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TO: MEMBERS OF THE TECHNICAL COMMITTEE

FROM: AMANDA BOTHA

SUBJECT: ED 207 POST-IMPLEMENTATION REVIEW OF GRAP 108 ***STATUTORY RECEIVABLES***

DATE: 12 JUNE 2025

FILE REF: ATTACHMENT 3(a)

BACKGROUND AND PURPOSE

1. The public consultation process on ED 207 *Post-implementation Review (PIR) of GRAP 108 on Statutory Receivables* closed on 27 October 2024.

2. The comments received on ED 207 are captured in the summaries of written and verbal comments as included in attachments 3(c) and 3(d). These summaries include the project groups' proposed responses. The minutes of the project group meetings are included as attachments 3(e) and 3(f). Due to low attendance at the project group for preparers, a further project group engagement was proposed. As there was insufficient interest, a project group meeting was not held. The Secretariat is of the view that sufficient opportunity was provided to members to participate in the project group.

3. The purpose of this memorandum is for the Technical Committee to consider the following, for recommendation to the Board:

   (a) the consultation process followed;

   (b) the written and verbal comments received, and the related themes identified from the PIR; and

   (c) project group members' proposed actions to address these.

OVERVIEW OF THE CONSULTATION PROCESS

How did the Secretariat raise awareness about ED 207?

4. A Notice of ED 207 was published in the Government Gazette on 2 February 2024 (Notice 547 of 2024) outlining a request to ASB stakeholders to participate in the PIR of GRAP 108, published as ED 207.

5. The Secretariat actively raised awareness about ED 207 in the following ways:

   (a) published articles in the ASB Newsletter and on various ASB social media platforms;

Board Members: Mr A van der Burgh (Chair), Ms A Carstens, Mr A Hardien, Ms W de Jager,
Mr D Dlamini, Mr S Gcwabe, Mr S Khan, Ms A Muller
Chief Executive Officer: Mrs J Poggiolini

(b) published a recording on the ASB YouTube Channel, and developed further supporting material for the ASB website; and

(c) informed stakeholders through various engagements and forums, such as the Public Sector Accounting Forum and GRAP update sessions.

6. The Secretariat is of the view that sufficient awareness of ED 207 and the survey questionnaires was raised with stakeholders.

Were all the key stakeholders consulted?

7. During the comment period, the Secretariat held 21 virtual and in-person engagements to discuss ED 207 with users, preparers, auditors, consultants, and other interested parties. Stakeholders submitted 10 written responses to ED 207. Attachments 3(c) and 3(d) detail these engagements and written submissions. The Secretariat also issued survey questionnaires to users and preparers. Responses received to the questionnaires are included in the written summary in attachment 3(c).

8. The Secretariat is of the view that all the stakeholders identified in the project brief had sufficient opportunity to participate in the due process.

KEY ISSUES IDENTIFIED AND PROPOSED ACTIONS

9. From the written and verbal comments received, the Secretariat identified pervasive issues. These issues are summarised in attachment 3(b).

10. The actions from the comments received on ED 207 were developed based on the criteria established in the Board's Due Process Handbook (policy on post-implementation reviews) and Procedure Manual.

11. This memorandum comprises two sections. Section 1 summarises some of the pervasive issues and the project groups' proposed actions thereto. Section 2 highlights the views from stakeholders on introducing a new impairment model and on including disclosures on statutory receivables' exposure to credit and liquidity risks, along with the project groups' proposals on the way forward.

12. This memorandum should be read with attachments 3(b) to 3(d).

SECTION 1

A. General observations

13. Two general observations from the PIR were noted, i.e., stakeholders are unaware of available guidance to assist with the application of GRAP 108, and are unsure how to apply materiality.

Unaware of available guidance

14. Some stakeholders appear to be unaware of guidance that is available to assist them with applying GRAP 108, i.e. the Secretariat's Frequently Asked Questions (FAQs), YouTube recordings and Fact Sheets on GRAP 104 on *Financial Instruments,* and the GRAP Accounting Guideline on GRAP 108 on *Statutory Receivables* issued by the Office of the Accountant-General (OAG).

15. To address the lack of awareness, project group members supported the Secretariat's proposal to raise awareness of this guidance through communication initiatives.

16. As an outcome of the PIR, the Board will publish a Review Report that summarises the comment received from the PIR and the actions agreed. The Review Report will also be used as a communication tool to highlight the available guidance and address misconceptions noted from the PIR.

Application of materiality

17. Another general observation is that entities are unsure how to apply materiality. For example, some stakeholders questioned whether information about statutory receivables can be presented on the face of the statement of financial position if material and whether disclosures should be provided of all the relevant legislation or similar means that give rise to statutory receivables.

18. To address these challenges, the project group members supported the proposal for the Secretariat to raise awareness, through communication initiatives, about the Guideline on *Application of Materiality to Financial Statements* (Materiality Guideline) and YouTube recordings that address materiality challenges.

B. Classification of receivables as statutory or contractual

19. The PIR requested preparers' views on challenges to distinguish a receivable as statutory or contractual. Challenges with the classification of receivables, the root causes, and the project groups' proposed actions are:

Challenges highlighted during the PIR	Root causes noted by respondents	Project groups' proposed actions
Respondents are unsure: • when a receivable should be classified as contractual or statutory; • how to classify a receivable that is governed by legislation or similar means *and* initiated by a contract; • whether both a contractual and statutory receivable should be recognised when the transaction is governed by legislation or similar means and initiated by a contract; and • how to classify specific receivables, such as grants allocated through the Division of Revenue Act (DORA) or Appropriations Acts, grants allocated to SETAs, tuition fees levied by Colleges, infrastructure grants, VAT receivables, and availability charges.	• Skill and capacity constraints impact the correct classification of receivables. • Funding restrictions prohibit the implementation of appropriate systems to correctly classify receivables. • Lack of awareness of available guidance.	• No amendments to GRAP 108, existing FAQs, or Fact Sheets are proposed as sufficient guidance is available on the classification of receivables as statutory or contractual. • Raise awareness of available guidance as proposed in paragraphs 14 and 15 of this Memorandum.
Statutory receivables are incorrectly classified as contractual receivables because the entity incorrectly concludes that when a debtor chooses to undertake a transaction with the entity, any receivables arising from		

undertaking the transaction are contractual in nature.		

C. Impairment of statutory receivables

20. The PIR requested preparers to share other indicators, in addition to those listed in GRAP 108 paragraph .21, that can be considered to assess if a statutory receivable is impaired. Preparers were also requested to indicate whether they have any challenges to distinguish whether a statutory receivable should be impaired or derecognised. Feedback received on these matters, the root causes and the project groups' proposed actions are:

Challenges highlighted during the PIR	**Root causes noted by respondents**	**Project groups' proposed actions**
Additional impairment indicators: Respondents shared additional impairment indicators that can be considered for inclusion in GRAP 108, including legislative considerations.		Consider the additional indicators proposed for inclusion in GRAP 108.
Impairment versus derecognition: Some stakeholders remain unsure when to derecognise and when to impair a statutory receivable.	Challenges are due to complexities in assessing the collectability of the receivable and determining when the derecognition criteria are met.	• Develop a general FAQ to explain the difference between the impairment and derecognition of assets. • Include guidance from GRAP 104 on the legal write-off of debt in GRAP 108.

D. Presentation of statutory receivables

21. Preparers were requested to share challenges to present statutory receivables separately from contractual receivables and to present statutory receivables as exchange or non-exchange. Users were requested to indicate if they find it useful to receive information on statutory receivables separately from contractual receivables.

22. Some users indicated that the financial statement notes in some financial statements do not provide separate information about contractual and statutory receivables. Challenges with the presentation of statutory receivables, the root causes, and the project groups' proposed actions are:

Challenges highlighted during the PIR	**Root causes noted by respondents**	**Project group's proposed actions**
Entities are unsure whether information on statutory receivables should be presented as a separate line item on the face of the statement of financial position or in the notes.	Entities are unable to present statutory receivables separately from contractual receivables and to present statutory	• No amendments to GRAP 108 or existing FAQs are proposed as sufficient guidance is available on the presentation of

	receivables as exchange or non-exchange because of: • system limitations; • skill and capacity constraints; • insufficient funding to implement appropriate systems; • a lack of separate information on contractual or statutory receivables; • lack of awareness of available guidance; and • the complex nature of receivables.	receivables as statutory or contractual and as exchange or non-exchange. • Raise awareness of available guidance as proposed in paragraphs 14 and 15 of this Memorandum.
Concerns were noted that users may perceive information about contractual and statutory receivables to be less important if it is only presented in the notes to the financial statements.		Raise awareness that the information on the face of the financial statements should be considered with the information presented in the notes to the financial statements.

E. Disclosure requirements

23. Users were requested to indicate if they find the disclosures on statutory receivables relevant to hold entities accountable and to make decisions. Preparers were requested to share challenges to provide the disclosure as required by GRAP 108.

24. Disclosure challenges noted by respondents and the project groups' proposed actions are:

Challenges highlighted during the PIR	Project group's proposed actions
Not all entities disclose the information required by GRAP 108, for example, descriptive information on the nature of the statutory receivable and how it arises are lacking from the financial statements.	• Raise awareness of available guidance as proposed in paragraphs 14 and 15 of this Memorandum.
Uncertainty remains about whether: • information disclosed in the accounting policy note for statutory receivables should be repeated in the disclosure note on statutory receivables; and • information on statutory receivables that is disclosed in an accounting policy note can be cross-referenced to the disclosure note on statutory receivables, and vice versa.	• Develop education material for preparers on matters to consider when preparing financial statements.

F. Recognition of revenue arising from statutory arrangements

25. The PIR requested respondents' views on challenges to initially measure statutory receivables at the transaction amount. Challenges with the recognition of the revenue and the related receivables that arise from statutory arrangements, and the project groups' proposed actions are:

Challenges highlighted during the PIR	Project group's proposed actions
Some entities are unsure: • when to recognise grants allocated in legislation or similar means, along with the related receivable; • how to account for the repayment of unspent conditional grants; • how to recognise a receivable arising from multi-year grants; • how adjustments to revenue allocated through legislation or similar means impact the related receivable; and • whether adjustments to revenue arising from a statutory receivable are accounted for as a derecognition or impairment of a statutory receivable.	• No amendments are proposed to GRAP 108 as guidance is available that explain when a statutory receivable should be recognised. • Adress other challenges as part of the Board's Revenue project. • Raise awareness of available guidance as proposed in paragraphs 14 and 15 of this Memorandum. • Share challenges with the OAG for them to consider when expanding the GRAP Accounting Guidelines on GRAP 108 on *Statutory Receivables* and GRAP 23 on *Revenue from Non-exchange Transactions (Taxes and Transfers).*

SECTION 2

INTRODUCING A NEW IMPAIRMENT MODEL AND ADDITIONAL DISCLOSURES

Adopting the GRAP 104 expected credit loss (ECL) impairment model for statutory receivables

26. GRAP 108 applies an incurred loss model to impair statutory receivables. The revised GRAP 104 introduced the ECL impairment model to align with international practice. The ECL impairment model is applied to impair contractual receivables.

27. The PIR requested respondents to indicate if they foresee any issues with applying two different impairment models for contractual and statutory receivables. Respondents had different views on this, namely:

View from respondents	Who proposed the view and why?
View 1: Do not replace the incurred loss model in GRAP 108 - retain the model to impair receivables that arise from statutory transactions	The view was mostly supported by public entities whose receivables mainly arise from transactions governed by legislation or similar means, i.e., statutory transactions, for example, grants allocated through the DORA or the Appropriations Acts. Respondents indicated that they are reluctant to adopt the ECL model without understanding the impact of the model on their operations. They recommended practice in applying the ECL model should first evolve before the GRAP 108 impairment model is replaced.

<table>
<tr><td></td><td>Other reasons noted by respondents to retain the incurred loss model in GRAP 108 were:
(a) Entities are already required, for disclosure purposes, to separate contractual and statutory receivables. As accounting systems should be able to provide information for contractual receivables separately from statutory receivables, entities will be able to apply different impairment models.
(b) The costs of applying the ECL model may outweigh the benefits for the following reasons:
• Additional resources (skills, capacity and systems) will be required to obtain reliable forward-looking information to apply the ECL model.
• Entities lacking the required skill and capacity to implement the ECL model are likely to use consultants or other experts to assist with the impairment calculation, resulting in increased costs.
• The incurred loss model is easier to apply, and entities are familiar with the impairment model.
• It will take time for entities to understand and implement the ECL model.
• Smaller entities, in particular smaller municipalities, are already struggling to comply with the current requirements in GRAP 104 and GRAP 108 to impair receivables. Introducing more complex requirements in GRAP 108 that require entities to assess impairment based on historical data, current conditions, and forward-looking information may be even more challenging. This could result in further audit qualifications as a result of material misstatements in calculations.</td></tr>
<tr><td>View 2:
Replace the incurred loss model in GRAP 108 with the ECL model to impair all receivables, irrespective of whether they arose from statutory or contractual transactions</td><td>The view was mostly supported by respondents in the municipal environment who indicated that, when the ECL model becomes effective, they will assess the recoverability of debtors’ accounts, irrespective of whether transactions undertaken with the debtor are statutory or contractual in nature.
Reasons in support of replacing the GRAP 108 impairment model with the ECL model are:
(a) When the ECL model is applied to assess impairment where a debtor undertakes both statutory and contractual transactions with the entity, the impairment loss will be calculated using one approach and will be allocated between the statutory and contractual receivable in meeting the requirements to present separate information about contractual and statutory receivables in the financial statements as required by GRAP 108 and the revised GRAP 104.
(b) Impairment information will be more relevant for decision-making if one impairment model is applied to calculate an impairment loss, irrespective of whether a debtor undertakes statutory or contractual transactions, or both.
(c) One impairment model will be preferred when preparing budgets.</td></tr>
</table>

	(d) Due to the high volume of outstanding municipal debt, it will be challenging to separate a debtor's account between statutory and contractual transactions to calculate the impairment loss. (e) Because the ECL model considers expected future losses, it enables more timely recognition of credit losses and provides a comprehensive view of an entity's credit risk exposure.
View 3: Retain the incurred loss model to impair a debtor's account where an entity and a debtor only undertake statutory transactions, *and* adopt the ECL model to impair a debtor's account where the entity and a debtor undertakes both contractual and statutory transactions	As an alternative to view 2, respondents from the municipal environment proposed that a dual impairment model be considered in GRAP 108. This view was proposed as it will be easier for entities that only undertake statutory transactions to continue to apply the impairment model in GRAP 108 and no additional resources will be required to apply the ECL model. For entities that undertake both contractual and statutory transactions with a debtor, impairment information will be more relevant and timely for decision-making purposes and no additional costs need to be incurred to separate the debtor's account for impairment purposes.

Assess how the ECL and incurred loss impairment models support the qualitative characteristics in the Conceptual Framework

28. To propose the way forward on the model that should be considered to impair statutory receivables, the Secretariat assessed how the incurred loss and ECL models support the qualitative characteristics in the *Conceptual Framework for General Purpose Financial Reporting* (Conceptual Framework) to provide useful information to users.

    The detailed analysis is included in Annexure A.

29. From the analysis, it is observed that impairment information from the ECL model will be more relevant compared to information provided under the incurred loss model. The analysis concludes that impairment information provided under the incurred loss model has less predictive value compared to the ECL model. This is because an impairment loss will only be recognised when an impairment indicator was triggered, resulting in information that is reactive. The impairment information provided under both the ECL and the incurred loss model has confirmatory value.

30. Impairment information from the ECL model allows for more timely decision-making. This is because impairment losses are not only recognised when an indicator has been triggered but the risk of potential default is assessed based on historical data, current conditions and future expectations.

31. In assessing the qualitative characteristics of faithful representation and verifiability, the analyses concludes that these characteristics will be impacted by the information available to the entity about the debtor with who it transacts. Impairment information provided under the incurred loss model is more likely to be free from material error and unbiased compared to the ECL model. This is because fewer estimations about future

expectations are required under the incurred loss model. Impairment losses are only recognised when an impairment indicator has been triggered, making impairment information provided under the incurred loss model more verifiable.

32. The qualitative characteristics of understandability and comparability are mostly met under both the incurred loss and ECL model.

Cost versus benefit considerations

33. One of the constraints of preparing financial information, is considering cost-benefit. Stakeholders shared a number of views on the cost-benefit considerations of replacing the incurred loss model in GRAP 108 with the ECL model. These include:

- Smaller entities may not have the required resources to implement the ECL model. As a result, they are likely to make use of consultants or other experts to assist with the impairment calculation. This will result in increased costs.
- Because entities are already familiar with applying the incurred loss model, no additional resources are required to gather and process data about past events, current conditions and future forecasts.

34. Other cost-benefit considerations include:

- If an entity needs to obtain information about the debtor with whom it transacts to apply an impairment model, costs need to be incurred to gather the required information. This may outweigh the benefit of applying the ECL model. To address this concern, the revised GRAP 104 explains that an entity need not undertake an exhaustive search for information. Instead, the entity should consider all reasonable and supportable information that is available without undue cost or effort and that is relevant to the estimate of expected credit losses. GRAP 104 also allows entities that have no, or insufficient, sources of entity-specific data to use peer group experience of comparable receivables.
- Benefits of applying the ECL model to impair statutory receivables are that impairment losses will be recognised earlier, resulting in more timely and relevant information to users for decision-making and to hold entities accountable. Users will also be able to compare actual outcomes with past expectations, making information provided to users under the ECL model more useful.

Proposal on replacing the ECL model

35. The Board needs to follow its due process to make amendments to the Standards of GRAP. This means that, for a period, entities will be required to apply two different impairment models to impair contractual and statutory receivables based on the current requirements in GRAP 108 and the revised GRAP 104. Based on existing capacity, if the proposals are supported, amendments will only be actioned after the Board's 2027-2029 work programme is completed. These proposals will thus only be considered as part of the Board's future work.

36. In proposing a way forward, based on stakeholder views and the Secretariat's analysis above, the Secretariat proposes that consideration is given to entities that only undertake statutory transactions with a single debtor, versus entities that undertake both contractual and statutory transactions with a single debtor. The Secretariat proposes that a dual model be considered for these different categories of entities, as explained below.

37. The Secretariat proposes the dual model because both impairment models support the qualitative characteristics in the Conceptual Framework, but to a different extent and with different cost-benefit considerations for the different categories of entities. As information is likely available to entities to apply the ECL model where an entity undertakes both contractual and statutory transactions with a debtor, the qualitative characteristics in the Conceptual Framework are better met for these transactions when applying the ECL model. Where entities only undertake statutory transactions with a debtor, insufficient information about the debtor may be available to apply the ECL model and the incurred loss model may better meet the qualitative characteristics in the Conceptual Framework while also considering the cost-benefit constraint.

