



ACCOUNTING STANDARDS BOARD

REVIEW REPORT

POST-IMPLEMENTATION REVIEW OF THE STANDARD OF GRAP ON *ACCOUNTING BY PRINCIPALS AND AGENTS* (GRAP 109)



Copyright © 2024 by the Accounting Standards Board

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior permission of the Accounting Standards Board. The approved text is published in the English language.

Permission to reproduce limited extracts from the publication will usually not be withheld.



Contents

POST-IMPLEMENTATION REVIEW OF THE STANDARD OF GRAP ON ACCOUNTING BY PRINCIPALS AND AGENTS (GRAP 109)

Executive summary	4
Introduction.....	5
Authority of this publication	5
Results of the review	6
Identification of principal-agent arrangements.....	6
Identifying the binding arrangement.....	7
Misapplication of the criteria that identifies the agent.....	8
Multiple rights and obligations and multiple parties to the arrangement	9
Establishing the nature of rights and obligations and whether one party acts on behalf of another	10
The role of third parties in a principal-agent arrangement and the nature of transactions with them.....	12
Applying economic substance over legal form	14
Criteria to assess which party is the agent.....	15
Applying GRAP 109 with other Standards of GRAP.....	17
Recognising assets and liabilities as an agent.....	18
Disclosure of information on principal-agent arrangements.....	19
Disclosure of cash flow information from principal-agent arrangements	20
Applying materiality to principal-agent arrangements.....	21



Executive summary

The Standard of GRAP on *Accounting by Principals and Agents* (GRAP 109) requires entities to assess whether one party acts on behalf of and for the benefit of another in an arrangement, before applying the other Standards of GRAP. GRAP 109 is only applied when an entity is party to a principal-agent arrangement. The correct application of GRAP 109 is critical to ensure relevant and useful information is provided in the financial statements about entities' roles in these arrangements, so that entities can be held accountable for the resources they were allocated to deliver services.

The Board undertook a post-implementation review of GRAP 109 as a result of challenges identified by stakeholders with the application of the Standard. The Board used the information obtained through this review to identify the key issues and required actions.

Results of the review

The key finding from the review was that stakeholders do not correctly identify principal-agent arrangements. The assessment of whether an arrangement meets the definition of a principal-agent arrangement is complex and requires judgement. There are many elements to the definition that need to be assessed and met to apply GRAP 109. These include:

- whether an arrangement is a binding arrangement;
- identifying the rights and obligations of the parties to the arrangement; and
- assessing whether those rights and obligations have the characteristics of a principal-agent arrangement, based on the economic substance of the arrangement and not its legal form.

Other issues identified from the review mostly relate to the application of the Standard by the agent, including identifying the party that is the agent, recognising assets and liabilities as the agent, disclosing and presenting information from the arrangement in the financial statements and the application of materiality. Although the application of materiality is not an issue unique to principal-agent arrangements, the review found that the particular characteristics of principal-agent arrangements present unique challenges with the application of materiality.

Board decisions and key actions

The Board's response to the review is multi-dimensional. A combination of actions will be taken to assist stakeholders with assessing whether an arrangement is a principal-agent arrangement:

- amendments will be proposed to GRAP 109 and other authoritative guidance will be developed;
- the Secretariat will develop guidance as frequently asked questions; and
- the outcomes will be communicated to other role-players, such as the Office of the Accountant-General (OAG) and Auditor-General South Africa (AGSA).

More information on the key issues and actions arising from the review is included in the section on [Results of the Review](#).



Introduction

In the public sector, entities frequently have certain activities executed by another entity, or undertake activities on behalf of other entities. The ultimate responsibility for the various activities rests with the entities identified in legislation as responsible for the activities.

GRAP 109 requires entities to first assess whether an arrangement is a principal-agent arrangement, as defined in GRAP 109, before considering other Standards. GRAP 109 is applied to principal-agent arrangements to determine which party accounts for the transactions from the arrangement. Other Standards of GRAP are applied to account for the transactions.

