

**Feedback from ED 200**  
**Post-implementation**  
**Review of GRAP 109**  
***Accounting by***  
***Principals and Agents***





# Overview

- Our review of GRAP 109
- Who we consulted
- What we heard
- Where we are in the process



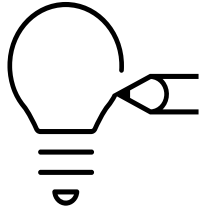
**Due Process Handbook**



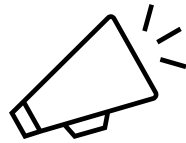


# Our review of GRAP 109

Review AFS and develop consultation documents



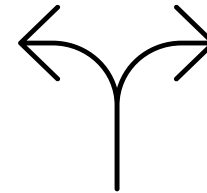
Public consultation



Analyse comments



Decide way forward



Action next steps



2022

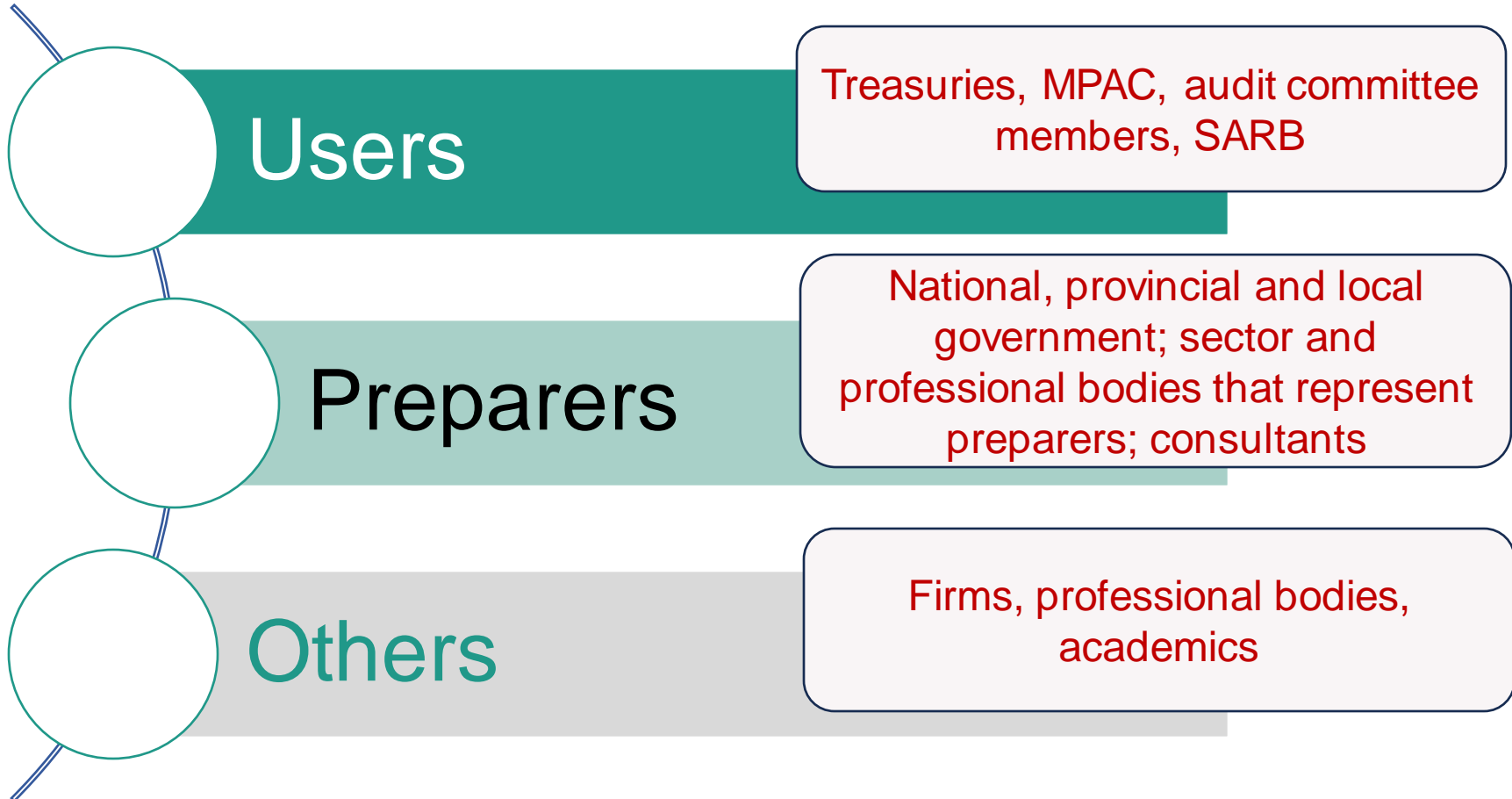
2023

October 2023 to March 2024

April 2024



# Who did we consult?



# What we heard

Identification of principal-agent arrangements

Materiality related issues

Recognition of assets by the agent either not supported or may be overly conservative

