ACCOUNTING STANDARDS BOARD

DIRECTIVE

THE SELECTION OF AN APPROPRIATE REPORTING FRAMEWORK BY PUBLIC ENTITIES

(DIRECTIVE 12)

Issued by the
Accounting Standards Board

August 2015

Introduction

This pronouncement is set out in paragraphs .01 to .32. All paragraphs in this pronouncement have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This pronouncement should be read in the context of its objective, its basis for conclusions and/or the basis for conclusions of its international equivalent, if applicable, the *Preface to the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*[1].

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.

Directives should be read in conjunction with the applicable Standards of GRAP and Interpretations of the Standards of GRAP.

[1] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

Objective

.01 Historically, public entities have prepared financial statements in accordance with generally recognised accounting practice, unless the Accounting Standards Board (the Board) approved the application of generally accepted accounting practice for that entity. "Generally accepted accounting practice" has been taken to mean Statements of Generally Accepted Accounting Practice (GAAP[2]), or for certain entities, International Financial Reporting Standards (IFRS® Standards) issued by the International Accounting Standards Board®. Since Statements of GAAP have been withdrawn from 1 December 2012, public entities will be required to apply another reporting framework in the future.

.02 The purpose of this Directive is to prescribe the criteria to be applied by public entities in selecting and applying an appropriate reporting framework.

Scope

.03 This Directive shall be applied by all public entities[3], including entities under the ownership control of these entities.

.04 Public entities that currently apply Standards of GRAP are exempt from this Directive, as that is the reporting framework that the Board has approved for those entities. Those public entities that currently apply a reporting framework other than Standards of GRAP, shall apply this Directive in selecting and applying an appropriate reporting framework when preparing their financial statements for periods commencing on or after 1 April 2018. Unless stated otherwise, references to "an entity" or "entities" in the following paragraphs of this Directive are references to "public entity" or "public entities".

Reporting framework

.05 An entity shall apply IFRS Standards as its reporting framework if it meets the criteria in paragraph .11, otherwise it shall apply Standards of GRAP.

.06 An entity shall assess whether it meets the criteria in paragraph .11 when this Directive becomes effective. This assessment is performed initially, and thereafter in the circumstances outlined in paragraph .07. In making this assessment, management should apply its judgement and consider all relevant historical facts and circumstances, as well as prospective information. Therefore, a holistic assessment is required over an extended period of time to ensure that an entity does not change its reporting framework every year.

[2] Statement of GAAP refers to those statements codified by the Accounting Practices Board and issued by the South African Institute of Chartered Accountants as at 1 April 2012.

[3] Public entity means a national or provincial entity as defined in section 1 of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA).

.07 Subsequent to the initial application of this Directive, an entity will only be allowed to change its reporting framework in future periods, if a significant change has occurred that leads an entity to conclude that it meets, or no longer meets, the criteria in paragraph .11. For example, an entity may need to re-assess whether it should change its reporting framework when there is a significant change in its operations such that there is a change in the users of its financial statements and their information needs.

.08 In the case of a group of entities, the assessments in this Directive shall be applied to the economic entity. The reporting framework selected based on the assessment of the economic entity, is applied by both the controlling entity and controlled entity in preparing their financial statements.

Selection of an appropriate reporting framework

.09 Financial statements are prepared and presented to meet the common information needs of a wide range of users. When selecting an appropriate reporting framework it is important that the needs of the different users of financial statements are given utmost consideration as they rely on the financial statements as their major source of financial information. While the information in the financial statements aims to address a wide range of users' information needs, it is not possible to meet all users' information needs through the financial statements alone.

.10 Determining an appropriate reporting framework requires an entity to perform a self-assessment of the reporting framework most appropriate to meet its users' information needs. Paragraph .11 describes the criteria that should be met for IFRS Standards to be applied. These criteria have been developed considering the nature of entities' operations and their funding, and considering who the users of the financial statements are likely to be and their information needs.

Determining the appropriate reporting framework

.11 In assessing whether an entity shall apply IFRS Standards, it considers whether it meets one of the following criteria:

(a) the entity is a financial institution;

(b) the entity has ordinary shares or potential ordinary shares that are publicly traded on capital markets; or

(c) its operations are such that they are:

(i) commercial in nature; and

(ii) only an insignificant portion of the entity's funding is acquired through government grants or other forms of financial assistance from government.

