ACCOUNTING STANDARDS BOARD

THE STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE ON

MERGERS

(GRAP 107)

Issued by the
Accounting Standards Board

February 2024

Acknowledgement

The Standard of Generally Recognised Accounting Practice (GRAP) on *Mergers* is based on the International Public Sector Accounting Standard (IPSAS) 40 on *Public Sector Combinations* from the *Handbook of International Public Sector Accounting Pronouncements* of the International Public Sector Accounting Standards Board (IPSASB), published by the International Federation of Accountants (IFAC) and is used with the permission of the IFAC.

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The approved text of IPSAS is that published by the IFAC in the English language, and copies may be obtained directly from:

International Federation of Accountants

529 Fifth Avenue, 6th Floor

New York, New York 10017 USA

Internet: http://www.ifac.org

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Contents

Standard of Generally Recognised Accounting Practice

Mergers

	Paragraphs
Objective	.01
Scope	.02 – .05
Definitions	.06 – .09
Binding arrangement	.07
Mergers	.08 – .09
Identifying the combined entity and the combining entities	.10 – .13
Determining the merger date	.14 – .16
Recognising assets acquired, received or transferred, liabilities assumed or derecognised and any non-controlling interests	.17 – .20
Recognition principles	.17
Criteria for the combined entity and combining entities	.18
Criteria for the combined entity	.19 – .20
Recognition conditions	.19 – .20
Accounting by the combined entity	.21 – .47
Initial recognition and measurement	.21 – .36
Measurement principle	.22 – .24
Exceptions to the recognition and measurement principles	.25 – .29
Exceptions to the recognition principle	.26 – .29
Licences and similar rights previously granted by one combining entity to another combining entity	.26 – .29
Measurement period	.30 – .35
Merger-related costs	.36
Subsequent measurement and accounting	.37 – .47
Licences and similar rights previously granted by one combining entity to another combining entity	.38
Transfers, concessionary loans and similar benefits received by a combining entity on the basis of criteria that may change as a result of a merger	.39 – .42

Accounting by the combining entities	.48 – .50
Assets transferred, liabilities derecognised and non-controlling interests	.48 – .50
Disclosure	.51 – .62
Combined entity	.56 – .59
Combining entities	.60 – .62
Transitional provisions	.63
Initial adoption of the Standards of GRAP	.63
Effective date	.64
Initial adoption of the Standards of GRAP	.64
Withdrawal of the Standard of GRAP on *Mergers (2010)*	.65
Appendix A - Consequential amendments to Standards of GRAP	
Illustrative Examples	
Basis for conclusions	
Comparison with the International Public Sector Accounting Standard on *Public Sector Combinations* (January 2017)	

Introduction

This pronouncement is set out in paragraphs .01 to .65. All paragraphs in this pronouncement have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This pronouncement should be read in the context of its objective, its basis for conclusions and/or the basis for conclusions of its international equivalent, if applicable, the *Preface to the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*[1].

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Directives should be read in conjunction with the applicable Standards of GRAP and Interpretations of the Standards of GRAP.

[1] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

Objective

.01 The objective of this Standard is to establish principles and requirements for the combined entity and combining entities in a merger and its effects.

Scope

.02 A combined entity and combining entities that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for a transaction or event that meets the definition of a merger where no acquirer can be identified. This Standard does not apply to:

(a) a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control (GRAP 105));

