national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

GRAP 104 – Financial Instruments

Effective 1 April 2021

DEFINITIONS

A **financial instrument** is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

A **financial asset** is:

a) cash
b) a residual interest of another entity, or
c) a contractual right to:
   i. receive cash or another financial asset from another entity
   ii. exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity

A **financial liability** is any liability that is a contractual obligation to:

a) deliver cash or another financial asset to another entity, or
b) exchange financial assets or financial liabilities under conditions that are potentially favourable to the entity

A **residual interest** is any contract that manifest an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

a) equity instruments or similar forms of unitised capital
b) a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution, or
c) a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Best evidence of **fair value** is quoted prices in an active market. If the market for a financial instrument is not active, fair value is established using a valuation technique

INITIAL RECOGNITION

Financial instruments are recognised in the statement of financial position when the entity becomes party to the contractual provisions of the arrangement

INITIAL MEASUREMENT

All financial instruments are measured initially at fair value, directly attributable transaction costs are added to or deducted from the carrying value of those financial instruments that are not subsequently measured at fair value

SUBSEQUENT MEASUREMENT

Subsequent measurement determined based on the definitions of..

FINANCIAL INSTRUMENTS AT FAIR VALUE

Comprise financial assets or financial liabilities that are:

✓ derivatives
✓ contingent considerations in an acquirer in a transfer of functions (GRAP 106)
✓ combined instruments designated at fair value
✓ instruments held for trading
✓ non-derivative with fixed or determinable payments designated at fair value
✓ those that do not meet the definition for amortised cost or cost

Measured at fair value with all gains and losses recognised in surplus or deficit

FINANCIAL INSTRUMENTS AT AMORTISED COST

Are non-derivatives that have fixed or determinable payments, excluding those instruments that:

✓ the entity designates as fair value on initial recognition
✓ are held for trading

Measured at amortised cost using the effective interest method, less impairment losses.

Impair financial asset if objective evidence of impairment loss.

- Amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted using the asset's original effective interest rate. Future credit losses that have not been incurred are excluded
- The carrying amount of the asset is reduced either directly or through the use of an allowance account
- The impairment loss (or reversals) is recognised in surplus or deficit
- Reversals cannot result in a carrying amount that exceeds what the amortised cost would have been had no impairment been recognised

FINANCIAL INSTRUMENTS COST

Are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured

Measured at amortised cost less impairment losses.

Impair financial asset if objective evidence of impairment loss.

- Amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset

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DERECOGNITION OF FINANCIAL ASSETS

Consolidate all controlled entities (including special purpose entities)

Determine whether the derecognition principles below are applied to all or part of the asset

Have the rights to cash flows from the asset expired, been settled or waived?

No

Has the entity transferred substantially all of the risks and rewards of ownership of the asset?

No

Has the entity transferred control of the asset?

No

Continue to **recognise** asset in its entirety

Derecognise the asset

- If an entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognises either a servicing asset or liability for that servicing contract
- If, as a result of a transfer, a financial asset is derecognised, but the entity obtains a new financial asset or assumes a new financial liability or servicing liability, the entity recognises the new financial asset, financial liability or servicing liability at fair value
- On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less new liability assumed)

DERECOGNITION OF FINANCIAL LIABILITY

- A financial liability is derecognised only when extinguished i.e., when the obligation specified in the contract is discharged, cancelled or it expires
- An exchange between an existing borrower and lender of debt instruments with substantially different terms or substantial modification of the terms of an existing financial liability of part thereof is accounted for as an extinguishment
- The difference between the carrying amount of a financial liability extinguished or transferred to a 3rd party and the consideration paid is recognised in surplus or deficit

OFFSETTING A FINANCIAL ASSET AND A FINANCIAL LIABILITY

A financial asset and a financial liability is offset and the net amount presented in the statement of financial position when, and only when and entity:

- Currently has a legally enforceable right to set off the recognised amounts, and
- Intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously