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TO: MEMBERS OF THE BOARD
FROM: SIYASANGA NONDLAZI
SUBJECT: AMENDMENTS TO THE DIRECTIVE ON *DETERMINING THE GRAP REPORTING FRAMEWORK (DIRECTIVE 5)*
DATE: 11 SEPTEMBER 2024
FILE REF: ATTACHMENT 4(a)

BACKGROUND TO THE PROJECT

1. Stakeholders have enquired about the potential implications of pronouncements that are not yet effective, as well as those from other standard setters on the GRAP Reporting Framework. Stakeholders were particularly uncertain about when they would be permitted to formulate accounting policies using Standards of GRAP that are approved but not yet effective.
2. The Secretariat developed Frequently Asked Questions (FAQs) to address these queries and explain these principles. The Board resolved to amend the Directive on *Determining the GRAP Reporting Framework* (Directive 5), to clarify these principles in Directive 5.
3. The Board approved ED 208 on Amendments to the Directive on *Determining the GRAP Reporting Framework* in April 2024 with a comment deadline of 30 June 2024.
4. The Board updates Directive 5 in September each year by issuing a new Annexure to outline the reporting framework for the next reporting period.

OBJECTIVE OF THE MEMORANDUM

5. The objective of this memorandum is to present the Board with feedback on the comments received from stakeholders during engagements on ED 208.
6. The comments received from stakeholders on ED 208 are captured in the analyses and responses to verbal and written comments which were presented to the Technical Committee and will be published on the ASB website. The Directive is included as attachment 4(b) for review and approval by the Board. A mark-up version of ED 208 is included as attachment 4(c) for information purposes.

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, Ms L Senne, Prof R Small
Chief Executive Officer: Mrs J Poggiolini

MATTERS FOR DISCUSSION

Paragraph .03A

7. The Board agreed to include paragraph .03A to define a new Standard of GRAP and an amendment to a Standard of GRAP.
8. The definitions are:
 - A new Standard of GRAP is a Standard that provides new requirements for a transaction or event for which there was previously no requirements.
 - An amendment to a Standard of GRAP amends existing requirements for a transaction or event.

Interpretation of new Standard versus an amendment to a Standard

9. Many respondents to ED 208 raised questions about how to interpret and apply these definitions. They indicated that the definitions do not provide guidance on new Standards that replace old Standards in the entirety, for example, the replacement of IFRS 4 on *Insurance Contracts* with IFRS 17 on *Insurance Contracts*.¹
10. Respondents also raised concerns that the definitions are unclear regarding whether the amendments to Standards of GRAP refer to both minor and significant amendments. They argued that significant amendments should be regarded as new Standards.
11. Respondents noted that when paragraph .32 of GRAP 3 on *Accounting Policies, Changes in Accounting Estimates and Errors* is considered alongside the proposed definitions, it appears to suggest that the requirements of paragraph .32 are not applicable to amendments to Standards of GRAP that have been approved but are not yet effective.

Technical Committee recommendations

12. The Technical Committee recommended the following:
 - From the 2025/26 Directive onwards, the principles in the Directive will be applied when presenting the pronouncements in the Annexures to the Directive to explicitly indicate whether an approved but not yet effective Standard is new or an amendment to an existing Standard. This will ensure that entities can distinguish between new and amended Standards of GRAP.
 - Amend GRAP 3 to clarify that the disclosure in paragraph .32 applies to new and amended Standards of GRAP as defined in Directive 5. The proposed amendments will be included in the annual improvements project scheduled for 2026.
 - The definitions should remain unchanged. A basis for conclusions paragraph (see BC9.) is added to explain that the Board considers both minor and significant changes to Standards as Amendments to Standards of GRAP.
13. The Technical Committee noted a potential conflict between “Standards of GRAP” as defined in GRAP 3 and how the term is used in Directive 5. The definition in GRAP 3

¹ Examples raised by stakeholder that do not meet the definitions in paragraph .03A of the Directive.

includes all pronouncements issued by the ASB, whereas Directive 5 refers only to Standards of GRAP. The Technical Committee recommended that the Directive should specify that the definitions provided in the Directive are intended solely for the purpose of Directive 5 and not for other Standards. This will address the potential conflict between the definition of Standards of GRAP in GRAP 3 and Directive 5 paragraph .03A.

14. The Technical Committee further recommended that the Secretariat undertakes a complete review of the Standards (as part of the Improvements project) to assess how 'Standards of GRAP' are used and whether any amendments to the use of the term are needed to clarify the meaning.