The correct application of GRAP 109 is important to ensure the financial statements provide information that users can use to hold entities accountable for the resources they have received and the services they are meant to provide with those resources.

As a result of issues identified with the application of the Standard by stakeholders, the Board undertook a post-implementation review to:

- (a) determine the extent to which GRAP 109 provides relevant and useful information to users of the financial statements, and to identify what other information users require on principal-agent arrangements in the financial statements;
- (b) understand the implementation challenges that preparers experience, and the extent to which these challenges may impair the consistent application of the requirements of GRAP 109; and
- (c) assess if any amendments are required to GRAP 109, and whether other actions may be required.

This Review Report summarises the findings from the post-implementation review and the Board's responses to the issues identified, to enhance compliance and understanding of the Standard. Full analyses of verbal and written comments and the Board's responses can be found on the [ASB website](#).

Other resources that may be useful in applying GRAP 109 are:

- The Secretariat's [Frequently Asked Questions \(FAQs\)](#): FAQ 4.11 on *When should GRAP 109 be applied?* and FAQ 7.4 on *What is the interaction between GRAP 32, GRAP 36 and GRAP 37, and GRAP 109?*
- A [presentation](#) by the OAG, based on GRAP 109 and the Modified Cash Standard (MCS).

Authority of this publication

The Board publishes Review Reports to communicate the results of reviews undertaken on the application of Standards of GRAP or any other topic the Board may deem appropriate.

Review Reports are non-authoritative pronouncements issued by the Board, and their application is not mandatory.



Results of the review

The review identified a number of areas where there are issues with the application of GRAP 109. These are discussed in the sections below.

IDENTIFICATION OF PRINCIPAL-AGENT ARRANGEMENTS

GRAP 109 defines a principal-agent arrangement as an arrangement that:

“... results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).”

Each element of the definition needs to be met for the arrangement to be a principal-agent arrangement.

Key issues

The most significant issue identified in the review was that stakeholders incorrectly identify that an arrangement is a principal-agent arrangement. There were many aspects of identifying principal-agent arrangements that stakeholders found difficult. These included:

- (1) IDENTIFYING THE BINDING ARRANGEMENT
- (2) MISAPPLICATION OF THE CRITERIA THAT IDENTIFIES THE AGENT
- (3) MULTIPLE RIGHTS AND OBLIGATIONS AND MULTIPLE PARTIES TO THE ARRANGEMENT
- (4) ESTABLISHING THE NATURE OF RIGHTS AND OBLIGATIONS AND WHETHER ONE PARTY ACTS ON BEHALF OF ANOTHER
- (5) THE ROLE OF THIRD PARTIES IN A PRINCIPAL-AGENT ARRANGEMENT AND THE NATURE OF TRANSACTIONS WITH THEM
- (6) APPLYING ECONOMIC SUBSTANCE OVER LEGAL FORM

The Board agreed that a combination of actions is required to assist stakeholders to identify principal-agent arrangements.

The issues and next steps are explained further below.



