Responses due by 27 October 2024

ACCOUNTING STANDARDS BOARD

INVITATION TO PARTICIPATE IN THE POST-IMPLEMENTATION REVIEW OF THE STANDARD OF GRAP ON *STATUTORY RECEIVABLES* (GRAP 108)

(ED 207)

Issued by the
Accounting Standards Board

January 2024

Commenting on this Post-implementation Review

The Accounting Standards Board (the Board) is undertaking a post-implementation review (PIR) of the Standard of GRAP on *Statutory Receivables* (GRAP 108). The PIR enables the Board to assess the impact of the requirements of GRAP 108 on preparers and/or users of the financial statements and to assess if GRAP 108 has met its objective.

Responses to the PIR should be submitted in writing so as to be received by **27 October 2024.** E-mail responses are preferred. Comment should be addressed to:

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ED 207

CONTENTS

Post-implementation review of the Standard of GRAP on *Statutory Receivables* (GRAP 108)

	Page
Introduction to the PIR of GRAP 108	4 – 5
Background	4 – 5
Undertaking the PIR	5
Phase one of the PIR	5
Phase two of the PIR	5
Objective of reporting on statutory receivables	6
Focus areas of the PIR	7 – 16
Issue #1 – Definition and scope (GRAP 108.02 to 108.05)	7 – 8
Issue #2 – Recognising and determining an initial value for statutory receivables (GRAP 108.06 and 108.10)	8 – 9
Issue #3 – Subsequent measurement of statutory receivables (GRAP 108.07 and 108.11 to 108.29)	9 – 12
Impairment of statutory receivables (GRAP 108.16 to 108.29)	10 – 12
Issue #4 – Derecognition of statutory receivables (GRAP 108.07 to 108.09)	12 – 13
Issue #5 – Presentation of receivables as statutory or contractual	13
Issue #6 – Disclosure of statutory receivables in the financial statements (GRAP 108.30 to 108.41)	14 – 17
Disclosures on exposure to credit and liquidity risks	15
Other matters	16 – 17

1. Introduction to the PIR of GRAP 108

Background

1.1 Except for trading entities, GRAP 108 became effective for financial years commencing on or after 1 April 2019. Trading entities applied GRAP 108 from 1 April 2021.

1.2 The Board granted a three-year transitional period for the classification and measurement of statutory receivables. When an entity elected to apply the transitional relief, it was not required to comply with the classification, recognition, measurement and related disclosure requirements. The transitional period ended on 31 March 2022 for all entities other than trading entities. Trading entities can apply the relief until 31 March 2024.

1.3 To assist with the implementation of GRAP 108, the Secretariat developed the following guidance:

- The Standard of GRAP on *Financial Instruments* (GRAP 104) Fact Sheet #1 on *Applying the Definition of a Financial Instrument* (Fact-Sheet-1-Definition-of-a-financial-instrument-March-2022.pdf)*;*
- GRAP 104 Fact Sheet # 11 on *Classification of VAT* (Fact Sheet 11 - Classification of VAT (18 July) (asb.co.za));
- A Frequently Asked Question (FAQ) on *When should an entity present revenue and receivables from exchange and non-exchange transactions on the face of the financial statements or in the notes?* (Frequently asked questions – ASB); and
- A FAQ on *How do statutory receivables arise? (*Frequently asked questions – ASB)

1.4 The Office of the Accountant-General (OAG) developed a GRAP Accounting Guideline to assist with the implementation of GRAP 108 Accounting Guideline on GRAP 108 Issued September 2022.pdf (treasury.gov.za).

1.5 The PIR is an opportunity for the Board to assess the impact of the requirements of a Standard of GRAP on preparers and/or users of financial statements. In particular, the review is intended to:

(a) assess whether the Standard met its objectives;

(b) determine the extent to which applying GRAP 108 provides relevant and useful information to users of the financial statements, and to identify what other information users require on statutory receivables in the financial statements; and

(c) understand the implementation challenges that preparers experience, and the extent to which these challenges may impair the application of the requirements in GRAP 108.

1.6 As an outcome of the PIR, the Board will assess if any amendments are required to GRAP 108 and if any other actions may be required, such as:

(a) developing an Interpretation of the Standards of GRAP;

(b) issuing or revising existing FAQs or Fact Sheets; and

(c) engaging the OAG to undertake other initiatives.

