40 Church Square
Pretoria
0002
Tel.011 697 0660
Fax. 011 697 0666
www.asb.co.za

TO: MEMBERS OF THE TECHNICAL COMMITTEE

FROM: AMANDA BOTHA

SUBJECT: PROPOSED AMENDMENTS TO THE STANDARD OF GRAP ON ***ACCOUNTING BY PRINCIPALS AND AGENTS***

DATE: 19 AUGUST 2025

FILE REF: ATTACHMENT 3(a)

BACKGROUND AND PURPOSE

1. The post-implementation review (PIR) of the Standard of GRAP on *Accounting by Principals and Agents* (GRAP 109) was concluded in 2023. From the comment received on the PIR, the Board identified key issues and agreed on specific actions (refer to the Review Report for a summary of these issues and actions).

2. A proposed Exposure Draft (ED) of amendments to GRAP 109 and the accompanying Invitation to Comment (ITC) on *Proposed Amendments to the Standard of GRAP on Accounting by Principals and Agents (GRAP 109)* were discussed at two project group meetings. Project group members recommended these documents to the Technical Committee for its consideration. The minutes of the project group meetings are included as attachments 3(b) and 3(c).

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

   (a) ED of *Proposed Amendments to the Standard of GRAP on Accounting by Principals and Agents (GRAP 109)*; and

   (b) ITC on *Proposed Amendments to the Standard of GRAP on Accounting by Principals and Agents (GRAP 109)*.

SUMMARY OF PROPOSED CHANGES

4. Key findings from the PIR were that stakeholders do not correctly identify if a principal-agent arrangement exists, and that they have challenges with the application of GRAP 109.

5. An outcome of the review is to propose amendments to GRAP 109. To address the key findings, no substantive amendments are proposed to GRAP 109 as the Standard already provides guidance on identifying whether a principal-agent arrangement exists. The proposed amendments clarify the existing requirements to identify whether an

arrangement meets the definition of a principal-agent arrangement, and if so, if an entity is the agent or the principal.

6. The proposed ED is included as attachment 3(d) and the proposed ITC is included as attachment 3(e). The proposed amendments are discussed below.

(a) Guidance on binding arrangement

7. GRAP 109 requires an entity to assess if a principal-agent arrangement exists based on the terms outlined in a binding arrangement. To address the challenges of determining whether a binding arrangement exists, the ED proposes to combine all the relevant guidance on binding arrangements in the definition section of the Standard (see paragraphs .05A to .05F). To address other practical challenges raised during the PIR, the following additional explanations and guidance are proposed:

- a combination of mechanisms, such as legislation or similar means and a contract(s), can establish rights and obligations for parties to an arrangement. These mechanisms should be read together (paragraph .05B);
- a single arrangement may establish multiple rights and obligations for different activities (paragraph .05B);
- judgement is applied to determine whether a binding arrangement exists (paragraph .05D); and
- an entity should re-assess whether an arrangement continues to be a principal-agent arrangement in the event of a modification (paragraphs .05E and .05F). This amendment is an expansion of an existing principle in the Standard that requires an entity to re-assess if it continues to be the principal or the agent when an arrangement is modified.

(b) Meeting the definition of a principal-agent arrangement

8. Additional guidance is proposed to assist with the application of the GRAP 109 principles on assessing whether an arrangement is a principal-agent arrangement. These amendments propose clarifying that:

- an entity should assess whether an arrangement is a principal-agent arrangement before accounting for the arrangement in terms of GRAP 109. Assessing whether an entity is the principal or agent is not undertaken before concluding that the arrangement is a principal-agent arrangement (paragraphs .08D and .16);
- even though the definitions of a principal and an agent require the principal to direct the agent in undertaking transactions with third parties, the direction does not imply an active action is required from the principal or similarly, the agent receiving such direction. The direction can be established by the rights and obligations in the binding arrangement (paragraph .08C);
- substance over form is applied to conclude if an arrangement meets the definition of a principal-agent arrangement (paragraph .08E);
- each transaction, or group of transactions that share similar characteristics, is assessed to determine whether the definition of a principal-agent arrangement is met (paragraph .08F);

- a single binding arrangement may establish multiple rights and obligations for different activities, but not all the activities and related transactions may meet the definition of a principal-agent arrangement (paragraph .08I); and
- in relation to the transactions undertaken with third parties, the rights and obligations of a principal are substantive, while the rights and obligations of an agent are protective or administrative (paragraph .13B).

(c) Disclosure requirements

9. The amendments propose to include a disclosure objective to address users' information needs. Other proposed amendments are to:
   - expand the significant judgement disclosure to also require the disclosure of significant judgements in assessing whether the arrangement is a principal-agent arrangement (paragraph .62A(a)); and
   - include a cross-reference to the encouraged disclosure in GRAP 2 on *Cash Flow Statements* to disclose the amount and nature of restricted cash balances (paragraph .63A).

OTHER RECOMMENDATIONS FROM THE PROJECT GROUP

10. Project group members proposed that additional illustrative examples be included to:
    - determine whether a subcontracting or service provider arrangement meets the definition of a principal-agent arrangement, using the examples from IFRS 15 on *Revenue from Contracts with Customers*; and
    - explain that even though two entities may have shared or similar mandates, it does not imply that the parties are involved in a principal-agent arrangement.
11. The Secretariat assessed these comments and concluded not to propose any additional illustrative examples for the following reasons:
    - It was considered inappropriate to consider examples from IFRS 15 as the public guidance in Standards of GRAP is different. The relevant examples from IPSAS 47 on *Revenue* that deal with principal-agents will be considered as part of the future Revenue project. This may result in consequential amendments to GRAP 109 if the IPSAS examples are found to be more appropriately placed in this Standard.
    - The OAG's presentation provides guidance on the interaction of GRAP 109 and entities' mandates and legally assigned functions. Furthermore, in reviewing the existing examples in GRAP 109, the Secretariat concluded that the examples sufficiently explain the assessment to conclude if the definition of a principal-agent arrangement is met.

ACTIONS REQUESTED

The Technical Committee is REQUESTED to:

(a) CONSIDER if it agrees with the Secretariat's proposal to not include additional illustrative examples;

(b) CONSIDER and REVIEW the proposed ED and ITC of amendments to GRAP 109 (see attachment 3(d) and (e)); and

(c) if deemed appropriate, RECOMMEND these to the Board for its consideration.

NEXT STEPS

12. The Board will consider the proposed ED and ITC at its September 2025 meeting based on the Technical Committee's recommendation. If approved, the ED and ITC will be issued for comment and follow the Board's due process.