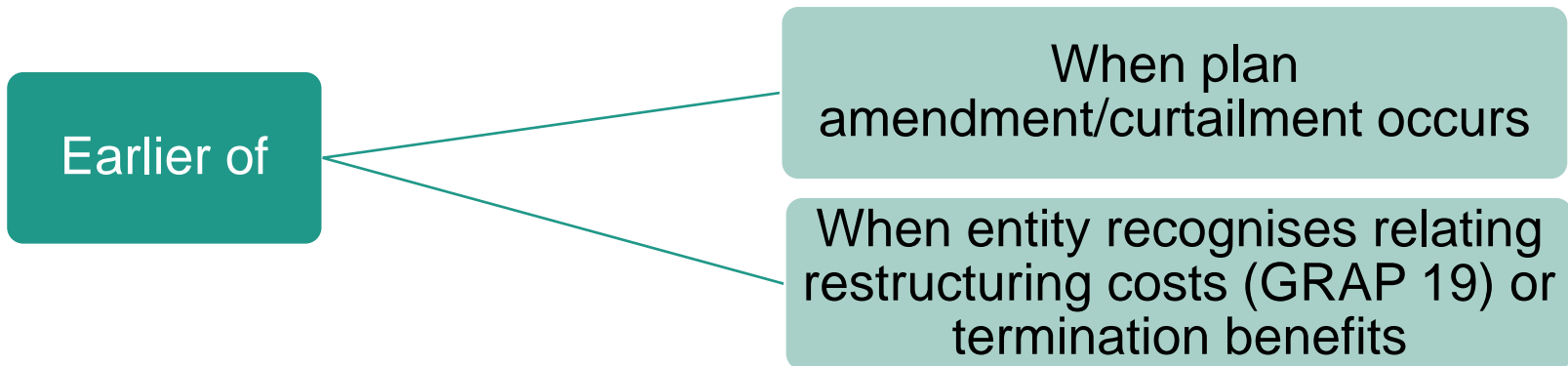
Guidance added on:

- When effect of asset ceiling is considered:
 - Only after plan amendment, curtailment or settlement
- Information to be used in determining current service cost & net interest:
 - Determined at start of annual reporting period
 - Where plan amendment, curtailment or settlement occurs, determine for remainder of reporting period using information available from plan amendment, curtailment or settlement

d) Past service cost

Guidance added on:

- Description of past service cost
 - change in PV of defined benefit obligation resulting from a plan amendment or curtailment
- When to recognise past service cost





d) Past service cost

Guidance added on (cont.):

- Description of plan amendment
 - When entity introduces/withdraws defined benefit plan or changes benefits payable under existing defined benefit plan
- Clarifying description of curtailment
 - When entity significantly reduces number of employees covered by plan

d) Past service cost

Guidance added on (cont.):

- Clarifying a gain or loss on settlement
 - Gain/loss on settlement = difference between PV of defined benefit obligation being settled & settlement price
- Clarifying what is included in settlements
 - Include payments of benefits not set out in terms of plan



e) Presentation

- Offsetting assets & liabilities from different plans:
 - GRAP 104 criteria
- Components of defined benefit cost
 - GRAP 1 requirements

e) Disclosure

- Disclosure objective + guidance to meet objective
- Follows changes in requirements and guidance, primarily linked to new components
- Includes requirements for information on:
 - characteristics of defined benefit plans & risks associated with them
 - amounts in FS arising from defined benefit plans
 - how defined benefit plans may affect amount, timing & uncertainty of entity's future cash flows



2. Other long-term employee benefits



Other long-term employee benefits

- Affected by changes to defined benefit plans
- Disclosure objective – information that:
 - explains characteristics & risks of benefits
 - identifies & explains amounts in FS
 - describes how benefits may affect amount, timing & uncertainty of entity's future cash flows
- No specific information required, refer to e.g.

GRAP 20

GRAP 1

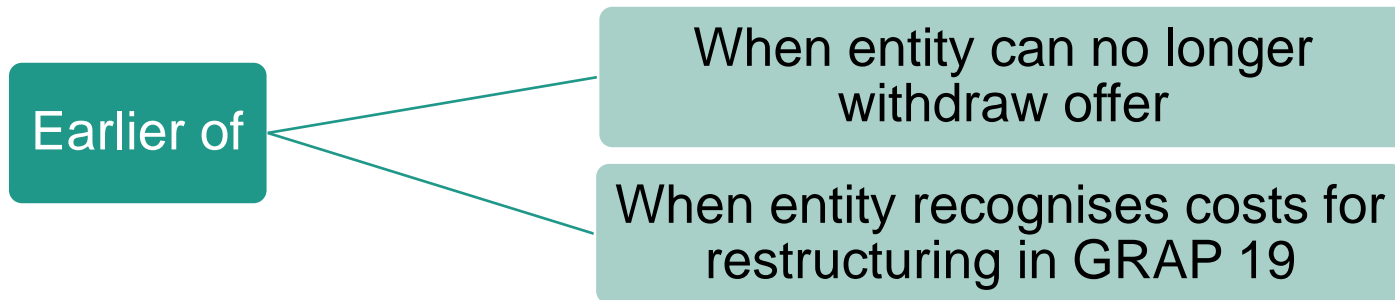
GRAP 19

3. Termination benefits

Guidance on termination benefits

- Distinguishing them from other employee benefits
 - Event that gives rise to obligation is termination of employment, rather than employee service

- When should they be recognised



- Measurement

- Follows nature of termination benefit

Disclosure of termination benefits

- Disclosure objective – information that:
 - explains characteristics & risks of benefits
 - identifies & explains amounts in FS
 - describes how benefits may affect amount, timing & uncertainty of entity's future cash flows
- No specific information required, refer to e.g.

GRAP 20

GRAP 1

GRAP 19

4. IGRAP 7 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

IGRAP 7

- Based on IFRIC 14 on *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
- Updated IGRAP 7 to align to IFRIC 14

Transitional provisions & effective date



Transitional provisions & effective date

Transitional provisions

- Retrospective application except for:
 - adjusting carrying amount of assets outside scope of GRAP 25 for changes in employee benefit costs included in carrying amount before date of initial adoption
 - presenting comparative information for disclosures about sensitivity of defined benefit obligation

Effective date

- 1 April 2023 proposed

Specific matters for comment



SMCs: Transitional provisions & effective date

Question 1:

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

Question 2:

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

SMCs: Impact on local environment

Question 3:

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.

SMCs: Impact on local environment

Question 4:

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

In your view, what are the costs & 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 & estimated amounts of any expected incremental costs, or cost savings, of the proposals relative to the existing accounting.



QUESTIONS / COMMENTS?



Contact details

Tel: (011) 697-0660

Fax: (011) 697-0666

Email: info@asb.co.za

Website: www.asb.co.za

