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MINUTES OF THE PROJECT GROUP MEETING OF THE ACCOUNTING STANDARDS BOARD ON THE PROPOSED RESPONSES TO ED 200 *POST-IMPLEMENTATION REVIEW OF GRAP 109 ACCOUNTING BY PRINCIPALS AND AGENTS* HELD ON 31 JANUARY 2024

Present:

N Kasch	KPMG
S Koekemoer	Ayema Xpertrix Consulting
M Mentz	AGSA
P Naidoo	KPMG
Z Pikashe	Solugrowth
K Sahadeo	W.consulting
R Small	SAIPA
B van der Merwe	Nexia SAB&T
S van der Merwe	AdaptIT

Secretariat:

A Botha	Project Manager
N Imam-Shah	Project Manager
E van der Westhuizen	Head of Technical

Board Members: Ms P Moalusi (Chair), Mr A van der Burgh (Deputy Chair), Mr C Braxton, Ms W de Jager, Mr D Dlamini, Mr S Khan, Ms A Muller, Ms N Themba
Chief Executive Officer: Ms J Poggiolini

1. WELCOME AND APOLOGIES

Members were WELCOMED to the project group meeting. Apologies were NOTED from A Carstens, J Combrink, S Nondlazi, J Poggiolini and A van der Burgh.

2. ED 200 POST-IMPLEMENTATION REVIEW OF GRAP 109 ACCOUNTING BY PRINCIPALS AND AGENTS

2.1 The Secretariat TABLED the following documents at the meeting:

- Memorandum from the Secretariat.
- Summary of proposed responses to comments on ED 200.
- Summary of verbal comment on ED 200.
- Summary of written comment on ED 200.

Background to the project

2.2 The Secretariat NOTED the background to the project and the purpose of the meeting.

Overview of the consultation process

2.3 The Secretariat EXPLAINED how it raised awareness of ED 200, and ASSERTED that all the stakeholders identified in the project brief had sufficient opportunity to participate in the due process.

Development of proposals

2.4 The Secretariat EXPLAINED the process followed to develop proposed responses to the comment received on ED 200. It was NOTED that the criteria applied to determine appropriate responses will be incorporated in the Due Process Handbook/Procedure Manual.

Application of materiality

2.5 The Secretariat EXPLAINED the issues identified related to the application of materiality, and the proposed actions to address the issues.

2.6 A members SHARED that materiality is not considered when assessing the nature of an arrangement. Materially is applied when determining which arrangements should be disclosed in the financial statements. Should an arrangement be material, an entity should disclose all the information required by GRAP 109 about that arrangement.

2.7 Another member NOTED an arrangement could first be assessed quantitatively and qualitatively to determine if material. Only if material, is it necessary to assess the nature of the arrangement and whether it meets the definition of a principal-agent arrangement. If immaterial, an entity may develop an alternative accounting treatment for the arrangement and need not apply GRAP 109. Members NOTED this approach may be problematic when applied to principal-agent arrangements, as the nature of the arrangement and an entity's role in the arrangement determine which items the entity accounts for. It may be difficult to determine whether the arrangement is quantitatively material without first determining the nature and entity's role.

2.8 Members AGREED the terms "significant" and "substantially" in the criteria for assessing whether an entity is an agent is different to materiality. These terms are seen as referring to qualitative aspects such as the nature of an entity's role, while materiality is used to

provide users information about the consequences or impact of an arrangement on an entity's financial statements.

- 2.9 The project group SUPPORTED the proposals to include a project on materiality in the next ASB work programme consultation, and to clarify existing principles in an FAQ. It was RECOMMENDED that the FAQ should emphasize that materiality is determined both quantitatively and qualitatively.

Secretariat

Identifying principal-agent arrangements

2.10 The Secretariat EXPLAINED the issues related to the identification of principal-agent arrangements, and the proposed actions to address the issues.

2.11 A member ASKED for clarity on the timing and process to change GRAP 109. The Secretariat EXPLAINED a separate due process will be followed after the Board considers the results of the review in March 2024.

2.12 A member NOTED that, with the history of court cases, there is uncomfortableness about applying substance over form.

2.13 A member QUESTIONED the proposed communication to auditors that counterparties in an arrangement may not necessarily come to the same conclusion about the nature of an arrangement. When the parties are on the same reporting framework, it is reasonable to expect that they will agree on the nature of the arrangement and account for it accordingly. The Secretariat NOTED that the communication will be to say that each entity should do their own assessment based on their rights, obligations, facts and circumstances.