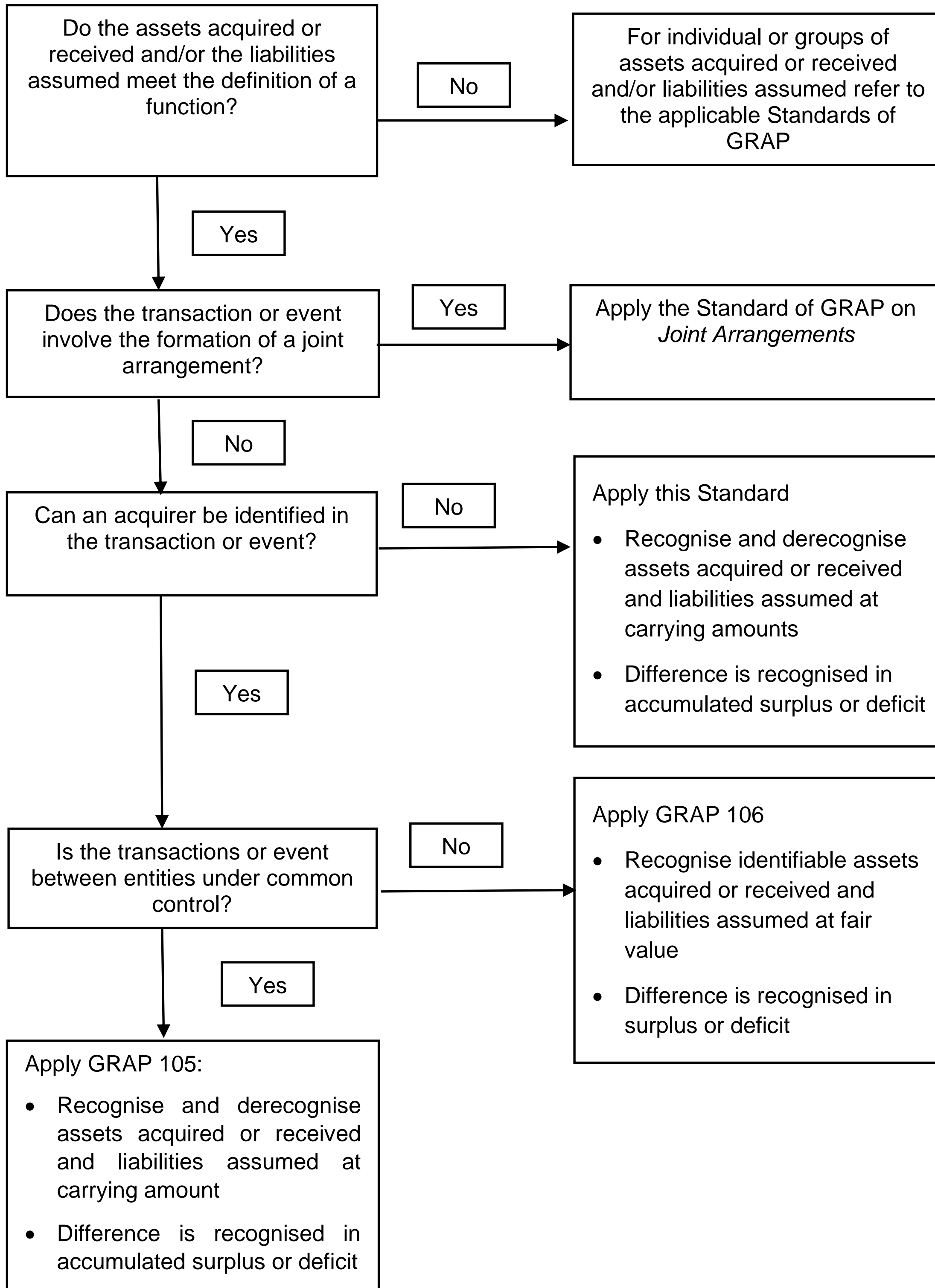
(b) a transfer of functions between entities not under common control (see the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106)); and

(c) the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

.03 The requirements of this Standard do not apply to the transfer of an investment entity as defined in the Standard of GRAP on Consolidated Financial Statements, or an investment in a controlled entity that is required to be measured at fair value through surplus or deficit.

.04 A transaction or event where no acquirer can be identified falls within the scope of this Standard. A merger is the establishment of a new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified. Determining whether an acquirer can be identified includes a consideration of, amongst other things, which of the combining entities initiated the transaction or event, the relative size of the combining entities, as well as whether the assets or revenue of one of the entities involved in the transaction or event significantly exceed those of the other entities. A merger can either involve the combination of two or more entities in which one of the combining entities continues to become the new reporting entity, or a new reporting entity is established from the combining entities. The concept of control and a function is not relevant in a transaction or event that meets the definition of a merger. A transaction or event in which an acquirer can be identified and that involves control should be accounted for in terms of GRAP 105 or GRAP 106.