Financial institutions (paragraph .11(a))

.12 For the purposes of this Directive, an entity is a financial institution if it is a financial institution as defined in the Financial Services Board Act, Act No. 97 of 1990. For entities that are not financial institutions as defined in that Act, management should consider whether the primary activities of the entity are the provision of financial services to clients or members, that include managing of deposits and investments, and/or the provision of loans and credit in accordance with the National Credit Act, Act No. 34 of 2005. The clients or members that provide assets to such entities, to hold in a fiduciary capacity, are key stakeholders who rely on the information provided in the financial statements.

Ordinary shares publicly traded on capital markets (paragraph .11(b))

.13 Regulatory requirements may provide that the issuer of equity instruments complies with specific requirements relating to financial reporting. For instance, local regulatory requirements are such that financial information must be prepared in accordance with IFRS Standards in the case of entities domiciled in South Africa.

Operations are commercial in nature (paragraph .11(c)(i))

.14 In assessing whether an entity's operations are commercial in nature, an entity considers whether its overall financial objective is providing goods and/or services to generate profits. The performance of an entity whose operations are commercial in nature is measured by the profits made in providing goods and/or services, and in turn the return generated for its capital providers, rather than whether specific service delivery objectives were achieved.

.15 For some entities this assessment may be performed in relation to an entity's level of participation in competitive markets, where that entity provides goods and/or services that are also available from its competitors. However, there are also entities that operate in non-competitive environments because they have been established to provide, on a commercial basis, specific goods and/or services that are of a strategic nature to address specific market inefficiencies and development objectives. Some entities may also be established to exclusively provide specific goods and/or services to other public sector entities. In such cases, entities may still conclude that their operations are commercial in nature even though government is their only client. Therefore, the existence or absence of a competitive environment, or the existence of a single customer, does not itself demonstrate that an entity has a commercial objective, as explained in paragraph .14.

.16 When the operations of an entity are such that some of its operations are funded through transfers from government or subsidies, while others generate profits, an entity should assess whether the "non-commercial" operations are as a result of policy decisions over which it has no or little control. Where such "non-commercial" operations are only an insignificant portion in relation to the entity's overall operations, an entity may conclude that its operations are commercial in nature.

Insignificant portion of funding is acquired from government (paragraph .11(c)(ii))

.17 Entities in the public sector that have been assigned the authority to carry on a business, often have access to funding in the market as well as to access funding from government.

.18 In assessing whether an insignificant portion of funding is acquired through government grants or other forms of financial assistance from government, an entity considers the size, composition and complexity of its capital structure as a whole. An entity considers the government funding received in relation to the other sources of funding received when determining whether an insignificant portion of its funding is obtained from government.

.19 Capital providers are the providers of funding to an entity and include investors and lenders. They are generally seeking the maximum possible return at the lowest possible risk. An entity's authority or ability to access funding in the market is, on its own, insufficient to conclude that an insignificant portion of its funding is acquired from government.

.20 In assessing whether an insignificant portion of funding is obtained from government, an entity considers the following:

(a) the nature of the funding;

(b) how it intends to make use of that funding; and

(c) its level of dependency on continued government funding.

Nature of the funding

.21 Government grants or other forms of financial assistance from government include loans or equity injections, grants (i.e. capital and operational) or highly concessionary loans. Guarantees, letters of support or subordination agreements are not considered government funding for purposes of this Directive. Government could provide an entity with loans or equity injections for the initial capitalisation of the entity and on an ongoing or periodic basis to recapitalise that entity. Grant funding could be utilised for the purchase of assets, increasing operational capacity and/or undertaking special projects on behalf of government to meet service delivery obligations. Grants can also be provided to fund the ongoing operations of the entity.

Use of the funding

.22 The manner in which an entity intends to use government funding indirectly informs the frequency of receipt of such government funding. As such, the level of dependency will be triggered by these two factors. For instance, an entity whose capital expenditure funding model provides that funding is acquired through transfers from government, on an ongoing basis, may conclude that it is highly dependent on that government funding because of the use and frequency of the funding received. However, an entity that receives similar funding, once-off, may not be able to demonstrate the same level of dependency because it does not receive the funding on an ongoing basis.

Level of dependency on the funding

.23 When assessing the level of dependency on government funding, an entity considers the use of the funding, how often an entity receives the funding (i.e. frequency) and whether the entity will be sustainable without the funding (i.e. value in relation to other sources of funding). This assessment requires specific consideration to be given to the overall capital structure, and how the funding will be applied at an operational level. For example, an entity may conclude that only an insignificant portion of its funding is acquired from government, while an assessment of how it has applied that insignificant portion, may reveal that its operations are not financially viable without the funding from government.

.24 It is also important to assess the level of dependency on government funding in assessing whether an entity's operations are commercial in nature. This is particularly relevant when an entity uses the funding from government to fund its operations. The greater the level of dependency, the greater the likelihood that an entity exists primarily to support the service delivery objectives of government. For example, an entity that receives funding each year to sustain its operations cannot be seen to be financially viable without being dependent on the continuing government funding, even though it may have been established to undertake commercial activities. In other cases, an entity may conclude that its overall financial objective is to generate profits, but may fall short of meeting this objective and receive government funding to make up any shortfall. If government funding is only required in some years, for example when a bailout is required because of a loss in a particular year, other factors should also be considered before concluding that the entity is not dependent on government funding to sustain its operations.

Application of an appropriate reporting framework

.25 When an entity concludes, in accordance with paragraph .11, that the appropriate reporting framework is IFRS Standards, then it shall apply IFRS Standards when preparing its financial statements for periods commencing on or after 1 April 2018.

.26 If an entity cannot demonstrate the criteria in paragraph .11, it shall apply Standards of GRAP when preparing its financial statements for periods commencing on or after 1 April 2018. In preparing the financial statements on initial adoption and subsequently, that entity shall apply the same reporting framework as other public entities that apply Standards of GRAP (see the relevant appendices in the Directive on *Determining the GRAP Reporting Framework*).

.27 On initial adoption of the Standards of GRAP, entities shall apply the transitional provisions in the Directive on *Transitional Provisions for Public Entities, Trading Entities, Technical and Vocational Education and Training Colleges, Municipal Entities and Constitutional Institutions* (Directive 2).

.28 Newly established entities shall also apply the transitional provisions in Directive 2.

.29 Entities may also apply the Directive on *The Application of Deemed Cost*.

Disclosures

.30 An entity shall disclose, in the summary of significant accounting policies or other notes, the judgements management has made in applying the criteria to determine the appropriate reporting framework.

.31 Such disclosures should be provided on initial application of this Directive; and subsequently when there has been a change in the reporting framework in accordance with paragraph .07.

Effective date

.32 This Directive shall be applied by all entities in preparing their financial statements for financial periods commencing on or after 1 April 2018. Earlier application is permitted.

Basis for conclusions

This basis for conclusions gives the Accounting Standards Board's (the Board's) reasons for accepting or rejecting certain proposals related to the application of Standards of GRAP by public entities. This basis for conclusions accompanies, but is not part of, this Directive.

Background and history

BC1. When the Board initially determined which entities should apply Standards of GRAP, it concluded that Government Business Enterprises (GBEs) should apply Statements of GAAP because, at that point in time, the Board was of the view that the activities of GBEs were more comparable to entities with a profit objective. The Board agreed that all other public sector entities should apply Standards of GRAP.

BC2. With the promulgation of the new Companies Act in 2008, the Financial Reporting Standards Council (FRSC) was established. The FRSC determined that Statements of GAAP, as previously codified by the Accounting Practices Board (APB) and issued by the South African Institute of Chartered Accountants (SAICA), will be withdrawn for financial years commencing on or after 1 December 2012. This decision meant that the Board could no longer prescribe the application of Statements of GAAP by GBEs.

BC3. The Board agreed during 2012 to initiate a research project to determine which reporting framework best satisfies the information needs of the users of the financial statements of GBEs: Standards of GRAP or IFRS Standards. The research conducted considered the practice of international standard-setting bodies and consultations with key stakeholders locally, including both the users and the preparers of the financial statements of GBEs.

BC4. As the definition of GBEs is being questioned internationally, the Board also considered the recent developments in the International Public Sector Accounting Standards Board's (IPSASB) project on GBEs. However, the Board noted the IPSASB's project is still in its early stages, and as a result, the Board agreed to monitor the project and assess the impact of the project on local requirements when any final pronouncements are issued. However, it is still likely that the outcome of this project would still require the Board to decide which entities should or should not apply Standards of GRAP.

BC5. The results of the research undertaken, and the feedback obtained from the users and preparers, assisted the Board in making a decision about the appropriate reporting framework that should be applied by GBEs in preparing their financial statements.