38. Project group members considered the Secretariat's proposal (option 1) and in addition to supporting this option, they proposed a further option (option 2) for consideration by the Technical Committee. These proposals are:

Option 1:

(a) Entities that only undertake statutory transactions with a single debtor, or entities that undertake both contractual and statutory transactions with a debtor but assess recoverability at a transaction level, continue to apply the incurred loss model in GRAP 108 to impair statutory receivables; and

(b) entities that undertake both contractual and statutory transactions with a single debtor *and* assess the recoverability at a debtor's level have the following accounting policy choice:

(i) continue to apply the impairment principles in the revised GRAP 104 and GRAP 108 as currently prescribed, i.e., apply the incurred loss model to impair receivables from statutory transactions and the ECL model to impair receivables from contractual transactions; or

(ii) apply the ECL model to impair the debtor's account for both contractual and statutory transactions undertaken.

Under this option, when an entity undertakes both contractual transactions (for example, providing water and electricity services) and statutory transactions (for example levying property rates) with a single debtor and elects to apply option (b)(ii) in paragraph 38 as its accounting policy, the ECL model is applied to impair the entire type of statutory receivable. In the example above, it means all receivables arising from levying property rates are impaired using the ECL model.

Option 2:

(a) Entities that undertake both contractual and statutory transactions with a single debtor *and* assess the recoverability at a debtor's level apply the ECL model; and

(b) entities that only undertake statutory transactions with a single debtor or entities that undertake both contractual and statutory transactions with a debtor but assess recoverability at a transaction level be allowed an accounting policy choice between the ECL and incurred loss model.

39. Allowing either of these options can be seen as a step towards applying the ECL model to all receivables when the ECL model is well established.

Disclosures on exposure to credit and liquidity risk

40. Qualitative and quantitative information about an entity's exposure to credit risk is required for contractual receivables per the revised GRAP 104. For contractual receivables, entities are required per the previous and revised GRAP 104 to disclose a maturity analysis for managing liquidity risk. These disclosures are based on the information provided internally to management and enable users to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed.

41. Other than the disclosure of the key indicators, assumptions, and basis used to assess and test if statutory receivables are impaired, or an impairment loss is reversed, GRAP 108 does not require an entity to explain statutory receivables' exposure to credit risk. Requirements to understand the timing of cash inflows associated with statutory receivables and how the liquidity risk is managed are also not required in GRAP 108.

42. The PIR requested respondents' views on what information on the nature and extent of statutory receivables' exposure to credit risk, and how liquidity risk is managed, will be relevant to hold entities accountable and to make decisions.

Liquidity risk disclosures

43. Preparers and users did not identify specific liquidity risk disclosures that may be necessary for statutory receivables.

Exposure to credit risk disclosures

44. Preparers in the municipal environment noted that they are already required to provide the disclosures required by the revised GRAP 104. Municipalities are required, in terms of the Municipal Systems Act, to have a credit control and debt collection policy. Respondents with these policies in place noted that credit risk information is available at a debtor's level, irrespective of the nature of the transactions undertaken with the entity (i.e., statutory, contractual, or both). Some respondents from the municipal environment further noted that information on exposure to credit risk is already included in other reports that accompany the financial statements, for example, the risk management report.

45. Respondents, other than those involved in local government, were not able to indicate what type of information can be relevant to hold entities accountable and to make decisions about credit risk exposure. These respondents indicated that disclosures on exposure to credit risk should only be considered at a future point in time when entities are more familiar with disclosure requirements under the revised GRAP 104. They also observed that an entity's exposure to credit risk may not be as relevant as for contractual receivables as most statutory receivables are recovered in less than twelve months (short-term) because they arise from government grants.