.05 Entities should consider the following diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger:


Do the assets acquired or received and/or the liabilities assumed meet the definition of a function?
No
For individual or groups of assets acquired or received and/or liabilities assumed refer to the applicable Standards of GRAP
Yes
Does the transaction or event involve the formation of a joint arrangement?
Yes
Apply the Standard of GRAP on *Joint Arrangements*
No
Can an acquirer be identified in the transaction or event?
No
Apply this Standard
• Recognise and derecognise assets acquired or received and liabilities assumed at carrying amounts
• Difference is recognised in accumulated surplus or deficit
Yes
Is the transactions or event between entities under common control?
No
Apply GRAP 106
• Recognise identifiable assets acquired or received and liabilities assumed at fair value
• Difference is recognised in surplus or deficit
Yes
Apply GRAP 105:
• Recognise and derecognise assets acquired or received and liabilities assumed at carrying amount
• Difference is recognised in accumulated surplus or deficit

Definitions

.06 The following terms are used in this Standard with the meanings specified:

A binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to the arrangement as if it were in the form of a contract. It includes rights from contracts or other legal rights.

Carrying amount of an asset or liability is the amount at which an asset or liability is recognised in the statement of financial position.

Combined entity is a new reporting entity that results from the combination of two or more entities.

Combining entities (for purposes of this Standard) are the entities that are combined for the mutual sharing of risks and benefits in a merger.

Control: An entity controls another entity when the entity is exposed, or has rights to variable benefits from its involvement with the other entity and has the ability to effect the nature and amount of those benefits through its power over the other entity.

A merger is the establishment of a new combined entity in which none of the former entities obtain control over any other and no acquirer can be identified.

Merger date is the date on which entities are combined for the mutual sharing of risks and benefits and when the assets, liabilities and non-controlling interests are transferred to the combined entity.

A transfer of functions is the reorganisation and/or the re-allocation of functions between entities by transferring functions between entities or into another entity.

Terms defined in other Standards of GRAP are used in this Standard with the same meaning as in those other Standards.

Binding arrangements

.07 Binding arrangements can be evidenced in several ways:

(a) a contract concluded between the parties;

(b) legislation, supporting regulations or similar means including, but not limited to, laws, regulation, policies, decisions concluded by authorities such as cabinet, executive committees, boards, municipal councils and ministerial orders; or

(c) through the operation of law, including common law.

A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties.

Mergers

.08 A merger is the establishment of a combined entity in which none of the former entities obtains control over any other and no acquirer can be identified. Paragraph .06 defines a combined entity as “the new reporting entity that results from the combination of two or more entities”. As no acquirer can be identified, a merger does not result in an entity having or obtaining control over any of the entities that are involved in the transaction or event, as the combining entities are not controlled entities of each other, either before or after the merger.

.09 The following criteria indicate that a transaction or event should be accounted for as a merger:

(a) No acquirer: No entity in the transaction or event can be identified as the acquirer.

(b) No control: No party acquires control as no party is seen to be dominant. All parties to the transaction or event combine their relative risks and benefits in the combined entity and maintain or preserve their decision making powers.

(c) Representation by management: All parties to the transaction or event, as represented by management, participate in establishing the management structure of the combined entity, and in selecting the management personnel. Such decisions are made on the basis of consensus between the parties to the transaction or event.

(d) Size of entities involved: The relative sizes of the combining entities are not so disparate that one entity dominates the combined entity by virtue of its relative size. As such, the relative size of an entity is not as pervasive as the other two indicators in this paragraph in determining whether an arrangement constitutes a merger.

Identifying the combined entity and combining entities

.10 For each merger a combined entity and combining entities shall be identified.

.11 The terms and conditions of a merger are set out in a binding arrangement. The binding arrangement usually sets out which entities are to be combined as a result of the merger, and identifies the new reporting entity after the merger.

.12 A merger involves a transaction or event where no acquirer can be identified. If the binding arrangement governing the terms and conditions of the transaction or event identifies which entity to the transaction or event is the acquirer, and which entity is the transferor or combining entity, the transaction or event should be accounted for in terms of GRAP 105 or GRAP 106.

