

GRAP 104 *Financial Instruments*

Transitional Arrangements





Disclaimer

The views and opinions expressed in this presentation are those of the individual. Official positions of the ASB on accounting matters are determined only after extensive due process and deliberation.





Are you ready for GRAP 104?





Ready for GRAP 104?

Effective date: 1 April 2025

- GRAP 104 fit
 - Understand the new requirements
 - Familiar with how the changes will affect your entity
- Understand where and how to obtain information to apply the revised Standard
- Processes and systems changes
- Gather historical data for retrospective application

Key changes

- Why the change?
 - Changes in IFRS 9 and IPSAS 39 - to address shortcomings in the classification and measurement of financial instruments that were highlighted during the financial crisis.
- Most significant changes:
 - Scope - financial guarantee contracts and some loan commitments now in scope. Previously GRAP 19.
 - Classification - same number of categories, classification principles substantially changed.
 - Subsequent measurement – impairment model

Classification

Classification of financial assets

Amortised cost

Old GRAP 104

Non-derivative
Fixed or determinable payments
Not held for trading or
designated at fair value

New GRAP 104

Management model – hold to
collect cash flows
Solely payments of principal and
interest

Fair value

Old GRAP 104

Derivatives, held for trading,
designated at fair value

New GRAP 104

Management model – hold + sell,
sell
Do not meet SPPI



Impairment

Change in impairment model

Financial assets at amortised cost

Old GRAP 104

Incurred loss model
Focusses on historical data
Does not allow for timely action

New GRAP 104

Expected credit loss model
Past, current and future data
More timely decision making

New model

- Two step approach → determine the period over which credit losses calculated and determine ECL.
- Probability weighted





Transitional provisions





What are they?

- Provide direction to preparers to implement the new GRAP standard, while the older Standard is phased out.
- Explain how the requirements should be applied on initial adoption (1 April 2025 or earlier if chosen).

Where to find it?

- Approved and not yet effective ➡ GRAP 104
➡ Final transitional provisions for GRAP 104
- Will be incorporated in the relevant Directives when effective.
- It is the same in all the Directives i.e. requirements are the same for all types of entities.

Transitional provisions

General provisions



General provisions

Retrospective application per GRAP 3 with some relief

- Apply retrospectively - as if that policy had always been applied.
- **Not required to restate prior period.** Adjust opening balance of net assets of current period.

Retrospective application vs Retrospective restatement



General provisions

- Do not apply to financial instruments (FI) that have already been derecognised at the date of adoption.
- May early adopt – adopt entire Standard. Piecemeal adoption not permitted.
- Date of **initial adoption** = date when entity first applies the requirements.



Transitional provisions

Specific provisions





Classification and measurement

- On the date of initial adoption, entity assesses whether financial assets are held within a management model whose objective is to hold the assets in order to collect contractual cash flows.
- Based on the facts and circumstances that exist at that date of initial adoption.
- Resulting classification applied retrospectively irrespective of the entity's management model in prior reporting periods.



Classification and measurement

- At the date of initial adoption, entity may designate a financial asset as measured at fair value through surplus or deficit (FVSD).
- Designation based on the facts and circumstances that exist at that date of initial adoption.
- Classification applied retrospectively.

Impairment

- Apply retrospectively - entities measure impairment losses using expected credit losses (ECL) at the date of adoption.
- Not required to restate comparative information. Recognise adjustments to carrying amount in the opening accumulated surplus or deficit.

Impairment

- At the date of initial adoption, entity uses *reasonable and supportable information that is available without undue cost or effort* to determine the credit risk at the date that the FI was initially recognised and compare that to the credit risk at the date of initial adoption.
- If there would be undue and cost and effort to determine whether there has been a significant increase in credit risk, entity recognises a loss allowance at an amount equal to a lifetime ECL at each reporting date until that financial instrument is derecognised.



Disclosure

- Quantitative disclosure in a table format
 - Previous classification, current classification and carrying amounts for both classifications
 - FI previously measured at FVSD, now reclassified to amortised cost distinguishing between those that the Standard requires an entity to reclassify and those that an entity elects to reclassify.
- Reconcile previous measurement categories and asset classes with new categories and asset classes.
- Reconcile ending impairment allowances to opening loss allowances.



Disclosure

- Additional disclosures for FI classification out of FVSD to amortised cost
 - Fair values;
 - Effective interest rate on adoption date; and
 - Interest recognised.
- Qualitative disclosures:
 - Classification criteria applied to those financial assets whose classification changed; and
 - Reasons designation or de-designation of FI measured at FVSD at initial adoption.



Resources on GRAP 104





Resources

- Fact Sheets
- FAQs
- Supporting Adoption of Standards - Presentations
- GRAP 104 Reference Group

Contact details

Tel: (011) 697-0660

Fax: (011) 697-0666

Email: info@asb.co.za

Website: www.asb.co.za

