

Key lessons from Year 1 of GRAP 104 (Revised)

An expert perspective on implementation to date





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Agenda

- Where GRAP 104 (Revised) stands after its first year of implementation
- Nine practical lessons drawn from implementation experience across PFMA and MFMA entities
- A closing view on consultants on judgement and ownership

Lesson 1: Instrument inventory

○ Build a complete instrument inventory before you classify anything

- Decide scope instrument by instrument; a statutory receivable is not the same as a contractual one
- Keep one control file per population: counterparty, terms, carrying value, owner and accounting conclusion

Lesson 2: Classification evidence

○ Classification takes contract evidence, not a label carry-over

- Reassess the business model and the SPPI test for every asset at the date of initial adoption, regardless of prior intent
- A general policy statement cannot replace contract-level evidence for concessionary terms
- Retain as audit evidence, signed agreements, approval papers, cash-flow tests and the documented management model

Lesson 3: Concessionary loans

○ Concessionary loans need two separate analyses

- At inception, compare transaction terms with market terms and identify the social benefit element
- After recognition, apply the correct measurement basis and calculate ECL on the asset itself
- Old agreements were rarely drafted with this in mind and it now extends to unfunded loan commitments too

Lesson 4: ECL foundations

○ ECL is a two-step judgement engine that starts with clean data

- Step 1: has credit risk increased significantly since initial recognition? Step 2: calculate the probability-weighted shortfall at the effective interest rate
- Poor data forces costly fallbacks such as defaulting to lifetime ECL under “undue cost or effort” - a judgement that must itself be justified and disclosed

Lesson 5: Matching the approach

○ Match the approach to the asset and make the judgement reproducible

- Use the simplified approach for eligible receivables and lease receivables and the general approach elsewhere with the 30- and 90-day rebuttable presumptions
- Back-test outcomes, review sensitivity and approve overrides before the financial statements are drafted

Lesson 6: Forward-looking factors

- **Forward-looking factors cannot be copied from a peer wholesale without considering comparability**
 - Debtor risk, behaviour and geography differ across entities and this changes which macro and sector factors belong in the overlay
 - Adopting a peer's or a consultant's model wholesale, without recalibration or without considering comparability is a common and avoidable pitfall

Lesson 7: Recoveries and collateral

○ Recoveries, collateral and restructures need realism

- Estimate when cash will arrive, not only how much will ultimately be collected and discount where required
- For restructured loans, assess whether the modification changes the instrument and whether credit risk remains elevated

Lesson 8: Policy alignment

○ Embed GRAP 104 (Revised) thinking in governance documents, not just the accounting entries

- Credit and treasury policies, delegations of authority and risk appetite statements should speak the Standard's language, not carry over cash-accounting-era rules
- Where a Credit Policy still sets a flat provisioning percentage, update the policy and committee reporting templates so judgement calls reach the right governance structure

Lesson 9: Disclosure and AGSA

○ **Disclosure depth has increased and AGSA is watching the data behind it**

- AGSA's 2024-25 PFMA general report flagged weak controls, inconsistent records and limited capacity to produce credible reports
- An ECL model is only as credible as the balances, collection history and accountability behind it. Finance, credit, legal, IT and internal audit should all challenge the evidence

Closing view on consultants

○ Consultants can help, but management must own the judgement

- Consultants may build models or bring specialist skills but areas of judgement e.g. classification, significant increase in credit risk, forward-looking overlays, concessionary loan valuations remain management's responsibility
- GRAP 104 (Revised) thinking must be embedded within the organisation's own processes, people and controls not outsourced along with the task



Contact details

Tel: (011) 697-0660

Fax: (011) 697-0666

Email: info@asb.co.za

Website: www.asb.co.za

GRAP Knowledge Hub:

