



GRAP 104 on *Financial Instruments* (Revised)



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Q&A on GRAP 104 (2019)

Scope

Q: Would debtors at municipalities be classified as statutory receivables in terms of GRAP 108 *Statutory Receivables* and therefore fall outside the scope of GRAP 104?

A: It depends on whether the receivable arises from a contract (then GRAP 104) or legislation/regulation (then GRAP 108). The definition of a financial instrument in GRAP 104 paragraph 2.1 must be met for GRAP 104 to apply.

Q: Does the scope exclusion in GRAP 104 paragraph 1.2(b) apply only to employee benefit plans as provided in GRAP 25 *Employee Benefits* (namely post-employment benefit plans, multi-employer benefit plans, state plans, insured benefits and incentive plans), or does GRAP 104 exclude all employee benefits as financial instruments?

A: All employers' rights and obligations relating to employee benefits are outside the scope of GRAP 104 and are accounted for using GRAP 25. Third party payments, such as the payment of PAYE and a portion of the UIF contribution made on behalf of employees, are within the scope of GRAP 104 or another of Standard of GRAP. These are not liabilities for payments to an employee in exchange for an employee's service (i.e. GRAP 25) but are for payments that the employer will make on behalf of an employee to third parties.

Classification

Q: When an instrument that is cash and cash equivalents fails the solely payments of principal and interest (SPPI) test, is it measured at fair value or amortised cost?

A: If the SPPI test is not met, then cash and cash equivalents are measured at fair value (GRAP 104 paragraph 4.4). Cash and cash equivalents likely meet the SPPI test as they are usually held to collect contractual cash flows (e.g. interest-earning accounts) and therefore usually classified at amortised cost. The classification depends on the specific terms and conditions of the arrangement.

Measurement, including impairment

Q: Please explain "reduction of support" as an indicator of a significant increase in credit risk. Would this include, for example, when the National Treasury withholds an equitable share allocation?

A: Reduction of support refers to support from controlling entities. Please refer to GRAP 104 Application Guidance AG5.76(l).

Q: What are examples of macro-economic factors to consider in obtaining forward-looking information to assess the credit risk of a financial asset for impairment?

A: Macro-economic factors affecting the credit risk of a financial asset may include inflation, interest rates, unemployment rates and GDP growth rates.

Q: Is there a need to consider the effect of discounting on trade receivables, especially in the municipal environment where repayment terms are usually 30 days?

A: Consideration must be given to whether the repayment term is “consistent with terms used in the public sector”. Where the term granted is not consistent with the terms used in the public sector, i.e. it is not in line with practices or legislation in the public sector, the effect of discounting is considered if it is material (GRAP 104 Application Guidance AG5.9).

Transitional provisions

Q: With respect to comparative figures for retrospective application per GRAP 3, if the net accounts receivable balance was R100 per the old Standard and now R80 per the revised Standard, which amount should be shown as the comparative figure? Should the R20 only be shown in the statement of changes in net assets?

A: In terms of the transitional provisions, comparative figures do not need to be changed in the first year of adoption. The adjustments to the opening balances for the current year (R20) can be shown in the notes and in the statement of changes in net assets as an opening balance adjustment. The transitional provisions are available in the applicable Directives and state: “...*an entity is not required to restate prior periods. The entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the reporting period that includes the date of initial adoption in the opening accumulated surplus or deficit (or other component of net assets, as appropriate) of the annual reporting period that includes the date of initial adoption.*”

Q: If a provision for expected credit losses is raised for long outstanding receivables in the year of adoption of GRAP 104, and in that year the debt is paid, should an entity still account for the credit losses and what disclosure should be provided, if any, since the financial instrument no longer exists at year-end?

A: The financial instrument may no longer exist at year end, but if it was in existence at the beginning of the year of adoption, it will affect the opening balance. The expected credit losses on the opening balance should be considered and recognised at the beginning of the year as at that date. The transitional provisions are available in the applicable Directives and state that the impairment requirements should be applied retrospectively. Transactions during the year for changes in expected credit losses and to derecognise the receivable should also be accounted for in terms of revised GRAP 104.

Q: Does GRAP 104 (revised) apply to existing loan commitments or to new loan commitments entered into after 1 April 2025?

A: GRAP 104 (revised) should be applied to all loan commitments in existence on 1 April 2025 as well as those entered into after this date. The transitional provisions are available in the applicable Directives and state that the requirements in GRAP 104 (revised) should be applied retrospectively.