Proposal on introducing credit and liquidity risk disclosures

46. Statutory receivables differ from contractual receivables in that they arise from compulsory transactions, required in legislation or similar means. Not all the disclosure requirements on the exposure to credit risk and how liquidity risk is managed may be relevant for statutory receivables. However, users need information about debtors' exposure to credit risk to obtain an understanding of the entity's ability to meet its service

delivery objectives. Only having information about the credit risk exposure for contractual receivables may be insufficient to make this assessment, especially when statutory receivables are material. A maturity analysis of the statutory receivables an entity holds for managing liquidity risk (e.g. statutory receivables that are readily expected to generate cash inflows to meet cash outflows on liabilities) is also useful as it enables users to evaluate the nature and extent of liquidity risk, especially when statutory receivables are material.

47. GRAP 108.32 includes a disclosure objective that requires entities to disclose information that enables users to evaluate the significance of statutory receivables on an entity's financial position and performance. In addition, GRAP 1 on *Presentation of Financial Statements* allows entities to present additional information to that required by the Standards of GRAP to its users, if it is necessary for accountability and decision-making.

48. Project group members supported the following proposals:

    (a) changes to credit risk disclosures for statutory receivables should only be considered if, and when the Board agrees to adopt the ECL model in GRAP 108; and

    (b) entities should, in the interim, be encouraged to apply the GRAP 108 disclosure objective and the encouraged disclosure in GRAP 1 to present information on:

        (i) how they manage liquidity risk for both contractual and statutory receivables when they disclose a maturity analysis of the receivables held for managing liquidity risk; and

        (ii) statutory receivables' exposure to credit risk.

49. The Secretariat proposes to raise awareness of the disclosure objective GRAP 108 and the encouraged disclosure in GRAP 1 through communication initiatives.

ACTIONS REQUESTED

The Technical Committee is REQUESTED to:

(a) CONSIDER and REVIEW the themes of issues identified and the Secretariat's proposed actions thereto (see attachment 3(b));

(b) CONSIDER and REVIEW the analyses of verbal and written comment and the responses thereto (see attachments 3(c) and 3(d)); and

(c) if deemed appropriate, RECOMMEND actions to address the comment received during the PIR to the Board for its consideration.

NEXT STEPS

50. The Board will consider the comment on ED 207 and the proposed actions to address the comment received during the PIR at its July 2025 meeting. The Secretariat will then draft a Review Report, that summarises the comments received and actions agreed, for consideration by the Technical Committee and Board.

ANNEXURE A: Assessing the qualitative characteristics in the Conceptual Framework against applying the incurred loss and ECL impairment models to impair statutory receivables

Consideration	Incurred loss impairment model as prescribed by GRAP 108	ECL impairment model as prescribed by revised GRAP 104
Background to the impairment model	Under this model, impairment losses are recognised when there is evidence that a statutory receivable is credit-impaired when an impairment indicator is triggered.	The model requires entities to calculate an impairment loss by assessing the risk of potential default, considering historical data, current conditions, and forward-looking information. An impairment loss is estimated based on the expected difference between all contractual cash flows that are due in accordance with a contract and all cash flows that the entity expects to receive. The period over which the expected credit loss is calculated is over the lifetime of the receivable.
Relevance	When the Board developed GRAP 108, it concluded that impairment losses should be calculated by comparing the carrying amount of the receivable to the estimated future cash flows – the approach adopted should be similar to the value-in-use approach in GRAP 21 on *Impairment of Non-cash-generating Assets*. Impairment information obtained from applying the incurred loss model is less predictive compared to the ECL model, as an impairment loss will only be recognised when an impairment indicator has been triggered. The risk of potential default, including forward-looking expectations is not considered in assessing impairment under this model. The impairment information provided to users allows users to confirm past events as impairment losses are calculated when an impairment indicator is triggered. Objective evidence is considered to conclude on the collectability of the receivable.	The ECL model is responsive to changing economic conditions. Applying this model will result in earlier recognition of credit losses, making the information obtained from applying the model relevant for decision-making as changes in credit risk exposure are depicted through the use of a broad range of information. The model has predictive and confirmatory value as it confirms and allows for changes to past expectations about collectability of future cash flows over the lifetime of the receivable and enables users to reflect on changes from past expectations.
Faithful representation	When the incurred loss model is applied, the entity will not need to	Information about the collectability of a receivable under this model will