Undertaking the PIR

1.7 The PIR is undertaken in two phases.

Phase one of the PIR

1.8 The first phase was completed and identified issues with the application of GRAP 108 through various means. The information gathered in this phase identified specific areas where feedback will be sought as part of the next phase from users, preparers and auditors.

Phase two of the PIR

1.9 This phase involves obtaining comment from stakeholders. There are two mechanisms through which users, preparers and auditors may respond to the PIR. The first is through providing written responses, while the second involves consultations between the ASB and stakeholders.

1.10 If you are interested in participating in these engagements, please contact Amanda Botha on amandab@asb.co.za. The closing date for the PIR is 27 October 2024.

2. Objective of reporting on statutory receivables

2.1 Entities in the public sector operate within a highly regulated environment. Even though an entity's operations are regulated by legislation or similar means, it does not mean that all the transactions it undertakes arise from statute. Transactions are statutory in nature when they are undertaken directly because of legislation, supporting regulations or similar means (hereafter "legislation or similar means"). Common examples of statutory receivables include taxes, fines, penalties, appropriations, grants and fees charged in terms of legislation or similar means.

2.2 Information is included on statutory receivables in entities' financial statements to enable users to evaluate the significance of statutory receivables on an entity's financial position and performance. Among others, information is included on:

- how statutory receivables arise, and what interest and/or other charges (e.g. penalties and fines) are levied on outstanding amounts with reference to legislation or similar means;
- changes in the value of statutory receivables, and an entity's ability to collect the receivables, including an analysis of statutory receivables that are past due at the reporting date and which have, or have not been impaired;
- when statutory receivables are derecognised; and
- potential losses or forfeiture of statutory receivables.

3. Focus areas of the PIR

3.1 From phase one, the Board identified the issues below on which it requests respondents' views.

Issue #1 – Definition and scope (GRAP 108.02 to 108.05)

3.2 Two types of receivables exist in the public sector, contractual receivables and statutory receivables. The differences between the two types of receivables are:

	Statutory receivable	**Contractual receivable**
How receivables arise	Arises from legislation or similar means. "Similar means" include regulations, supporting legislation, by-laws or other documents issued in terms of legislation, such as ministerial orders, cabinet or municipal decisions.	Arises from contracts that grant an entity a contractual right to receive cash or another financial instrument. The characteristics of a contract are: (a) it involves willing parties entering into the agreement; (b) the terms of the agreement create rights and obligations for the parties involved, and those rights and obligations need not result in equal performance by each party; and (c) performance and remedy for non-performance are enforceable by law.
The nature of the transactions	Compulsory transactions that are required in legislation or similar means.	Voluntary transactions that are entered into willingly.
Remedies for non-performance	Usually outlined in legislation or similar means.	Agreed between the parties and enforced by law.
Applicable Standard of GRAP	GRAP 108	GRAP 104
Examples	Taxes, fines, penalties, appropriations, grants, and fees charged in terms of legislation or similar means.	Sale of goods or the provision of services.

3.3 Some transactions are governed by legislation or similar means but are initiated by a contract. These transactions give rise to contractual receivables rather than statutory receivables. For example, the distribution of electricity is governed by a regulator who determines the electricity tariff that can be charged by municipalities. Each municipal council adopts this tariff by way of a council decision. Consumers who wish to be connected to the electricity grid and/or receive a supply of electricity, apply to the municipality in their area for the service. The terms and conditions of the transaction, such as what tariffs will be charged, whether a deposit is needed, penalties for late payment etc. is agreed between the consumer and the municipality through a contract. Even though the transaction with the consumer is governed by legislation or similar means (the council resolution), it is initiated by the contract between the parties. Any receivables from the transaction are contractual in nature.

3.4 This guidance is explained in:

(a) the GRAP 104 Fact Sheet #1 on *Applying the Definition of a Financial Instrument* which clarifies when a receivable should be classified as a statutory receivable or a contractual receivable; and

(b) a FAQ on *How do statutory receivables arise?*.

Preparers' perspective

Question P1

Do you have any challenges to distinguish receivables as statutory or contractual based on the guidance in GRAP 108?

If yes, please describe and provide examples of these challenges, and indicate how, in your view, they can be resolved.

Issue #2 – Recognising and determining an initial value for statutory receivables (GRAP 108.06 and 108.10)

Recognition

3.5 The initial recognition of statutory receivables is based on whether the transaction is an exchange or a non-exchange transaction. An exchange transaction is a transaction in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services or use of assets) to another entity in exchange. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange or gives value to another entity without directly receiving approximately equal value in exchange.

