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TO: **MEMBERS OF THE BOARD**

FROM: **AMANDA BOTHA**

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

DATE: **9 SEPTEMBER 2025**

FILE REF: **ATTACHMENT 4(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. The Review Report summarises the issues noted from the PIR and the Board's agreed actions.

2. An outcome of the review is to propose amendments to GRAP 109. Proposed amendments to the Standard were discussed at two project group meetings and the Technical Committee. The Technical Committee recommended the proposed 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)* to the Board for its consideration.

3. The purpose of this memorandum is for the Board to consider the following and, if appropriate, approve them for exposure:

   (a) the Exposure Draft (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 highlighted that stakeholders do not correctly identify if a principal-agent arrangement exists, and that they have challenges with the application of GRAP 109. To address the key findings, no substantive amendments are proposed to GRAP 109 as the Standard already provides guidance. Instead, the proposed amendments clarify the existing requirements to identify whether an arrangement meets the definition of a principal-agent arrangement, and if so, whether an entity is the agent or the principal.

5. The proposed ED is included as attachment 4(b) and the proposed ITC is included as attachment 4(c). The key proposed amendments are discussed below.

<table>
<tr><th>Key amendment</th><th>Details of the proposed amendments</th></tr>
<tr><td>Guidance on binding arrangement</td><td>Assessing whether a principal-agent arrangement exists is based on the terms outlined in a binding arrangement. To address the challenges from the PIR, the following amendments are proposed:

• combine all the relevant guidance on binding arrangements in the definition section of the Standard (paragraphs .05A to .05F);

• include additional guidance to clarify that:

(a) 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);

(b) judgement is applied to determine whether a binding arrangement exists (paragraph .05D); and

(c) 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).</td></tr>
<tr><td>Assessing whether the definition of a principal-agent arrangement is met</td><td>The following additional clarifications are proposed to assist entities in concluding whether an arrangement is a principal-agent arrangement:

• assessing whether an arrangement is a principal-agent arrangement is undertaken before accounting for the arrangement in terms of GRAP 109 (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 that 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);

• the application of substance over form to conclude whether an arrangement meets the definition of a principal-agent arrangement and include the guidance in the section on identifying whether the arrangement is 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 .05B and .08I); and</td></tr>
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	• the rights and obligations of a principal in relation to the transactions undertaken with third parties are substantive, while the rights and obligations of an agent are protective or administrative in nature (paragraph .13B).
Disclosure requirements	The following amendments are proposed to the disclosure section: • include a disclosure objective to enable preparers to consider whether they provide disclosures that address users' information needs (paragraph .60A); • 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).

INCLUSION OF ADDITIONAL ILLUSTRATIVE EXAMPLES

6. The Technical Committee debated a proposal from project group members to include additional illustrative examples (a) on subcontracting or service provider arrangements; and (b) to explain that when entities have shared or similar mandates, it does not imply that the parties are involved in a principal-agent arrangement. The Technical Committee concluded that the illustrative examples included in GRAP 109 are appropriate. Any additional examples should be considered as part of developing practical guidance by the Secretariat, the OAG and AGSA once the amendments to GRAP 109 are finalised.

ACTIONS REQUESTED

The Board is REQUESTED to:

(a) CONSIDER and REVIEW the proposed ED and ITC (see attachment 4(b) and (c)); and

(b) if deemed appropriate, APPROVE these for consultation.

NEXT STEPS

7. Subject to the proposed amendments to GRAP 109 being approved by the Board, the ED and ITC will be published for comment in October 2025. The comment deadline is anticipated to be towards the middle of February 2026.