Application of transitional provisions to develop accounting policies

15. Respondents questioned whether transitional provisions should be applied when developing accounting policies based on a new Standard that has been approved by the Board but the Minister of Finance has not yet determined an effective date.

Technical Committee recommendations

16. The Technical Committee does not propose including guidance on the use of transitional provisions to develop accounting policies in the Directive because these provisions only apply to the initial adoption of a Standard of GRAP, rather than to the development of accounting policies using a new Standard. GRAP 3 applies to the development of accounting policies using a new Standards of GRAP. The analysis of comments provides the necessary clarity to respondents.
17. The Technical Committee recommends that a basis for conclusions paragraph is included in the Directive to explain the Board's decision on the use if transitional provisions to develop accounting policies (see paragraph BC11.).

Paragraph .05A

18. Some respondents questioned the inclusion of paragraph .05A, arguing that it restricts management's exercise of judgement in developing accounting policies, as permitted by GRAP 3.08. These respondents view the paragraph as a new requirement included in the Directive rather than a clarification of an existing principle, as indicated in the Exposure Draft.

Technical Committee recommendations

19. The Technical Committee proposes to retain paragraph .05A, as it should be read with GRAP 3.08. GRAP 3.08 permits management to exercise judgement in developing accounting policies when no specific Standard of GRAP exists for a transaction or event (see paragraph BC10.).
20. Entities that develop accounting policies do so in accordance with the principles in GRAP 3, and any amendments to accounting policies should be done in accordance with the guidance in GRAP 3.

Hierarchy

Paragraph .08

21. Respondents indicated that the inclusion of "to the extent permitted by this Directive" might have negative consequences. Specifically, it could be too prescriptive for entities, potentially preventing them from accounting for certain transactions or events even

though GRAP 3.11 would previously have allowed entities to develop accounting policies for those specific transactions or events.

22. Respondents also noted that the list of standard setters in paragraph .08 of the Directive excludes the IFRS® Interpretations Committee and the former Standing Interpretations Committee of the IASB, both of which are referenced in paragraph .11 of GRAP 3. This omission may lead to inconsistencies between the Directive and GRAP 3.

Technical Committee recommendations

23. The Technical Committee proposes to retain the amendments to paragraph .08, and include a basis for conclusions paragraph that explains that the Board decided to include appendices listing the relevant Standards from other standard setters, as referenced in paragraph .11 of GRAP 3 (see paragraph BC10.). These Standards may be used by entities to report on transactions or events in the absence of a Standard of GRAP. This decision was based on the Board's assessment of the maturity of the environment and responds to stakeholder requests for specific direction from the Board on the pronouncements that should be applied. The provided pronouncements are suitable for the local environment and meet the requirements in GRAP 3.
24. The Technical Committee also proposes to retain paragraph .08 of the Directive because, while the IFRS® Interpretations Committee and the former Standing Interpretations Committee develop interpretations, they are issued by the IASB.

Developing accounting policies and adoption of Standards of GRAP and Interpretations of the Standards of GRAP

Paragraphs .11A, .12 and .12A

25. Respondents noted that paragraph .11A of the Directive appears to contradict paragraph .08 of the Directive as the paragraph excludes the amendment 'to the extent permitted by this Directive'.
26. Respondents also noted that with the amendments to paragraph .12 and the addition of paragraph .12A to the Directive, it is unclear why amendments to Standards of GRAP cannot be used to develop accounting policies while new Standards of GRAP can be used to develop accounting policies.
27. Respondents argued that according to paragraph 8.5(a)(l) of the Due Process Handbook, amendments to Standards of GRAP are intended to clarify existing Standards of GRAP or provide guidance on an issue where none exists. Therefore, it is reasonable to expect that amendments should also be used to develop accounting policies before the effective date set by the Minister of Finance. This ensures that entities apply the most appropriate and relevant guidance to affected transactions and/or events. Additionally, it encourages proactivity among preparers of financial statements.

Technical Committee recommendations

28. The Technical Committee proposes for the issue in paragraph 25 above to amend paragraph .11A by removing "(see GRAP 3 paragraphs .08 to .11)" and replacing it with "(see paragraph .08)." Additionally, clarify in paragraph .08 that the reference to paragraph .11 pertains to GRAP 3, not to paragraph .11 of Directive 5.
29. For the issue in paragraphs 26 and 27 above, the Technical Committee proposes that the amendments to paragraph .12 and the addition of paragraph .12A should be

retained. A basis for conclusions paragraph is added to the Directive to clarify that the Minister of Finance is the legislated authority for approving Standards of GRAP for implementation. Therefore, entities should not use requirements not yet approved by the Minister of Finance to amend existing accounting policies (see paragraph BC9.).

