June 2024

GRAP COMMUNIQUE

REVISIONS TO THE STANDARDS OF GRAP ON TRANSFER OF FUNCTIONS AND MERGERS

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INTRODUCTION AND PURPOSE

This Communique summarises the revisions to the Standards of GRAP on *Transfer of Functions Between Entities Under Common Control* (GRAP 105), *Transfer of Functions Between Entities Not Under Common Control* (GRAP 106), and *Mergers* (GRAP 107). These revisions were approved by the Board in December 2023.

The Minister of Finance has not yet determined an effective date for these revisions. Entities are therefore unable to early adopt the revisions and cannot use the revised Standards to develop accounting policies.

This Communique is not intended to provide comprehensive information on GRAP 105, GRAP 106 or GRAP 107. The revisions to GRAP 105, GRAP 106 and GRAP 107 can be accessed on the ASB's website here.

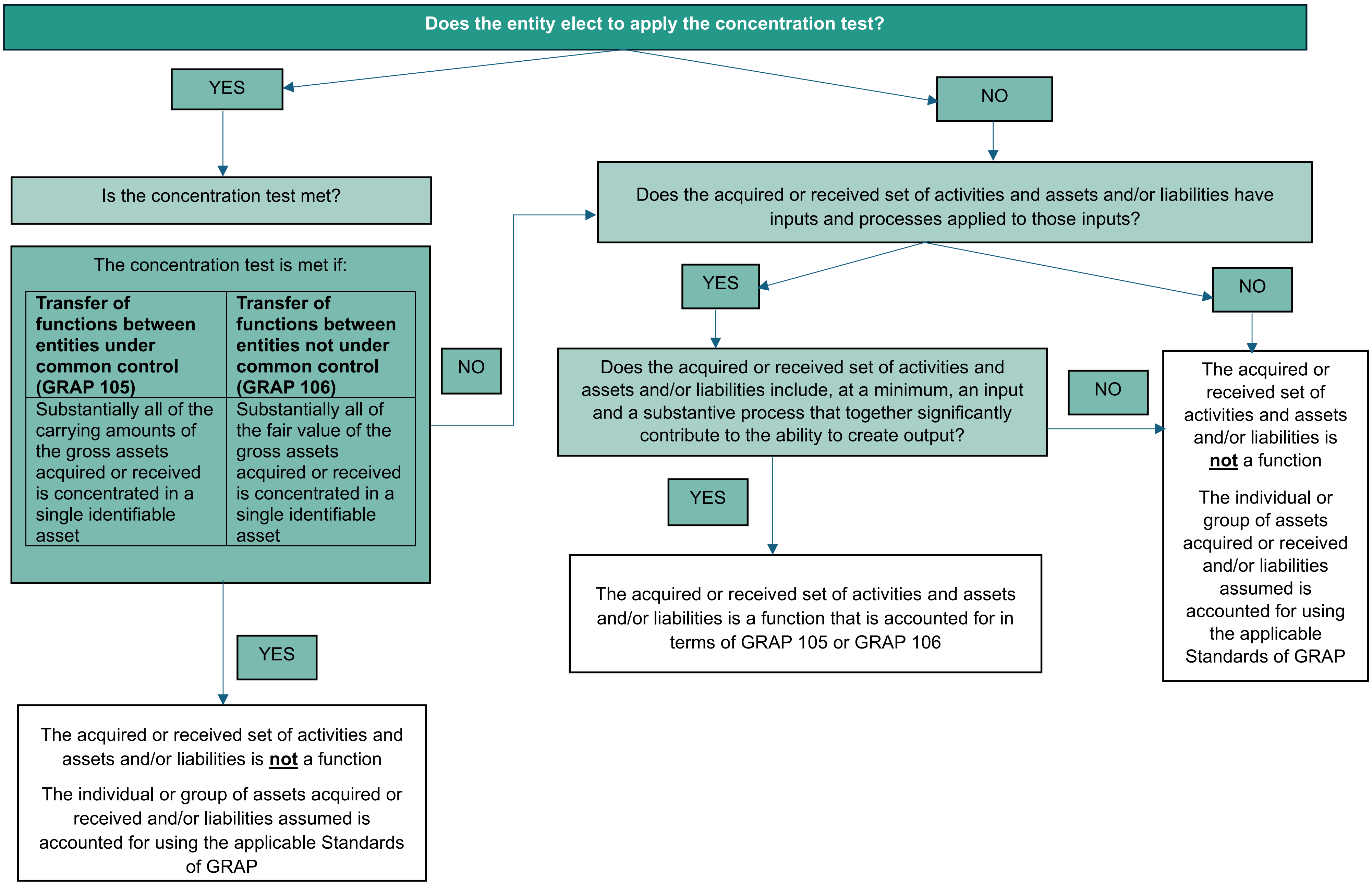
ASSESSING WHETHER THE DEFINITION OF A FUNCTION IS MET

GRAP 105 or GRAP 106 is applied to account for a transaction or event that involves a transfer of functions. A transfer of functions means that the functions previously undertaken or provided by one entity are reorganised and/or re-allocated to another entity or entities.

For the definition of a function to be met, an integrated set of activities and related assets and/or liabilities are conducted and managed to achieve the objectives of providing goods and/or services or generating revenue.

To assess if an acquired or received set of assets and/or liabilities *does not* comprise a function, an entity can choose to apply a simplified assessment, referred to as the concentration test. This test can be elected separately for each transaction or other event.

The decision to select, or to not select the concentration test, and the related accounting consequences when the test is met and not met, are illustrated in the diagram below.



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ASSESSING WHETHER A PROCESS IS SUBSTANTIVE

The diagram explains that if the concentration test is not met, or the entity elects not to apply the test, the entity needs to assess if the acquired or received set of activities and assets and/or liabilities includes, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. This assessment is needed to conclude whether the definition of a function is met, which determines the accounting of the acquired or received set of activities and assets and/or liabilities.

The table below explains whether an acquired or received process is considered substantive when there are outputs, or no outputs at the acquisition or transfer date:

A set of activities, assets and/or liability with no outputs on the transfer date	**A set of activities, assets and/or liability with outputs on the transfer date**
An acquired or received process is substantive when: (a) itis critical to the ability to develop or convert an acquired or received input(s) into outputs; and (b) the input(s) acquired or received include both an organised workforce and other inputs that the organised workforce could develop or convert into outputs.	An acquired or received process is substantive when: (a) it is critical to continue producing outputs and the acquired or received input(s) include an organised workforce; or (b) significantly contributes to the ability to continue producing outputs and (i) is considered unique or scarce; or (ii) cannot be replaced without significant cost, effort or delay in the ability to continue producing outputs.

An organised workforce is a workforce that has the necessary skills, knowledge or experience to perform the process or group of processes, and understands and knows how to operate the process, or processes, to create outputs.

Additional guidance is also included to determine whether a transaction is part of a transfer of functions or a separate transaction, and to explain how control is obtained of a function in a non-exchange transaction.

COMBINED ENTITY'S FIRST SET OF FINANCIAL STATEMENTS FOLLOWING A MERGER

GRAP 107 explains that the combined entity's first set of financial statements following a merger comprise:

(a) an opening statement of financial position as of the merger date;

(b) a statement of financial position as at the reporting date;

(c) a statement of financial performance for the period from the merger date to the reporting date;

(d) a statement of changes in net assets for the period from the merger date to the reporting date;

(e) a cash flow statement for the period from the merger date to the reporting date;

(f) if required by the Standard of GRAP on *Presentation of Budget Information in Financial Statements*, a comparison of budget and actual amounts for the period from the merger date to the reporting date; and

(g) notes, comprising a summary of significant accounting policies and other explanatory notes.

ADDITIONAL GUIDANCE

To further clarify the principles in GRAP 105, GRAP 106 and GRAP 107, new guidance is included, which also ensures consistency between the principles in the three Standards. Among others, the scope exclusions are aligned and additional exceptions to the recognition and measurement principles are included. To assist with the application of the principles, illustrative examples are included on the measurement period and to conclude if a transaction or event is a transfer of functions or merger.

GRAP 105 and GRAP 107 explain that the assets acquired or received and/or liabilities assumed by an acquirer or combined entity should be reflected at gross amounts. This means that the assets' cost, accumulated depreciation and accumulated impairment losses are recognised separately in the financial statements of the acquirer or combined entity on the transfer or merger date. A similar approach is applied to recognise the liabilities assumed on the transfer or merger date.

Two new Frequently Asked Questions (FAQs) have been developed. The first FAQ explains the difference between the measurement period and transitional provisions, while the second clarifies when an asset and/or liability qualifies for recognition as part of a transfer of functions or merger. The first FAQ can be accessed here. The second FAQ will be available when the revisions become effective.

NEW DISCLOSURE REQUIREMENTS

The revisions to GRAP 105, GRAP 106 and GRAP 107 introduce new disclosures to provide additional information to users to hold entities accountable and to make informed decisions. Among others, the acquirer or combined entity needs to explain the primary reason for the transfer of functions or merger, and provide disclosures where the transfer or merger occurred after the reporting period, but before the financial statements are authorised for issue.

To ensure that the disclosures in GRAP 105 and GRAP 107 are aligned with that in GRAP 106, the acquirer or combined entity needs to disclose amounts recognised for each major class of assets acquired or received and/or liabilities assumed. Disclosures should also be provided for individually immaterial transfers or mergers that are collectively material, and information that allows users to understand adjustments where advantage was taken of the measurement period.

Illustrative examples are also included to assist preparers.

HOW TO APPLY THE REVISIONS IN THE FIRST YEAR OF ADOPTION?

The transitional provisions require that the revisions apply to a transfer of functions or merger where the transfer or merger date is on or after the date that the revisions become effective, i.e. the changes are applied prospectively to new transfer of functions or mergers. The financial statements need not be adjusted for transfers of functions and mergers that occurred before the revisions become effective.

The transitional provisions are included in the Directive relevant to the entity.