.13 Determining the acquirer should include a consideration of, amongst other things, which of the combining entities initiated the transaction or event, the relative size of

the combining entities, as well as whether the assets or revenue of one of the entities involved in the transaction or event significantly exceed those of the other entities.

Determining the merger date

.14 ***The combined entity and the combining entities shall identify the merger date, which is the date on which the new reporting entity obtains control of the assets, liabilities and non-controlling interests and the combining entities loses control of their assets, liabilities and non-controlling interests.***

.15 The binding arrangement governing the terms and conditions of a merger may specify that the transaction or event is effective from a specific date. The merger date is generally the date on which the combining entities transfer the assets, liabilities and non-controlling interests to the combined entity as identified in the binding arrangement – closing date. However, the combined entity may obtain control of the assets, liabilities and non-controlling interests on a date that is either earlier or later than the closing date, or specified in the binding arrangement. For example, a Regulation passed by the Demarcation Board on 1 April 20X1 requires three municipalities to transfer all their functions into a new metropolitan municipality. A directive is issued stating that the effective date of the transfer is 1 June 20X1. The new metropolitan municipality, however, only obtains control of the assets, liabilities and non-controlling interests on 1 July 20X1 through a memorandum of understanding. As the new metropolitan municipality can only use or otherwise benefit from the combination in pursuit of its objectives, or exclude or otherwise regulate the access of others to those benefits from 1 July 20X1, the transaction or event should be accounted for as from 1 July 20X1. All relevant facts and circumstances should be considered in identifying the merger date.

.16 The fact that a binding arrangement exists creates an obligation for either one or all of the parties to act in order to fulfil the terms and conditions of the arrangement. This means that under the binding arrangement, the combined entity has an enforceable claim over the assets, liabilities and the non-controlling interests of the combining entities that are to be combined in terms of the merger. This indicates that the merger is probable and will occur in line with the terms and conditions of the binding arrangement.

Recognising assets acquired, received or transferred, liabilities assumed or derecognised and any non-controlling interests

Recognition principle

.17 ***As of the merger date, the combined entity shall recognise the assets acquired or received, liabilities assumed and any non-controlling interests in***

a merger. The recognition of assets acquired or received, liabilities assumed and any non-controlling interests acquired or received by the combined entity, and the transfer and derecognition of assets, liabilities and non-controlling interests by the combining entities are subject to the conditions specified in the paragraphs below.

Criteria for the combined entity and the combining entities

.18 The assets acquired or received, liabilities assumed and any non-controlling interests that qualify for recognition by the combined entity, or transfer of assets and derecognition of liabilities by the combining entities in a merger are normally governed by the terms and conditions of the binding arrangement. Such assets, liabilities, and non-controlling interests must be part of what had been agreed in terms of the binding arrangement, rather than the result of separate transactions.

Criteria for the combined entity

Recognition conditions

.19 The assets and liabilities must meet the definitions of assets and liabilities in the *Framework for the Preparation and Presentation of Financial Statements*[2] and the recognition criteria in the applicable Standards of GRAP at the merger date.

.20 Costs that the combined entity expects but which the entity is not obliged to incur in the future to effect its plan to exit an activity of the combining entities or to terminate the employment of, or relocate the combining entities' employees, are not liabilities at the merger date. Therefore, the combined entity does not recognise those costs as part of a merger. Instead, the combined entity recognises these costs in its financial statements after the merger has occurred, in accordance with the applicable Standards of GRAP.

Accounting by the combined entity

Initial recognition and measurement

.21 As of the merger date, the combined entity shall recognise all the assets acquired or received, all the liabilities assumed and any non-controlling interests in a merger. Recognition of the assets acquired or received and liabilities assumed is subject to the conditions specified in paragraphs .18 to .20.

Measurement principle

.22 The combined entity shall measure the assets acquired or received, the liabilities assumed, and any non-controlling interests in a merger at their carrying amounts in the financial statements of the combining entities as of

[2] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

the merger date.

.23 This Standard defines the carrying amount of an asset or liability as the amount at which an asset or liability is recognised in the statement of financial position. Depending on the type of asset acquired or received and/or liability assumed, the carrying amount may comprise different amounts. For example, the carrying amount of an item of property, plant and equipment comprises the asset's cost less accumulated depreciation and accumulated impairment losses. On the merger date, the combined entity recognises these amounts separately in its financial statements.

.24 If, on the merger date, a combining entity did not apply Standards of GRAP, the combined entity should adjust the basis of accounting used for the assets acquired or received and liabilities assumed to align it to Standards of GRAP prior to the merger.

Exceptions to the recognition and measurement principles

.25 This Standard provides limited exceptions to its recognition and measurement principles. Paragraphs .26 to .28 specify both the particular items for which exceptions are provided and the nature of those exceptions. The combined entity should account for those items by applying the requirements in paragraphs .26 to .28.

Exceptions to the recognition principle

Licences and similar rights previously granted by one combining entity to another combining entity

.26 A licence or similar right, previously granted by one combining entity to another combining entity and recognised as an intangible asset by the combining entity should be recognised by the combined entity as an intangible asset.

.27 As part of a merger, a combined entity may receive a licence or similar right that had previously been granted by one combining entity to another combining entity to use one or more of the grantor's recognised or unrecognised assets. Examples of such rights include a right to use the acquirer's technology under a technology licencing agreement. The combined entity recognises this licence or similar right as an intangible asset, and measures the intangible asset at its carrying amount in the financial statements of the combining entity as of the merger date. Because the licence or similar right has previously been part of a binding arrangement, the licence satisfies both the separability and binding arrangement criteria in the Standard of GRAP on *Intangible Assets*. Paragraph .38 provides guidance on the subsequent accounting for a licence or similar right previously granted by one combining entity to another combining entity.

.28 The combined entity assesses both the licence or similar right previously granted by one combining entity to another combining entity, and the underlying asset

(where the underlying asset is a recognised asset) for impairment in accordance with the Standard of GRAP on *Impairment of Non-Cash-Generating Assets or Impairment of Cash-Generating Assets*, at the merger date.

.29 The difference between the carrying amounts of the assets acquired or received, the liabilities assumed, any non-controlling interests acquired or received and any adjustments required to the basis of accounting as described in paragraph .24, shall be recognised in accumulated surplus or deficit.

Measurement period

.30 If the initial accounting for a merger is incomplete by the end of the reporting period in which the merger occurs, the combined entity shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the combined entity shall retrospectively adjust the provisional amounts recognised at the merger date to reflect new information obtained about facts and circumstances that existed as of the merger date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the combined entity shall recognise additional assets, liabilities and non-controlling interests if new information is obtained about facts and circumstances that existed as of that date. The measurement period ends as soon as the combined entity receives the information it was seeking about facts and circumstances that existed as of the merger date or learns that more information is not obtainable. However, the measurement period shall not exceed two years from the merger date.

.31 The measurement period is the period after the merger date during which the combined entity may adjust the provisional amounts recognised for a merger. The measurement period provides the combined entity with reasonable time to obtain the information necessary to identify and measure the assets, liabilities and non-controlling interests in the combining entity as of the merger date in accordance with the requirements of this Standard:

(a) the assets acquired or received, liabilities assumed, and any non-controlling interests;

(b) the consideration transferred, if any, for the combining entities; and

(c) the resulting excess of the purchase consideration paid (if any) over the assets acquired or received, liabilities assumed and any non-controlling interests.

The information necessary to identify and measure the assets, liabilities and any non-controlling interests will generally be available at the merger date.

.32 The combined entity should consider all relevant factors in determining whether

information obtained after the merger date should result in an adjustment to the provisional amounts recognised or whether that information results from events that occurred after the merger date. Relevant factors include the date when additional information is obtained and whether the combined entity can identify a reason for a change to provisional amounts. Information that is obtained shortly after the merger date is more likely to reflect circumstances that existed at the merger date than is information obtained several months later.