	estimate potential credit losses and consider future cash flow shortfalls based on expectations as impairment losses are only recognised when there is evidence of impairment. As an impairment loss is only recognised when an indicator has been triggered, the information provided to users from applying this model is expected to be free from material error and free from bias. Due to the nature of statutory receivables, the entity may have little or no information about the debtor with whom it transacts, for example, receivables arising from traffic fines. In some instances, the entity may have information about the debtor. This will likely be when the entity also undertakes contractual transactions with that debtor, for example, when the entity levies property rates and provides water and electricity services to the debtor. When applying the incurred loss model to statutory transactions, the nature of the receivable means that the information provided to users will be a complete depiction of the phenomenon it purports to represent. However, when more information about a debtor is available to the entity, the information provided to users when applying the incurred loss model may not be a faithful representation as not all available information is considered in assessing the collectability of the receivable.	provide a more complete depiction of the recoverability of the receivable (compared to the incurred loss model) based on the entity's exposure to credit risk, and expected changes thereto. When the inputs used to apply the ECL model reflect the best available information, the information provided to users is a faithful representation, even though applying the model requires more estimations. However, if an entity has little or no information available about the debtor with whom it transacts, it is more likely that information provided to users when applying the ECL model to impair statutory receivables may not be free from material error.
Understandability	The information that is provided to users by applying this model will enable users to understand the significance, implications and consequences of an impaired statutory receivable.	Applying the ECL model will enable users to understand an entity's credit risk exposure. This enables better accountability and decision-making. However, while the ECL model aims to improve financial reporting by reflecting credit risk more accurately, its complexity and the need for judgements in estimating expected future losses can make it less understandable.

Timeliness	Impairment losses are only recognised when an impairment indicator has been triggered. This impacts the timeliness of the information available to users to make informed decisions, for example to take actions to mitigate the effect of credit risk.	The ECL model is more responsive to changing economic conditions as it considers past, current and future expectations in estimating credit losses. The information available to users in applying this model will enable them to make timely decisions to mitigate the effect of credit risk.
Comparability	As the impairment model is applied in a consistent manner from one year to the next, users will receive comparable impairment information to inform decision-making and to hold entities accountable. Also, as entities apply the same impairment model to impair statutory receivables, comparable information between entities will be available to users. However, as impairment losses will only be recognised when an impairment indicator has been triggered, information available to users will be reactive as the impairment event already occurred when reported in the financial statements. This impacts the comparability of information over time.	As the impairment model is applied in a consistent manner from one year to the next, users will receive comparable impairment information to inform decision-making and to hold entities accountable. Users can also compare actual outcomes with past expectations as estimations are considered throughout the life of the receivable. The ECL model allows for more comparable information over time. To understand significant changes in credit risk exposure from one period to the next, qualitative and quantitative disclosures and applying consistent methodologies will enable users to understand and compare credit loss information. This will also enable users to compare information with other entities as the same impairment model is applied to impair statutory receivables
Verifiability	The incurred loss model requires fewer estimations about future expectations as impairment losses are recognised when an impairment indicator has been triggered making impairment information verifiable.	Applying the ECL model requires more judgment and assumptions to estimate potential credit losses in estimating impairment. The more estimation uncertainty, the less verifiable the impairment information provided in applying the ECL model will be. However, by using consistent methodologies and providing qualitative and quantitative disclosures to support the assumptions, information can be verified. Where an entity has little or no information about the debtor with whom it transacts, information may be less verifiable compared to when the entity has more information about

		the debtor with whom it undertakes statutory transactions.