Application of pronouncements of the IPSASB and IASB

Paragraphs .16, .19 and .19A

30. Respondents disagreed with the Board's decision to replace paragraphs .16 to .19 with paragraph .19A, stating that paragraph .19A is inconsistent with the requirements in GRAP 3. Respondents requested the exclusion of paragraph .19A, arguing that there may be certain transactions for which no guidance is available within the GRAP Reporting Framework. Given that the ASB does not issue opinions or provide direct guidance for specific entities, it is important to allow management the flexibility to develop accounting policies based on principles established in pronouncements that have undergone a due process.
31. Respondents argued that the proposed paragraph .19A limits management's judgement in developing accounting policies where no Standard of GRAP exists. Respondents noted that paragraph .19A creates the need for entities to request guidance from the ASB where no appropriate Standard of GRAP exists. Respondents also pointed out that there may be standards not included in the Appendices which entities might find relevant.

Technical Committee recommendations

32. The Technical Committee proposes to retain paragraph .19A for the same reasons discussed in paragraphs 19 and 23 above.

Appendix – Application Guidance

AG 1

33. Overall, respondents indicated that the diagram is useful to illustrate the principle of how New Standards of GRAP and Amendments of Standards of GRAP are to be adopted or used to develop accounting policies.
34. Some respondents, however, stated that the application guidance does not provide guidance on consequential amendments to existing Standards of GRAP arising from new or amended requirements, nor does it provide guidance on the entire replacement of a Standard.

Technical Committee Recommendations

35. The Technical Committee proposes the application guidance be amended and a footnote included to the definitions in paragraph .03A to explicitly state that consequential amendments should be treated similarly to new Standards and amendments to existing Standards.
36. The Annexure to the Directive will be amended as detailed in paragraph .12 above.
37. The Technical Committee also recommended an amendment to explicitly state in paragraph AG1. that the application of Interpretations is aligned with the related Standard.

ACTIONS REQUESTED #1

The Board is requested to:

- (a) DISCUSS the comment received from respondents;**
- (b) DISCUSS the recommendations from the Technical Committee;**

REPORTING FRAMEWORK FOR 2025/26

- 38. The reporting framework for 2025/26 is included as attachment 4(b). In line with previous decisions, the Annexure that accompanies Directive 5 merely outlines the changes to the previous reporting framework. The full reporting framework for the period is published on the website for information purposes and is included as attachment 4(d).
- 39. The Secretariat has prepared the Annexure for the reporting period commencing on or after 1 April 2025 for approval.

Changes from the prior year

- 40. A communication will accompany Directive 5 to explain the changes, as well as the status of international standards on the reporting framework. This is included as attachment 4(e) for information purposes.
- 41. The following pronouncements are effective for financial periods commencing on or after 1 April 2025:
 - GRAP 104 on *Financial Instruments* (2019)
 - IGRAP 22 on *Foreign Currency Transactions and Advance Consideration*
- 42. The following pronouncements approved by the Board are excluded from this reporting framework as they have no effective date that has been determined by the Minister of Finance.
 - Amendments to GRAP 103 on *Heritage Assets*, which were approved by the Board in June 2022.
 - Amendments to the Standard of GRAP 1 on *Presentation of Financial Statements* (going concern), which were approved by the Board in December 2022.
 - *Improvements to the Standards of GRAP, 2023*, which were approved by the Board in September 2023.
 - Amendments to GRAP 105, GRAP 106 and GRAP 107 on *transfers of functions and mergers*, which were approved by the Board in December 2023.
- 43. The Technical Committee recommended the reporting framework to the Board for review and approval.

ACTIONS REQUESTED #2

The Board is requested to REVIEW the proposed reporting framework for 2025/26, and if considered appropriate, APPROVE it.

THE NEED FOR RE-EXPOSURE

44. The Technical Committee is of the view that re-exposure of ED 208 is not required as:
- (a) no substantial changes were made to the principles proposed in the Directive on *Determining the GRAP Reporting Framework*, such that respondents did not have an opportunity to make their views known before the Board reaches a final decision; and
 - (b) no matters not previously deliberated by the Board need to be considered or debated.

NEXT STEPS

45. The Secretariat will develop comprehensive materials to effectively communicate and raise awareness about the approved GRAP reporting framework.