IDENTIFYING THE BINDING ARRANGEMENT
Key issues
<ul style="list-style-type: none"> • Binding arrangements are unclear, not appropriately authorised or not in writing, and it is unclear whether past practice could give rise to a binding arrangement. • There may be more than one arrangement that should be read together to identify all the rights and obligations of the parties and identify whether the arrangement is principal-agent. This is not always done. The rights and obligations may also be inconsistent when legislation and a contract are read together. • Stakeholders sometimes only consider parts of an arrangement to identify rights and obligations, instead of assessing the entire arrangement. • The accounting unit is not always consulted to identify the accounting consequences before signing an arrangement, resulting in the rights and obligations not reflecting the parties' intentions for the accounting outcome.
Actions
Amendments to GRAP 109
<p>GRAP 109 provides guidance on (a) how a binding arrangement may be evidenced, and (b) assessing if a binding arrangement exists in the absence of clear evidence.</p> <p>Amendments will be proposed to GRAP 109 to group the guidance on bindings arrangements in the definition section of the Standard, and add guidance on arrangements governed by legislation and one or more contracts.</p>
FAQs
<p>An FAQ will be developed to explain the difference between contracts and binding arrangements.</p>
Other actions
<ul style="list-style-type: none"> • The OAG will be asked to develop a checklist to assist stakeholders with identifying whether an arrangement is a binding arrangement. The checklist could include guidance on the process to enter into a binding arrangement and the form of a binding arrangement, including when past practice or an arrangement that is not in writing may be a binding arrangement. • The enforceable rights and obligations constitute the binding arrangement for accounting purposes. Where the binding arrangement consists of legislation and a contract that are in conflict, the enforceable rights and obligations determine the accounting. Non-compliance with legislation is a separate issue that may arise where a contract is inconsistent with legislation. This observation will be shared with the OAG and AGSA so that stakeholders have a similar understanding of the application of the requirements.



MISAPPLICATION OF THE CRITERIA THAT IDENTIFIES THE AGENT
Key issues
<ul style="list-style-type: none"> • Stakeholders apply the criteria that identifies the agent to determine whether an arrangement is a principal-agent arrangement. This leads to incorrect conclusions on whether an arrangement is a principal-agent arrangement. • In other instances, the assessment of the nature of the arrangement is not done or done incorrectly, which leads to the application of the criteria to arrangements that are not principal-agent. The criteria are then difficult or confusing to apply. • Other criteria not in GRAP 109 are considered, for example, whether consideration or similar is paid to an "agent".
Actions
Amendments to GRAP 109
<p>GRAP 109 explains that consideration or similar may or may not be paid to an agent. This is not a determining factor in identifying a principal-agent arrangement, or identifying the party that is the agent.</p> <p>The criteria to identify an agent explains the different rights and obligations of the parties to a principal-agent arrangement. This guidance would be useful to identify whether an arrangement meets the definition of a principal-agent arrangement and will be used to develop guidance on the definition.</p> <p>Changes to GRAP 109 will also be proposed to more clearly indicate that an entity first assesses whether an arrangement is a principal-agent arrangement before considering the rest of the Standard, including assessing which party is the agent.</p>
FAQs
<p>The existing FAQ on GRAP 109 will be amended to clarify that payment of consideration or similar is irrelevant in determining whether the arrangement is a principal-agent arrangement.</p>



<p style="text-align: center;">MULTIPLE RIGHTS AND OBLIGATIONS AND MULTIPLE PARTIES TO THE ARRANGEMENT</p>
<p style="text-align: center;">Key issues</p>
<ul style="list-style-type: none"> • It is difficult to analyse arrangements with multiple rights and obligations and multiple parties to the arrangement. • It is unclear how to analyse an arrangement undertaken in “phases” where an entity’s role may change from one phase to the next. The arrangement may be principal-agent for some phases but not for others. “Phases” could also be different transactions within one arrangement, for example, different goods or services provided by one entity. • These issues often arise with construction-type arrangements and conditional grants such as housing arrangements and infrastructure grants.
<p style="text-align: center;">Actions</p>
<p style="text-align: center;">Amendments to GRAP 109</p>
<p>Amendments will be proposed to GRAP 109 to:</p> <ul style="list-style-type: none"> • Add guidance on assessing arrangements with multiple rights and obligations. The nature of the arrangement and role of the parties should be analysed for the different rights and obligations. • Ensure the examples in the Standard illustrate how the principles are to be applied. <p>GRAP 109 includes examples that illustrate how the principles apply to housing arrangements. The Guideline on <i>Accounting for Arrangements Undertaken in terms of the National Housing Programme</i> will be reviewed to ensure it remains aligned with GRAP 109 based on the amendments that will be proposed to GRAP 109.</p>
<p style="text-align: center;">FAQs</p>
<p>An FAQ on <i>The interaction of GRAP 11 Construction Contracts and the Housing Guideline</i> was clarified to explain that a municipality’s role is assessed for each arrangement, based on the rights and obligations of the municipality in each arrangement, irrespective of a municipality’s designation.</p>
<p style="text-align: center;">Other actions</p>
<p>The OAG issued guidance on infrastructure grants and included examples in their presentation on GRAP 109.</p>