Board's initial proposals in Exposure Draft 124

BC6. During 2014, the Board issued its Exposure Draft on *The Application of Standards of GRAP to Government Business Enterprises (Schedule 3B and 3D)* (ED 124) which considered three options:

Option 1: All public sector entities should apply Standards of GRAP;

Option 2: The reporting frameworks applied by entities should be based on the classifications in the schedules of the PFMA; or

Option 3: The reporting frameworks applied by entities should be based on a set of principles.

Option 1

BC7. The first option adopted a uniform approach where all public sector entities apply Standards of GRAP. The approach assumed that the financial statements prepared using Standards of GRAP provided better information compared to IFRS Standards. The Board had its reservations about this assumption noting that there will always be exceptions. The Board concluded that ultimately its decision should be informed by the objectives of entities: entities with a profit motive should apply IFRS Standards, while those with a social objective should apply Standards of GRAP. As a result, the Board agreed that the first option is inappropriate given these differing objectives.

Option 2

BC8. The second option was a pragmatic approach which made use of the classifications in the schedules of the PFMA. During the initial consultations with users and preparers, it was recommended that the Board consider separating the major public entities listed in Schedule 2 to those entities listed in Schedules 3B and 3D when making its decision. The Board therefore proposed that entities listed in Schedule 2 should apply IFRS Standards while those listed in Schedules 3B and 3D should apply Standards of GRAP.

BC9. Feedback from the initial consultations with users and preparers, during the research phase, was that Schedule 2 public entities should continue applying IFRS Standards. The Board noted that these entities raise funds internationally and compete with, and are benchmarked against, international companies and may even tender for contracts internationally. For these public entities, the Board was of the view that applying Standards of GRAP as a reporting framework may be inappropriate.

BC10. In considering the second option, the Board noted that the research highlighted conflicts within legislation governing GBEs, particularly in the definition of GBEs and their classification in the schedules to the PFMA. Many GBEs rely on government funding which is in contradiction with the definition of GBEs which indicates that GBEs should not be substantially financed by government. It was also noted that, some entities may have been classified incorrectly, while others do not carry on a business activity. While these difficulties are of concern, the Board noted that the National Treasury and Department of Public Service and Administration had embarked on a project to redefine public entities and the classification system. The National Treasury has also instituted a process that entities could follow, to either request reclassification or apply for an exemption from the prescribed reporting framework.

BC11. The Board agreed that a pragmatic approach should be followed. Consequently, the Board proposed that Schedule 2 entities should apply IFRS Standards, because they are more relevant and applicable to the activities of entities with a profit objective; while Schedules 3B and 3D entities apply Standards of GRAP.

BC12. The Board believed that if all Schedule 3 entities apply Standards of GRAP, this would alleviate many of the practical difficulties being experienced.

Option 3

BC13. The third option was to develop principles that entities could apply in determining the appropriate financial reporting framework. The Board believed that it would not be possible to develop such principles in the short term.

Respondents' views to the Board's initial proposal

BC14. Respondents to ED 124 did not support the Board's proposal for Schedules 3B and 3D entities to apply Standards of GRAP. Some respondents questioned the Board's approach for determining the reporting framework for GBEs that is based on the classifications in the PFMA schedules. It was noted that the disadvantage of this approach is that it relies on the classifications in the PFMA schedules, which means that if an entity that has been incorrectly classified, it will apply an inappropriate reporting framework. Respondents also indicated limited support for option 3. Given the dissenting views expressed for option 2 and the limited support for option 3, the Board concluded that these two options will not be considered in the development of this Directive.

BC15. Contrary to the Board's proposal, respondents preferred option 1 to the other two options considered by the Board. They indicated that this option would result in a uniform reporting framework for the public sector, thereby enhancing comparability amongst entities. Due to the considerable support for this option, the Board reconsidered its initial thinking, and agreed that that this option will promote transparency and accountability in the public sector.

BC16. The Board did however reiterate that the blanket application of Standards of GRAP by all entities may not be appropriate in all instances, due to the diversity of the activities of major public entities and GBEs and their users. In response to this, the Board acknowledged that it may be necessary to permit the use of IFRS Standards in certain cases.

Board's revised approach in ED 130

BC17. Consistent with the recommendations from respondents, the Board considered whether a uniform reporting framework should be applied by all public sector entities. However, the Board still had its reservations about this option and considered that IFRS Standards should be applied in certain instances. The Board deliberated two possible approaches to adopting option 1:

- approach 1 - all public sector entities apply Standards of GRAP with no exceptions or exemption permitted; or
- approach 2 - all public sector entities apply Standards of GRAP with exceptions or exemptions possible in certain cases.