Disclosure requires improvement

Different views on the presentation of cash flows by the agent as gross or net

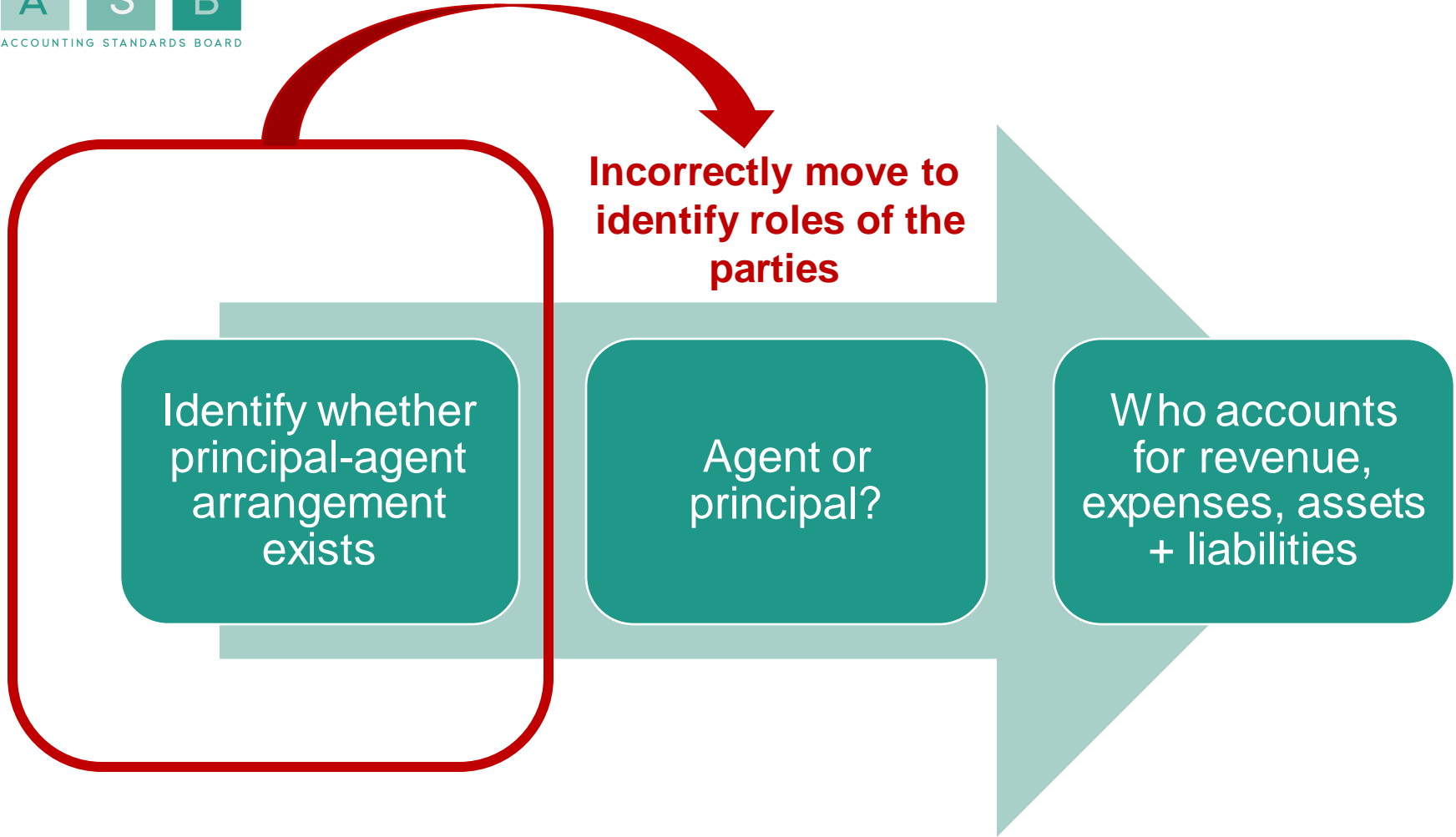
# Identification of arrangements

- GRAP 109 identifies *relationships* that can affect accounting of economic phenomena
- GRAP 109 only applies to principal-agent arrangements *as defined in GRAP 109*

## **Most significant issue identified:**

- Entities incorrectly apply GRAP 109 by not first assessing whether a principal-agent arrangement exists (as defined in GRAP 109)

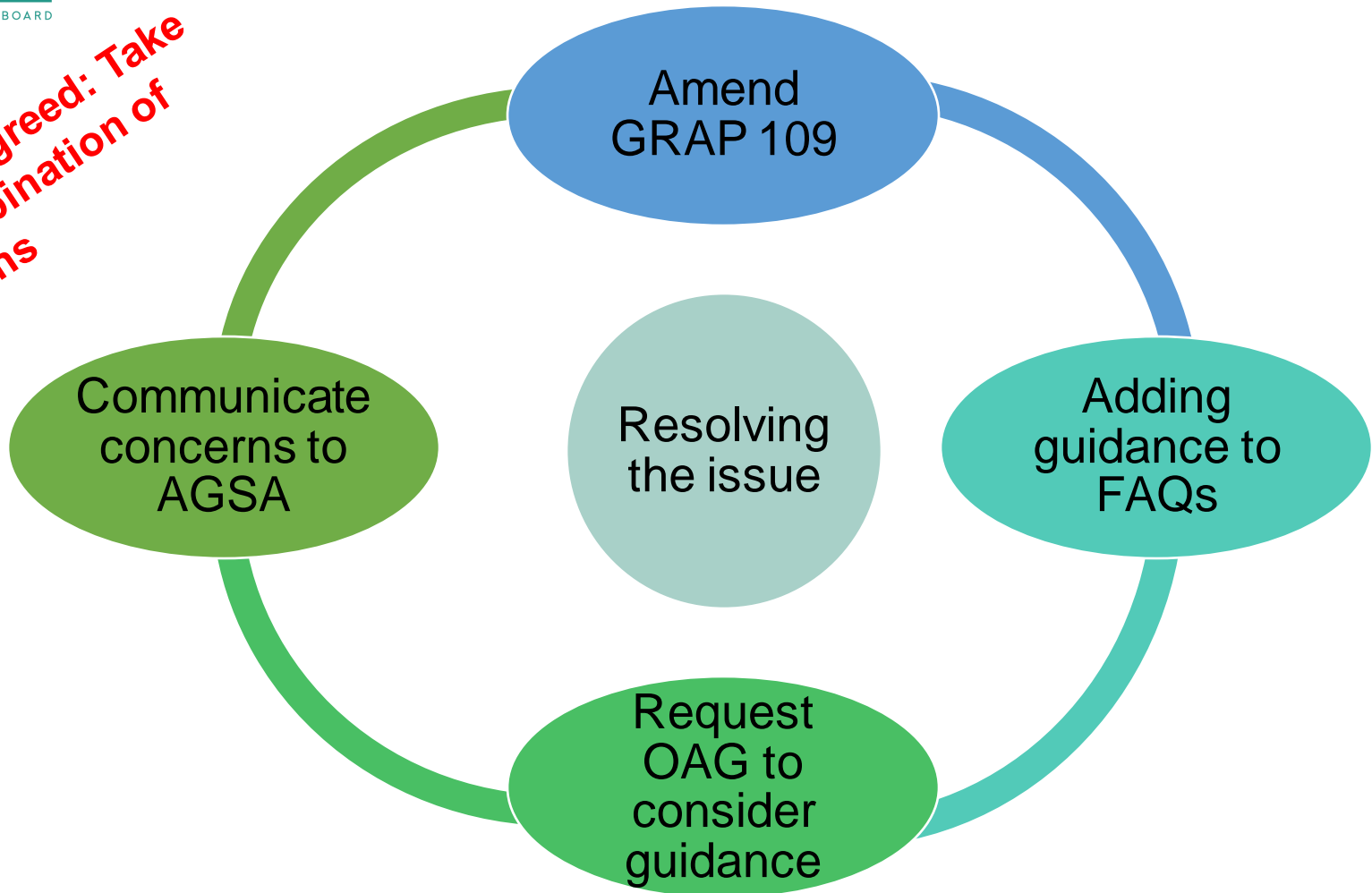
# Identification of arrangements





# Identification of arrangements

**Board agreed: Take a combination of actions**



# What we heard

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# Materiality related issues

- Standards (or their individual requirements) are not applied if effect of applying them is immaterial
- Materiality in the public sector focuses equally on quantitative and qualitative factors
- Resources:
  - [Guideline on the Application of Materiality to Financial Statements](#)
  - [Fact Sheet on Materiality](#)
  - [FAQ 1.3 on What is the role of materiality in the reporting of information in the financial statements?](#)

# Materiality related issues

- Judgement applied by preparers not mature enough to apply materiality

**UNSURE**

... Whether, and if so, extent to which materiality is considered when assessing definition

... Whether, and if so, how materiality is applied to assess role of parties in arrangement

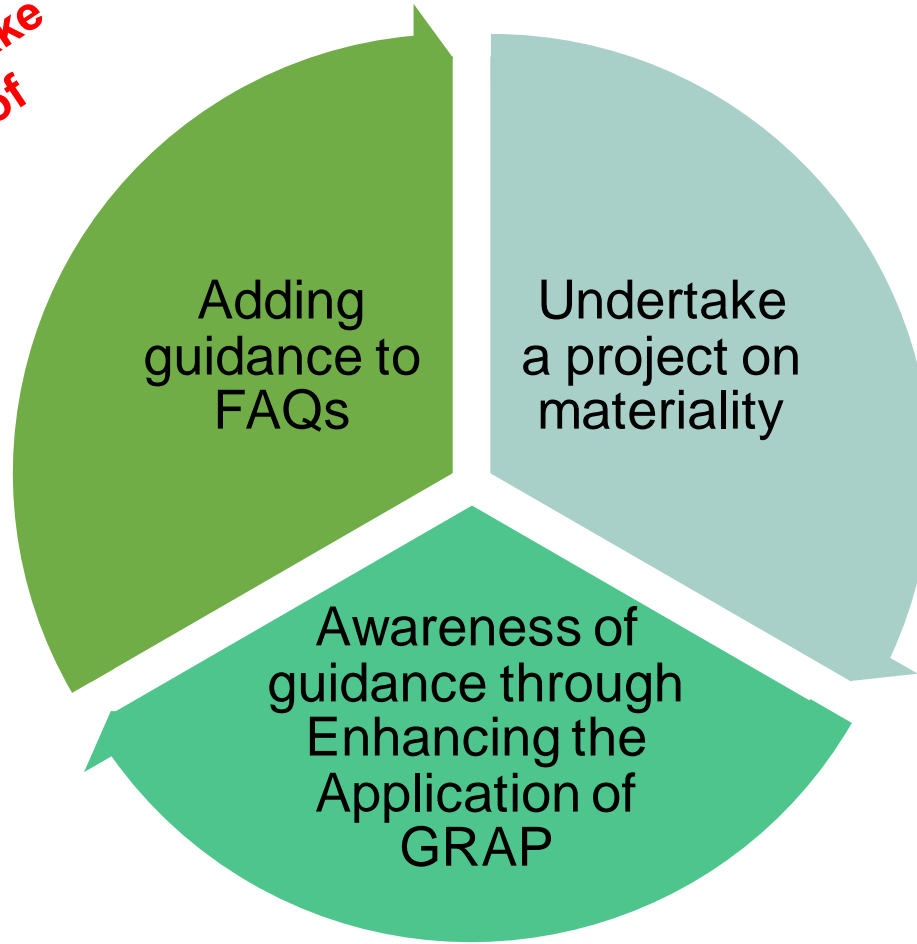
... When is a relationship qualitatively material

... What information to present and disclose about material principal-agent arrangements

... What materiality to apply to different statements and notes

# Materiality related issues

**Board agreed: Take a combination of actions**



# What we heard

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# Recognition of assets

- Agents recognise assets held on behalf of the principal when “homogenous”, i.e. indistinguishable.
- Entities generally recognise all assets to be conservative.

# Recognition of assets

## TWO VIEWS FROM REVIEW


Agent should recognise assets from PA arrangement for accountability and good governance purposes

Agent should not recognise assets from PA arrangement because an agent cannot control



# Recognition of assets

**AGREED**



Agent should recognise assets from PA arrangement for accountability and good governance purposes

Agent should not recognise assets from PA arrangement because an agent cannot control

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# Disclosure needs improvements

- Materiality needs to be applied
- “Boilerplate” information presented
- Key judgements not provided

## Preparers

Disclosures difficult to provide

GRAP 109 unclear

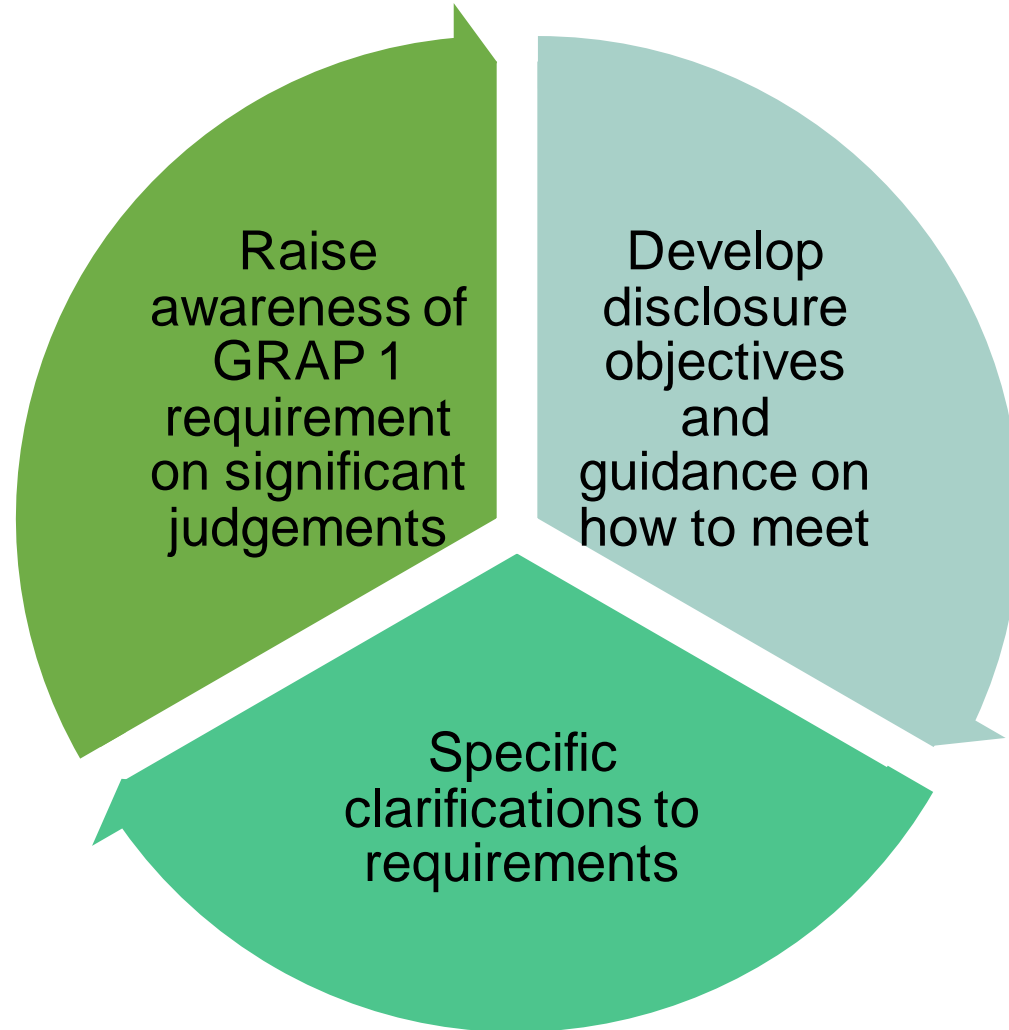
## Users

Don't receive information they need

Can't hold entities accountable or make decisions

**Board agreed: Take a combination of actions**

# Improving disclosures



# What we heard

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# Presentation of cash flows

- **GRAP 2:** Cash flows from agency-related activities may be presented on net basis (when cash controlled by agent)


➔ **Entity has choice**

- **ISSUES:**

- Divergence
- Some unaware of choice

# Presentation of cash flows

## TWO VIEWS FROM REVIEW



**Gross** cash flows should be provided to show users extent of principal-agent activity undertaken by agent

**Net** cash flows should be provided because gross cash flows will mislead users. Only cash flows from entity's own activities should be presented



# Presentation of cash flows

**AGREED**

**Retain option in GRAP 2**

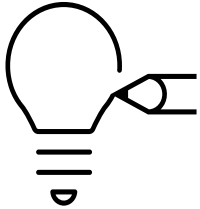
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- Amend GRAP 2 to clarify it relates to principal-agent arrangements
- Provide guidance on when gross vs. net presentation may be appropriate (FAQ)



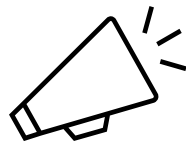
# Where we are

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Public consultation



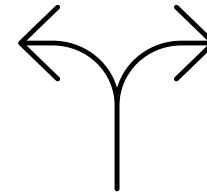
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# Stay informed





# Stay informed

- All information can be accessed on our website [www.asb.co.za](http://www.asb.co.za).
- FAQs
- Follow the ASB on LinkedIn, Facebook, Twitter, YouTube
- Subscribe to our Newsletter via our website.
- Translations of the Standards.
- GRAP updates on YouTube

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