ESTABLISHING THE NATURE OF RIGHTS AND OBLIGATIONS AND WHETHER ONE PARTY ACTS ON BEHALF OF ANOTHER

Key issues

- Certain arrangements may appear to meet the definition of a principal-agent arrangement, but the assessment is difficult, because the rights and obligations do not clearly align with the characteristics of a principal-agent arrangement. Examples include where the parties to the arrangement have similar mandates and functions, there are multiple parties involved or there is a control relationship between two or more of the parties.
- For certain types of pervasive transactions, the definition of a principal-agent arrangement is met, but practice is to not apply GRAP 109 to these transactions. For example, VAT, salary deductions and the use of travel and other agents.
- There is inconsistent identification of rights and obligations from the same arrangement by the parties to the arrangement, for example, between a department and a municipality. This results in (a) difficulty to obtain the required information for accounting and disclosure purposes from the counterparty, and (b) users do not receive all the information about an arrangement in the financial statements.

Actions

Amendments to GRAP 109

Amendments will be proposed to GRAP 109 to add guidance on the following:

- The difference between substantive rights and obligations of the principal and protective or administrative rights and obligations of the agent in relation to transactions with third parties.
- The rights and obligations that should be considered are those from the binding arrangement. This aligns with the basis for conclusions of GRAP 109, which explains why rights and obligations are considered, and not risks and rewards.
- Principles on the level of assessment. Relationships at an entity level are not considered. The assessment is done per transaction, with allowed aggregation. This distinguishes the assessment of whether one entity controls another from whether there is a principal-agent arrangement for a specific transaction(s).

An example will be proposed to illustrate that an agent receives specific direction from the principal and represents the interests of the principal in transactions with third parties.

Each entity applying Standards of GRAP assesses whether they are in a principal-agent arrangement based on their rights, obligations, facts and circumstances. This assessment is done by each party independently and irrespective of the conclusion that other parties reach. When the counterparty is a department that applies the MCS, it should be noted that the MCS Chapter on principal-agent arrangements is aligned to GRAP 109. Therefore, no changes are needed to GRAP 109.

FAQs

The principle on the level of assessment will be clarified in the existing FAQ on the interaction of GRAP 109 with other Standards of GRAP and will explain the difference between GRAP 109 and GRAP 35 on *Consolidated Financial Statements*.



Other actions

The OAG's presentation provides guidance on the interaction of GRAP 109 with an entity's mandate and legally assigned functions. The presentation includes a flow chart with other Standards that may apply if an arrangement is not in the scope of GRAP 109. This could be expanded to explain the principles that distinguishes the scope of GRAP 109 from the scope of other Standards.

The OAG will be asked to develop additional guidance on the interaction of GRAP 109 and the definition of control in GRAP 35.

It will further be communicated to the OAG that transaction-specific guidance on pervasive principal-agent transactions may be needed, e.g. on employee-related third party deductions.

THE ROLE OF THIRD PARTIES IN A PRINCIPAL-AGENT ARRANGEMENT AND THE NATURE OF TRANSACTIONS WITH THEM

Key issues

- Stakeholders are unsure how specific the arrangement should be in relation to the third parties with whom the transaction is undertaken for it to be a principal-agent arrangement.
- They are also unsure whether a principal and third parties should have an existing relationship or whether the agent could identify and establish the relationship on behalf of the principal as an outcome of the principal-agent arrangement.
- There were different views about the nature of transactions with third parties that should be assessed using GRAP 109.
 - Some stakeholders only consider financial transactions with third parties to possibly be in the scope of GRAP 109. They noted that entities are still trying to understand GRAP 109 for financial transactions and have not yet matured to consider non-financial transactions. They also noted it would be challenging to identify all possible principal-agent arrangements for non-financial transactions, and questioned the information value to users.
 - Other stakeholders supported that the Standard includes non-financial transactions and regarded it as important information to users so that the full extent of an entity's activities are explained in the financial statements.

Actions

Amendments to GRAP 109

No amendments will be made to GRAP. The Standard explains:

- There must be enforceable rights and obligations for the parties for an arrangement to be binding. To be a principal-agent arrangement, the nature of the rights and obligations should be such that the "principal" instructs the "agent" to undertake transactions with third parties on behalf of and for the benefit of the principal. Without specific direction by the "principal" in relation to transactions with third parties, the arrangement is not principal-agent. It is, however, not necessary for specific third parties to be named or identified in the arrangement.
- Financial and non-financial transactions are considered "transactions" for the purposes of GRAP 109. This will be retained as the information provided to users when applying GRAP 109 is necessary context to assess the entity's performance, position and cash flows. The disclosures on financial transactions would automatically not apply to non-financial transactions.

FAQs

The existing FAQ on GRAP 109 explains that transactions include both financial transactions and interactions, and illustrates the involvement of third parties in an arrangement. An explanation will be added to the FAQ to clarify that third parties need not be named but the arrangement should identify a type(s) of third party. For example, "beneficiaries of the housing programme", but not "provide library services in a specified area".



Other actions

No other actions were identified. The OAG's presentation explains the specificity needed in relation to third parties in a principal-agent arrangement and that transactions are both financial and non-financial.



APPLYING ECONOMIC SUBSTANCE OVER LEGAL FORM
Key issues
<p>Stakeholders found it difficult to apply the principle of economic substance over legal form to principal-agent arrangements in the following scenarios:</p> <ul style="list-style-type: none"> • A legal opinion or court ruling exists about an arrangement or transaction. Some stakeholders were concerned it may be inappropriate for the accounting outcome to differ from the legal opinion or court ruling. • The binding arrangement arises from past practice and is not in writing. Stakeholders were unsure how to apply substance over form in this instance. • Transactions that arise from legislation, such as conditional grants, where the entity is an agent in accordance with GRAP 109. There are also legislated disclosures required for grants. It is unclear how the disclosures should be provided in the financial statements when the agent does not recognise the grant revenue. mSCOA is also specific about how municipalities should account for grants received, which could contradict the accounting outcome of GRAP 109.
Actions
Amendments to GRAP 109
<p>Amendments will be proposed to GRAP 109 to include guidance on applying substance over form as part of identifying the nature of an arrangement.</p>
FAQs
<p>An existing FAQ on GRAP 109 explains how substance over form should be applied to principal-agent arrangements. The FAQ will be amended to:</p> <ul style="list-style-type: none"> • Add an explanation of what is <i>not</i> substance over form – it is inappropriate to account for transactions based on how parties to an arrangement conduct a transaction when those rights and obligations are not of the binding arrangement. • Explain that entities should not apply the economic substance (accounting outcome) for legal purposes, for example, the treatment of VAT. • Describe how legislated requirements for grants could be complied with while complying with the requirements of GRAP 109.
Other actions
<p>The OAG's presentation considers the description of principal-agent in VAT legislation and concludes that the principles are similar.</p> <p>Transaction specific guidance on grants to an entity that is an agent and the mSCOA requirements for grants will be discussed with the OAG.</p> <p>The Secretariat will identify opportunities to raise awareness of the application of substance over form with preparers and auditors.</p>



CRITERIA TO ASSESS WHICH PARTY IS THE AGENT

When an entity is party to a principal-agent arrangement, GRAP 109 requires the entity to assess whether it is the principal or the agent.