BC18. After consultation with the National Treasury and using section 55 of the PFMA as a basis, the Board came to the conclusion that all public entities apply generally accepted accounting practice (which is determined to be IFRS Standards) when certain criteria are met, unless:

(a) the Board has approved the application of Standards of GRAP for those entities; or

(b) they do not meet the criteria to apply IFRS Standards, and should apply Standards of GRAP.

BC19. The Board acknowledged that while the National Treasury still has the authority in terms of the PFMA to provide exemptions; it should develop a framework and criteria that would allow entities to perform a self-assessment to determine the reporting framework most appropriate for them. The Board is of the view that such an approach would alleviate the burden of considering individual applications for exemptions by the National Treasury. In addition, the Board believed that this approach establishes a clear framework that provides transparency and credibility in selecting a reporting framework, and allows entities to apply judgement based on their specific situation.

BC20. The Board agreed that the criteria should consider the nature of entities' operations and their funding, and who the users of the financial statements are likely to be and their information needs. In many instances, the criteria used some of the shortcomings of option 2 highlighted by respondents, were used as a basis for determining the criteria when it is appropriate to apply IFRS Standards.

Developing criteria to an appropriate reporting framework

BC21. In developing the criteria, the Board considered that the basis for determining the appropriate reporting framework should be linked to who the users of the financial statements are, what decisions they are likely to take, and what information they need. With the objectives of financial reporting for IFRS Standards and Standards of GRAP in mind, the Board developed criteria that would respond to the information needs of the identified users of the financial statements where IFRS Standards is appropriate.

BC22. The Board agreed that the objectives of financial reporting under IFRS Standards and Standards of GRAP differ, largely because the users of the financial statements differ. Information in the financial statements is therefore relevant when it meets the users' information needs. The relevance of information is affected by decisions that are expected to be made by the users.

BC23. The objective of financial statements prepared in accordance with IFRS Standards is "to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit"[4]. "Decisions by existing and potential investors about buying, selling or holding equity and debt instruments depend on the returns that they expect from an investment in those instruments, for example dividends, principal and interest payments, or market price increases."[5]

BC24. The objective of public sector financial statements is to assist in fulfilling government's duty to be publicly accountable and enable users to assess accountability and make decisions. The users of the financial statements prepared using Standards of GRAP, are broadly those parties who provide resources to an entity (for example taxpayers, funders and financial supporters and suppliers), those that receive goods and/or services from an entity, and any parties who represent these users (for example parliament, legislatures, national and provincial treasuries). Information needed by service recipients, resource providers and their representatives enables them to assess the extent to which financial results comply with the estimates reflected in approved budgets, and compliance with relevant legislation governing the raising and use of resources.

BC25. Based on the Board's assessment, it believes that the following should be assessed to identify the users and their information needs:

- whether the entity is a financial institution;
- whether the entity has ordinary shares or potential ordinary shares that are publicly traded on capital markets; or
- whether its operations are such that they are commercial in nature; and an insignificant portion of the entity's funding is acquired through government grants or other forms of financial assistance from government.

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[4] Paragraph OB2 of *The Conceptual Framework for Financial Reporting* issued by the International Accounting Standards Board (IASB®)

[5] Paragraph OB3 of *The Conceptual Framework for Financial Reporting* issued by the IASB

BC26. The self-assessment requires management to exercise judgement, particularly when it considers the criterion on whether the operations are commercial in nature and the funding from government is an insignificant portion.

BC27. Based on feedback from respondents, the Board agreed that the assessment for a group of entities should be undertaken at the economic entity level. The Board also agreed that the reporting framework selected for the economic entity should be applied by all the entities in the group, i.e. controlling and controlled entities.

Financial institutions

BC28. The Board considered whether it would be more appropriate for certain specialised industries to apply IFRS Standards. It was of the view that there is no clear reason, based on the available Standards, why industries other than the financial service industry should be unable to apply Standards of GRAP. The Board agreed that entities that are financial institutions should apply IFRS Standards. The Board considered that there are entities whose primary business is the holding of assets in a fiduciary capacity for a broad group of users; and noted that entities with financial objectives may be regulated by organisations such as the Reserve Bank, Financial Services Board and legislation that consider the financial soundness of these entities. The Board concluded that IFRS Standards are more appropriate as the users would be primarily concerned about the financial return on their assets.