2.14 The project group RECOMMENDED the proposed actions to the Technical Committee for consideration, with the following additions:

- The explanation that will be added to GRAP 109 on the nature of the rights and obligations of the parties to the arrangement should include that the principal is able to instruct the agent. The explanation currently in the FAQ should be added to GRAP 109.
- The proposed action for the OAG to consider guidance on transversal issues, such as grants, employee related deductions and VAT, should also be added to the Secretariat's FAQs. The FAQs could remind readers that the principles of GRAP 109 apply to these transactions. For grants, the principle of substance over form is also important.

Secretariat

Disclosure of principal-agent arrangements in financial statements

2.15 The Secretariat EXPLAINED the issues related to the information on principal-agent arrangements provided in the financial statements, and the proposed actions to address the issues.

2.16 The project group RECOMMENDED the proposals related to the disclosure issues, and SUGGESTED that the Technical Committee further considers the following when amending GRAP 109:

- In developing a disclosure objective, reconsider the need for all the disclosures currently required by GRAP 109.
- In providing additional guidance on the level of information that may be appropriate to meet the disclosure objective, reconsider the current guidance in GRAP 109 on providing the information for each material arrangement separately, and for immaterial arrangements in aggregate.

Secretariat

Other issues

2.17 The Secretariat EXPLAINED the other issues identified from the review and the proposed actions to address the issues.

2.18 The project group RECOMMENDED the proposals related to other issues to the Technical Committee for consideration, with the below additional specific comments.

Secretariat

Binding arrangements

2.19 A member ASKED for clarity on the status of a contract that contradicts legislation. It was NOTED that the proposed response may give the impression that the issue of non-compliance with legislation is separate to the accounting treatment, and that an entity would still consider the rights and obligations from the contract to account for the arrangement. The project group AGREED that entities should identify the enforceable rights and obligations that “make up” the binding arrangement (as defined). Legislative requirements cannot be overruled by a contract. When there are inconsistent rights and obligations in legislation and a contract, legislation would prevail.

Secretariat

Applying GRAP 109 with other Standards of GRAP

2.20 A member CONFIRMED the issues with applying GRAP 109 and GRAP 32 on *Service Concession Arrangements*. The project group AGREED to link the FAQ on the interaction of GRAP 109 and other Standards with the FAQ on providing information when two or more Standards have similar requirements.

Secretariat

Recognising assets and liabilities as an agent

2.21 A member ASKED for clarity on the status of the guidance in GRAP 109 on when an agent should recognise assets and liabilities from the arrangement. The Secretariat NOTED that GRAP 109 does not require the recognition of assets and liabilities. GRAP 109 explains the principles in the Conceptual Framework and Standards of GRAP, together with indicators, which an agent considers to determine whether it is appropriate to recognise assets and liabilities from the arrangement.

Disclosing cash flow information

2.22 A member ASKED for clarity on the link between GRAP 2 on *Cash Flow Statements* and GRAP 109 that is proposed. The Secretariat EXPLAINED that the exception in GRAP 2 which allows an entity to present cash flows on the net basis (in certain circumstances) is not clearly linked to GRAP 109.

- 2.23 A member QUESTIONED the decision to retain both options in GRAP 2 – to present cash flows from principal-agent arrangements on the gross or the net basis. The Secretariat EXPLAINED that divergent views were expressed in the consultation on whether the net or gross option provides better information to users. This led the Secretariat to conclude that the option should be retained, together with the proposal to develop guidance on when it may be appropriate to provide the information on the net or gross basis.
- 2.24 A member NOTED there are specific requirements in the Standards for when an entity may net off information. The member QUESTIONED whether it is appropriate to have the option of providing the information on the net basis when the counterparties to the inflows and outflows are not necessarily the same. The Secretariat EXPLAINED presenting cash flows on the net basis is an allowance in GRAP 2 when specific criteria are met. This is unrelated to the net off requirements in GRAP 104 on *Financial Instruments*. It was also NOTED that GRAP 2 is aligned with international standards.

Next steps

- 2.25 The Secretariat NOTED the next steps are the Technical Committee and Board will consider the proposed responses in February and March 2024 respectively.

3. CLOSING REMARKS

Project Group members were THANKED for their time to prepare for the meeting, and their participation and input during the meeting.

Prepared by: E van der Westhuizen 7 February 2024