An entity is an agent when, in relation to transactions with third parties, all three of the following criteria are present (with the exception of entities that have specific powers in terms of legislation to direct the terms and conditions of particular transactions):

- (a) It does not have the power to determine the significant terms and conditions of the transaction.
- (b) It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- (c) It is not exposed to variability in the results of the transaction.

Key issues

- The criteria are sometimes incorrectly assessed to identify a principal-agent arrangement, instead of assessing them in relation to the transactions between the principal and third parties.
- The criteria can be difficult to assess, because terms such as "significant" terms and conditions and "all or substantially all" of the resources require the application of judgement. It is also unclear how these terms differ from materiality.
- Criterion (c) is difficult to understand and there is divergence in practice. This leads stakeholders to conclude an entity is not the agent, while it is also not the principal. For example, stakeholders consider (a) exposure to variability in the agent's commission or fee (e.g. the fee is a % of the transaction of the principal and third party), (b) penalty clauses for the agent, (c) whether the agent would incur a loss if the arrangement is terminated, and (d) exposure to the principal's credit risk where the agent first incurs expenses that are recouped from the principal.
- The criteria are difficult to assess within a control relationship as the controlling entity benefits from the controlled entity's transactions and is exposed to the variability in the results.

Actions

Amendments to GRAP 109

GRAP 109 explains that the criteria are assessed in relation to transactions with third parties, and notes that a fixed margin (on the transaction between the principal and third party) is a way in which an agent could be remunerated.

Amendments will be proposed to GRAP 109 to:

- Simplify the explanation of each of the criteria.
- Explain the difference between principal-agent arrangements and a control relationship.

FAQs

The existing FAQ on GRAP 109 will be amended to:

- Emphasise judgement is applied to assess the criteria.



- Emphasise the criteria are assessed in relation to the transaction between the principal and third parties, not the arrangement between the principal and agent.
- Clarify criterion (c).
- Clarify the assessment only considers the rights and obligations from the arrangement. It does not consider, for example, a control relationship at entity-level.

Other actions

The OAG's presentation includes guidance on the principles and could consider illustrating the application of the criteria.



APPLYING GRAP 109 WITH OTHER STANDARDS OF GRAP

GRAP 109 is applied before the other Standards of GRAP. When an entity concludes that an arrangement is a principal-agent arrangement, GRAP 109 is applied to identify which transactions in the arrangement each party accounts for. The principal accounts for the transactions with third parties, while the agent accounts for the revenue and expenses associated with performing the agency service. An agent accounts for assets and liabilities from the arrangement in certain circumstances.

The other Standards of GRAP prescribe the recognition, measurement, presentation and disclosure requirements for those transactions. In addition, the disclosure requirements of GRAP 109 are applied.

Key issues
<p>Stakeholders questioned how GRAP 109 is meant to be applied with other Standards of GRAP in certain instances, and whether there could be inconsistencies in the requirements. For example, an entity may be required by GRAP 17 on <i>Property, Plant and Equipment</i> to recognise infrastructure assets in the process of being constructed, but in accordance with GRAP 109, as an agent, the entity should not recognise the work-in-progress.</p> <p>There may also be disclosure requirements in GRAP 109 that could be difficult to apply at the same time as the other Standards.</p> <p>Questions were also asked about the classification of expenses from a principal-agent arrangement.</p>
Actions
Amendments to GRAP 109
<p>No amendments will be made to GRAP 109. It was identified that perceived inconsistencies among the Standards of GRAP mostly relate to GRAP 109 being applied to arrangements that are not principal-agent arrangements.</p>
FAQs
<p>The existing FAQ on GRAP 109 explains the Standard is applied before the other Standards of GRAP. The FAQ will be linked to an existing FAQ on presenting expenses by nature or function in accordance with GRAP 1 on <i>Presentation of Financial Statements</i>.</p> <p>The FAQ on the interaction of GRAP 109 with other Standards will be amended to clarify the distinction between the Standards. The FAQ will be linked to an existing FAQ on how entities can provide information when two or more Standards have similar disclosure requirements.</p>
Other actions
<p>The OAG's presentation explains that the classification of expenses does not determine the nature of an arrangement. Rather, the nature of the arrangement determines the classification of expenses.</p>

RECOGNISING ASSETS AND LIABILITIES AS AN AGENT

Whether an entity is a principal or an agent, the entity applies the principles in the applicable Standards of GRAP to recognise assets and liabilities assets and liabilities from the principal's transactions with third parties in accordance with the *Conceptual Framework for General Purpose Financial Reporting* and applicable Standards of GRAP in two scenarios:

- An agent holds resources on behalf of the principal in order to undertake transactions with the relevant third parties.
- An agent has certain rights and obligations arising from the principal-agent arrangement which gives rise to assets and liabilities.

Key issues
<p>There were different views about whether it is appropriate for an agent to recognise resources of the principal in its custody as assets:</p> <ul style="list-style-type: none"> • Some stakeholders noted the public sector guidance should be similar to the private sector, where it is accepted that the agent would not recognise any assets or related liabilities from the principal's transactions with third parties. It was also noted that, practically, obtaining the information can be problematic when the principal and agent apply different reporting frameworks. • Other stakeholders deemed it necessary for accountability purposes that the agent recognises assets and liabilities when the recognition criteria are met. It was noted that the guidance and examples in GRAP 109 on when an agent may recognise assets and liabilities appear to be a higher hurdle for recognition than what is applied in practice. • Some stakeholders are unsure when the guidance applies and to which resources or rights and obligations it would apply.
Actions
Amendments to GRAP 109
<p>The guidance on the circumstances when an agent may conclude it is appropriate to recognise assets and liabilities will be retained. Agents should assess whether they should recognise assets and liabilities by applying the <i>Conceptual Framework for General Purpose Financial Reporting</i> and the applicable Standards of GRAP.</p>
Other actions
<p>Guidance that illustrates the impact on the agent's financial statements when assets and liabilities are recognised will be discussed with the OAG.</p>



DISCLOSURE OF INFORMATION ON PRINCIPAL-AGENT ARRANGEMENTS

In discharging its accountability, an entity that is party to a principal-agent arrangement provides information that enables users to make decisions about whether principal-agent arrangements effectively meet their purpose in delivering services. For the information to be useful, it should be specific to the entity’s principal-agent arrangements, and all the relevant information should be provided.

The financial statements should include information to enable users to assess the nature and risks of the arrangement, the accountability of the agent in relation to the transactions of the principal with third parties, and the resource implications of the arrangement for the principal.

Key issues
<p>Multiple issues were identified with the disclosure requirements. Stakeholders noted providing the required information can be difficult because:</p> <ul style="list-style-type: none"> • The information is not always available. For example, the information required for the reconciliation of receivable and payable balances from one year to the next and the resource or cost implications for the principal if the arrangement is terminated. • Some requirements are unclear. For example, it is unclear when certain information should be provided, such as encouraged disclosures, and how information should be aggregated or disaggregated, especially qualitative information for immaterial arrangements. <p>This leads to entities not complying with all the requirements, or providing boilerplate information. From this, users do not find the information provided useful.</p>
Actions
Amendments to GRAP 109
<p>Amendments will be proposed to GRAP 109 to:</p> <ul style="list-style-type: none"> • Develop a disclosure objective and guidance on how to meet the objective, including the level of disclosure. In this light, the need for the disclosure currently required will be re-evaluated. • Clarify when the encourage disclosure may be useful information to provide.
FAQs
<p>The existing FAQ on GRAP 109 will be amended to emphasise how the disclosure requirement in GRAP 1 on the application of judgement applies to the assessment of the nature of the arrangement, an entity's role in the arrangement and materiality.</p>
Other actions
<p>Illustrative disclosures may assist and will be discussed with the OAG.</p> <p>Awareness will be raised about the importance of providing the information required by GRAP 109 and GRAP 1.</p>