3.6 The key to classifying receivables as either exchange or non-exchange is whether:

(a) parties to the transaction exchange approximately equal value; and

(b) they do so directly with each other.

3.7 Statutory receivables that arise from (a) an exchange transaction is recognised using GRAP 9 on *Revenue from Exchange Transactions*; and (b) a non-exchange transaction, is recognised using GRAP 23 on *Revenue from Non-exchange Transactions (Taxes and Transfers)*.

3.8 If the transaction is not in the scope of GRAP 9, GRAP 23 or another Standard of GRAP, the receivable is recognised when (a) the definition of an asset is met, (b) it is probable that future economic benefits or service potential associated with the asset will flow to the entity, and (c) the transaction amount can be measured reliably.

Initial measurement

3.9 Statutory receivables are initially measured at their transaction amount. The transaction amount is the amount specified in legislation or similar means with reference to the specific tariffs, fees, scales, or calculation basis.

3.10 For initial measurement, the principles in GRAP 9 or GRAP 23, and GRAP 108 are applied. Both GRAP 9 and GRAP 23 require initial measurement at fair value. The fair value of statutory receivables that are determined in accordance with GRAP 9 or GRAP 23 is the transaction amount in GRAP 108. Time value of money and any financing elements are excluded from the initial measurement of statutory receivables.

Preparers' perspective

Question P2

Do you have any challenges to measure statutory receivables at the transaction amount as required in GRAP 108?

If yes, please describe and provide examples of these challenges, and indicate how, in your view, they can be resolved.

Issue #3 – Subsequent measurement of statutory receivables (GRAP 108.07 and 108.11 to 108.29)

3.11 Statutory receivables are subsequently measured using the cost method. Under the cost method, the initial measurement of statutory receivables (i.e. the transaction amount) is adjusted to reflect:

(a) interest or other charges levied on overdue or unpaid statutory receivables in terms of legislation or similar means;

(b) impairment losses; and

(c) any amounts derecognised.

Preparers' perspective

Question P3

Do you have challenges to subsequently measure statutory receivables using the cost method?

If yes, please describe and provide examples of these challenges, and indicate how, in your view, they can be resolved.

Impairment of statutory receivables (GRAP 108.16 to 108.29)

3.12 A statutory receivable, or a group of statutory receivables, is assessed for impairment at each reporting date to determine if there is a loss, or if the likelihood of collecting the amounts owed, has diminished.

3.13 The likelihood of collecting statutory receivables may decrease due to, among other indicators:

(a) debtors experiencing significant financial difficulty, which may be evidenced by an application for debt counselling, business rescue or equivalent;

(b) the probability of a debtor entering sequestration, liquidation or other financial re-organisation;

(c) breaching the terms of the transaction, such as default or delinquency in the principal, or interest payments where these were levied; or

(d) adverse changes in international, national, or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

3.14 GRAP 108 requires an entity to assesses if there are any indications that:

(a) individually significant receivables are impaired; and/or

(b) groups of similar, individually insignificant receivables are impaired.

3.15 If there is an indication that a statutory receivable or group of statutory receivables may be impaired, the impairment loss is measured as the difference between the estimated future cash flows and the carrying amount of the receivable.

3.16 If an impairment loss is recognised for an individually significant receivable, it is not included in the collective assessment. However, if there is no indication that an individually significant statutory receivable is impaired on its own, it is grouped with similar receivables that exhibit similar characteristics. The group of statutory receivables is then collectively assessed for impairment.

3.17 In addition, individually insignificant statutory receivables with similar characteristics are grouped and assessed for impairment.

3.18 GRAP 108 does not define or describe characteristics to group statutory receivables. Examples are provided on how to group statutory receivables, which include debtor types (e.g. commercial entities and individuals) or transaction types (e.g. taxes, fines or grants).

Preparers' perspective

Question P4

Do you have challenges to group receivables for impairment?

If yes, please describe and provide examples of these challenges, and indicate how, in your view, they can be resolved.

Question P5

What specific factors and methodology do you apply, and what characteristics do you consider to group receivables for impairment?

Question P6

Do you find the impairment indicators in GRAP 108 helpful to assess if statutory receivables are impaired, and are there any other indicators that you think should be considered?

Please explain your response.

Question P7

Do you have any challenges to calculate the impairment loss for a statutory receivable, or a group of statutory receivables?

If yes, please describe and provide examples of these challenges, and indicate how, in your view, they can be resolved.