BC29. The Board also noted that, given the nature of these entities' operations, certain IFRS Standards are more appropriate for their activities. For example the IFRS® Standards on *Financial Instruments* and insurance are more appropriate to these types of institutions.

Ordinary shares are publicly traded on capital markets

BC30. The Board considered how its approach would impact those entities that operate in regulated markets that require financial statements to be prepared using IFRS Standards. The Board reviewed the JSE Listings Requirements and noted that while it was clear from the requirements dealing with equity listings that financial information should be provided in accordance with IFRS Standards, the position regarding debt listings was unclear. Based on section 5 of the JSE Debt Listing Requirements[6], the Board is of the view that it would be acceptable for public sector entities that have issued debt instruments to provide their financial information in "in any other acceptable accounting framework". As such the Board concluded that there is no clear reason why entities with debt instruments trading on the JSE should not apply Standards of GRAP.

[6] "Financial information referred to in paragraph 5.5 shall be prepared in accordance with GAAP or the equivalent IFRS. Government, municipalities, parastatals and utilities that are subject to enabling legislation, may require adherence to other standards and this fact should be disclosed."

Operations are commercial in nature

BC31. Feedback from respondents indicated that the legislative frameworks or legislative mandates within which GBEs operate, often require them to be financially viable. The Board considered that assessing the extent to which an entity's operations are commercial in nature would assist in identifying the primary users of an entity, and their information needs. Broadly, the Board noted that entities that supply goods and/or services with the objective to generate a profit, and are also not dependent on government funding, are commercially driven. The Board observed that there is a strong link between assessing whether an entity is commercial and its overall capital structure.

BC32. The Board assessed that the users of entities with an objective to generate profits, are the capital providers who are concerned about an entity's performance and the expected return on their investment. It noted that the users of those financial statements will find information on sustainability of that entity useful to support their assessments of their expected returns. As a result, IFRS Standards are more appropriate to support the financial decisions of the capital providers. The Board also observed that while the users of financial statements of commercial entities are usually interested in understanding an entity's competitive position in its respective industry. The Board concluded that participation in competitive markets does not indicate that an entity is commercial, as there are entities that have the objective of generating profits despite them operating in non-competitive environments.

BC33. The Board observed that the same considerations in assessing the capital structure should be applied when assessing whether the operations of an entity are commercial in nature. In particular, it is important to assess the nature of the funding received in relation to the operations of an entity. It was noted that the level of dependency on government funding to sustain operations indicates that an entity is not financially viable without that government funding. The Board also noted that distinguishing between entities that receive funding each year and those which receive funding only in some years could provide an indication of who the users are, and the what information they require in the financial statements.

Insignificant portion of funding is acquired from government

BC34. Respondents to ED 124 indicated that they were concerned that Standards of GRAP would not be appropriate to GBEs as they are funded differently to those entities that apply Standards of GRAP. The Board considered this point when assessing that IFRS Standards may be more appropriate for entities that usually go to capital and other markets to meet their funding requirements.

BC35. The Board is of the view that assessing the extent to which funding is acquired from the market requires an entity to consider whether the funding received from government is insignificant in relation to the other sources of funding. The Board observed that three factors must be considered for this assessment - the nature and use of the government funding, as well as the level of dependency on that funding.

BC36. The Board considered whether the existence of international capital providers is a factor in considering whether IFRS Standards should be applied by an entity. It noted that, generally, international funders require audited financial statements prepared using IFRS Standards to be used as the basis for any debt or equity instruments issued. The Board agreed that, where international capital providers exist, this in itself does not indicate that IFRS Standards are more appropriate. The Board is of the view that an entity should consider other factors such as the nature and purpose of the international funding in relation to the other sources of funding. However, the Board noted that in the case of international multilateral organisations, donors and other governmental organisations – these users usually provide financing for developmental purposes and are likely to require information to hold an entity accountable for the resources entrusted to it. As such information in the financial statements should support assessments of whether the entity is using those resources economically, efficiently, and effectively and as intended; and the extent to which they will continue to provide resources in future. This information will be provided by financial statements prepared using Standards of GRAP rather IFRS Standards.

BC37. The Board considered that it may be necessary to provide explanatory guidance on what it considers government grants and other forms of financial assistance from government. The Board observed that government often provides guarantees to capital providers to enable the entity to borrow for investment purposes or to obtain working capital. The Board agreed that it would only consider direct financial assistance when determining the significance of government funding. The Board also deliberated the inclusion of concessionary loans but concluded that only highly concessional loans would be included in description of government funding.