DISCLOSURE OF CASH FLOW INFORMATION FROM PRINCIPAL-AGENT ARRANGEMENTS

The Standard of GRAP on *Cash Flow Statements* (GRAP 2) requires entities to present information on their gross cash inflows and gross cash outflows in the cash flow statement. GRAP 2 permits, in limited circumstances, that an entity may present the cash flows on a net basis. These circumstances include cash collected and payments made on behalf of customers, taxpayers or beneficiaries when the cash flows reflect the activities of the other party rather than those of the entity and the resulting cash balances are controlled by the reporting entity.

Key issues

Some stakeholders were unaware of the GRAP 2 option to present the cash flows from principal-agent arrangements on the gross or net basis (when the criteria are met).

Those stakeholders who were aware had different views about whether presenting cash flows on the gross or net basis is appropriate:

- Stakeholders supporting presentation of the gross cash inflows and outflows noted it provides useful information to users on the extent of an entity's activities.
- Stakeholders supporting presentation of the net cash inflows and outflows noted that the cash flow statement should only include the entity's own activities and information about the gross cash inflows and outflows will mislead a user.

There were also different views about which activity in the cash flow statement the cash flows from a principal-agent arrangement should be presented as.

Actions

Amendments to GRAP 2

The option to present information on the net or gross basis should be retained in GRAP 2 and entities should apply judgement to decide which option will provide the most useful information to users in their circumstances.

Amendments will be proposed to GRAP 2 so that it is clear that the option may apply to principal-agent arrangements.

FAQs

Guidance will be developed to explain:

- the option to provide the cash flow information on the net or the gross basis; and
- as which activity in the cash flow statement an agent could classify the cash flows from a principal-agent arrangements.



APPLYING MATERIALITY TO PRINCIPAL-AGENT ARRANGEMENTS

GRAP 1 requires entities to present each material class of similar items separately in the financial statements. Items of a dissimilar nature or function are presented separately unless they are immaterial. Applying the concept of materiality also means that a specific disclosure requirement in a Standard of GRAP need not be satisfied if the information is immaterial. The *Guideline on The Application of Materiality to Financial Statements* provides guidance on applying materiality to financial statements.

Materiality should be applied when making accounting and reporting decisions about principal-agent arrangements, and should consider both qualitative and quantitative aspects of each arrangement.

Key issues

Different issues with the application of materiality were identified, including:

- Materiality is not applied because entities are not skilled in applying GRAP 109 and resort to providing all the information in the financial statements.
- It is unclear how to assess materiality for principal-agent arrangements. It is unclear which transactions from the arrangement should be assessed by either party and how, especially for the agent; and it is unclear how materiality should be assessed for multi-year arrangements.
- There were different views about the outcome of the qualitative materiality assessment, with some stakeholders considering the qualitative aspects as more important than the quantitative aspects for principal-agent arrangements.

Actions

Amendments to GRAP 109

A separate project on materiality will be proposed in the 2027 to 2029 work programme consultation.

FAQs

The existing FAQ on GRAP 109 will be updated to include guidance on materiality:

- Materiality should be applied to principal-agent arrangements and the quantitative and qualitative aspects of the arrangement should both be assessed.
- Materiality is a period specific assessment but should consider known future events and information. For longer term arrangements, the nature of the arrangement and entity's role should not change unless there was a change to the terms and conditions of the arrangement. However, whether an arrangement is material should be reassessed annually.

Other actions

Recordings on the basic principles of materiality and "GRAP thresholds" are added to the *Enhancing the Application of Standards of GRAP* project. Access the recordings on the ASB YouTube channel [here](#).