3.19 GRAP 108 applies an incurred loss model for the impairment of statutory receivables. Applying the incurred loss model means that impairment is considered based on evidence that statutory receivables are credit-impaired at the reporting date, or because a default occurred.

3.20 GRAP 104 (revised 2019) introduces a new impairment model, the expected credit loss model (ECL). ECL adopts a forward-looking approach. This approach requires an entity to estimate impairment losses based on the difference between all contractual cash flows that are due in accordance with the contract, and all the cash flows that the entity expects to receive.

3.21 The difference between incurred loss and expected loss is that incurred loss is the amount of loss that already happened due to a default or impairment event, while expected loss is the amount of loss that is estimated to happen in the future due to possible default or impairment events.

3.22 The introduction of ECL means that different impairment models will be applied for contractual and statutory receivables when GRAP 104 (revised 2019) becomes effective 1 April 2025.

Users' perspective

Question U1

Do you foresee any concerns with applying two different impairment models for contractual and statutory receivables, and how would two different models impact your ability to hold entities accountable and make decisions?

Please explain your response.

Preparers' perspective

Question P8

(a) What issues, practical or otherwise, do you foresee with applying two different impairment models for contractual and statutory receivables, if any?

(b) Do you foresee any issues, practical or otherwise, if GRAP 108 adopts the ECL model for the impairment of statutory receivables?

Please explain your response.

Issue #4 – Derecognition of statutory receivables (GRAP 108.07 to 108.09)

3.23 Statutory receivables, or a part thereof, are derecognised when:

(a) the rights to the cash flows from the receivable are settled, expire or are waived;

(b) an entity transfers to another party substantially all of the risks and rewards of ownership of the receivable; or

(c) despite having retained some significant risks and rewards of ownership of the receivable, control of the receivable is transferred to another party. The other party has the practical ability to sell the receivable in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without the need to impose additional restrictions on the transfer. An entity separately recognises any rights and obligations created or retained in the transfer.

3.24 The derecognition of statutory receivables should be distinguished from impairment:

- Derecognition results in the removal of previously recognised receivables from an entity's statement of financial position because the entity no longer has control of the right to future economic benefits (or service potential).
- Impairment is the recognition of a loss of future economic benefits (or service potential) associated with statutory receivables because these receivables are credit-impaired. The entity still has control of the right to future economic benefits (or service potential). For example, a significant debtor with unpaid property rates encounters financial difficulty, and as a result, the entity estimates the debtor will no longer be able to settle its unpaid rates in full.

Preparers' perspective

Question P9

Does GRAP 108 provide clear and sufficient guidance to determine when to derecognise a statutory receivable?

Please explain your response.

Question P10

Do you have any challenges to distinguish whether statutory receivables should be impaired or derecognised?

If yes, please describe and provide examples of these challenges, and indicate how, in your view, they can be resolved.

Issue # 5 – Presentation of receivables as statutory or contractual

3.25 The Standards of GRAP set out requirements for the presentation of revenue and receivables from exchange and non-exchange transactions, either on the face of the financial statements or in the notes.

3.26 GRAP 1 requires, as a minimum, that the face of the statement of financial position should include line items that present, among others, the amounts for (a) receivables from non-exchange transactions (taxes and transfers), and (b) receivables from exchange transactions. It also requires an entity to disclose, either on the face of the statement of financial position or in the notes, further sub-classifications of the line items presented. These items are classified in a manner appropriate to the entity's operations.

3.27 GRAP 23 requires an entity to disclose, either on the face or in the notes, the amount of receivables recognised in respect of non-exchange revenue.

3.28 From these requirements, receivables from exchange and non-exchange transactions should be presented separately on the face of the statement of financial position, if material. As contractual and statutory receivables differ in nature, the notes to the financial statements should separately disclose the carrying amounts of statutory receivables to distinguish it from contractual and other receivables (GRAP 108.35).

Users' perspective

Question U2

Do you find it useful to receive information on statutory receivables separately from contractual and other receivables, to hold entities accountable and to make decisions?

If yes, how do you use the information to hold entities accountable and to make decisions?

If no, please provide reasons why the information is not relevant, and how, in your view, the information can be improved to meet your information needs?

Preparers' perspective

Question P11

Do you have any challenges to present statutory receivables separately from contractual and other receivables in the notes to the financial statements?

If yes, please describe and provide examples of these challenges, and indicate how, in your view, they can be resolved.

Question P12

Do you have any challenges to present statutory receivables as exchange or non-exchange in nature?

If yes, please describe and provide examples of these challenges, and indicate how, in your view, they can be resolved.

Issue #6 – Disclosure of statutory receivables in the financial statements (GRAP 108.30 to 108.41)

3.29 GRAP 108 requires the disclosure of specific information on statutory receivables. The presentation and disclosure requirements in other Standards of GRAP, such as GRAP 1, GRAP 9 and GRAP 23, also need to be considered.

3.30 The information presented and disclosed should allow a reconciliation of the information presented in the notes to the line items presented in the financial statements.

3.31 GRAP 108 requires the following information to be disclosed:

(a) How statutory receivables arise and how the transaction amount is determined with reference to the applicable legislation or similar means.

(b) Interest or other charges levied – this information explains to users how and when interest and other charges may be levied with reference to the applicable legislation or similar means, along with information on the basis and rate used to levy these.

(c) Losses on statutory receivables or the reversal thereof – this information explains:

- the key indicators, assumptions and basis used to assess and test if statutory receivables are impaired, or an impairment loss is reversed;
- the main events and circumstances that led to an impairment loss or its reversal;
- how statutory receivables are grouped and assessed for collective impairment;
- the discount rate applied to estimate future cash flows; and
- the collectability of statutory receivables, including an analysis of receivables that are past due and which have, and have not been impaired, along with factors considered.

(d) Other measurement information – information about the carrying amounts of statutory receivables that are presented in the notes to the financial statements, separately distinguished from contractual and other receivables.

(e) Collateral information – this information explains:

- when an entity holds collateral, such as guarantees or encumbrances over assets;
- the nature and amounts of any collateral recognised; and
- for collateral other than cash, the policies applied to execute rights over assets held as collateral and to dispose of such assets.

Disclosures on exposure to credit and liquidity risks

3.32 Other than the disclosure on the key indicators, assumptions and basis used to assess and test if statutory receivables are impaired, or an impairment loss is reversed (see paragraph 3.31(c)), GRAP 108 does not require an entity to provide an explanation of statutory receivables' exposure to credit risk.

3.33 GRAP 104 (revised 2019) requires an entity to present qualitative and quantitative information about an entity's exposure to risk, primarily based on the information provided internally to management. This information enables users to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed, and to understand the effect of credit risk on the amount, timing and uncertainty of future cash flows.

3.34 Liquidity risk disclosures explain to users how an entity intends to settle obligations (from financial liabilities) by delivering cash or another financial asset. For this purpose, GRAP 104 (revised) requires an entity to disclose a maturity analysis of financial liabilities, and of financial assets it holds for managing liquidity risk if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. GRAP 108 does not require a maturity analysis to understand the timing of cash inflows associated with statutory receivables and how the liquidity risk is managed.

Users' perspective

Question U3

Do you find the disclosures on statutory receivables relevant to hold entities accountable and to make decisions? If yes, what decisions are made with this information?

If no, please provide reasons why the information is not relevant, and how, in your view, the disclosures can be improved to meet your information needs.

Question U4

What information on the nature and extent of statutory receivables' exposure to credit risk and how liquidity risk is managed (if any) do you think will be relevant to hold entities accountable and to make decisions?

Please explain your response.

Question U5

What other information on statutory receivables do you think will be relevant to hold entities accountable and to make decisions?

Please explain why this information will be relevant.

Preparers' perspective

Question P13

Do you have any challenges to provide the disclosures on statutory receivables as required by GRAP 108 and other Standards of GRAP?

If yes, please describe and provide examples of these challenges, and indicate how, in your view, they can be resolved.

Question P14

What information on the nature and extent of statutory receivables' exposure to credit risk and how liquidity risk is managed (if any) do you think will be relevant to hold entities accountable and to make decisions?

Please explain your response.

Question P15

What other information on statutory receivables do you think users will find relevant for accountability and to make decisions?

Please explain your response.

Other matters

Users' perspective

Question U6

Are there any other matters on GRAP 108 that the Board should consider as part of this PIR?

Please explain your response.

Preparers' perspective

Question P16

Are there any other matters on the application and/or implementation of GRAP 108 that the Board should consider as part of this PIR?

Please provide details of your response.

Question P17

What are the ongoing costs and benefits of applying the requirements in GRAP 108 and how significant are they?

If, in your view, the ongoing costs of applying GRAP 108 are significantly greater than expected or the benefits of the resulting information to users of financial statements are significantly lower than expected, please explain your view.