.33 The combined entity recognises an increase (decrease) in the provisional amount recognised for an asset, liability and non-controlling interests by adjusting accumulated surplus or deficit in accordance with paragraph .29. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability. For example, the combined entity might have assumed a liability to pay damages related to an accident in one of the combining entity's facilities, part or all of which are covered by the combining entity's liability insurance policy. If the combined entity obtains new information during the measurement period about the merger date carrying amounts of that liability, the adjustment to the accumulated surplus or deficit resulting from a change to the provisional amount recognised for the liability would be offset (in whole or in part) by a corresponding adjustment to the accumulated surplus of deficit resulting from a change to the provisional amount recognised for the claim receivable from the insurer.

.34 During the measurement period, the combined entity should recognise adjustments to the provisional amounts as if the accounting for the merger had been completed at the merger date. Thus, the combined entity should revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation or amortisation recognised in completing the initial accounting.

.35 After the measurement period ends, the combined entity should revise the accounting for a merger only to correct an error in accordance with the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors*.

Merger-related costs

.36 Merger-related costs are costs that the combined entity or combining entity incurs to effect the merger. These costs include advisory, legal, accounting, valuation, and other professional or consulting fees, general administrative costs, any costs of registering and issuing debt and equity securities, costs to furnish information to owners of the combining entities, and salaries and other expenses related to services of employees involved in achieving the merger. The combined entity and combining entities should account for merger-related costs as expenses in the period in which the costs are incurred. The costs to issue debt or equity securities should be recognised in accordance with the Standard of GRAP on *Financial Instruments* (GRAP 104).

Subsequent measurement and accounting

.37 The combined entity shall subsequently measure and account for assets acquired or received, liabilities assumed, and any non-controlling interests in a merger in accordance with the applicable Standards of GRAP for those items, depending on their nature. However, this Standard provides guidance on subsequently measuring and accounting for the following assets acquired or received and liabilities assumed in a merger:

(a) licences and similar rights previously granted by one combining entity to another combining entity; and

(b) transfers, concessionary loans and similar benefits received by a combining entity on the basis of criteria that change as a result of a merger.

Licences and similar rights previously granted by one combining entity to another combining entity

.38 A licence or similar right, previously granted by one combining entity to another combining entity and recognised as an intangible asset should be amortised over the remaining period of the binding arrangement in which the right was granted, where the right was granted for a finite period. Where the right was granted for an indefinite period, the combined entity should test the right for impairment at least annually, and whenever there is an indication that the right may be impaired. A combined entity that subsequently sells this licence or similar right to a third party should include the carrying amount of the intangible asset in determining the gain or loss on the sale.

Transfers, concessionary loans and similar benefits received by a combining entity on the basis of criteria that may change as a result of a merger

.39 A transfer, concessionary loan or similar benefit, previously received by a combining entity on the basis of criteria that change as a result of a merger, should be reassessed prospectively in accordance with other Standards of GRAP.

.40 Prior to a merger taking place, a combining entity may receive a transfer from a third party, based on specified criteria. For example, a national government may provide grants to those municipalities where the average household income is below a threshold. A merger of two municipalities may involve one municipality which met the criteria and received the grant, and one municipality which did not meet the criteria and which did not receive the grant. Following the merger, the average household income of the new, combined entity will either be above or below the threshold, which may cause the grantor to reassess the amount of grant given.

.41 The combined entity should not account for any revisions to the grant amount as part of the merger, but should account for any revisions at the point the grantor

makes its intentions known in accordance with other Standards of GRAP.

.42 Similar circumstances may arise in respect of concessionary loans and other benefits. The combined entity should not account for any revisions to those transactions as part of the merger, but should account for any revisions at the point the grantor makes its intentions known in accordance with other Standards of GRAP.

.43 At the merger date, the combined entity shall classify or designate the assets acquired or received, and liabilities assumed as necessary to apply subsequently other Standards of GRAP. The combined entity shall make those classifications or designations on the basis of the terms of the binding arrangement, economic conditions, the operating or accounting policies and other relevant conditions as these exist at the merger date.

.44 In some situations, the Standards of GRAP provide for different accounting depending on how an entity classifies or designates a particular asset or liability. Examples of classifications or designations that the combined entity should make on the basis of the relevant conditions as they exist at the merger date include but are not limited to:

(a) classification of particular financial assets and liabilities as measured at fair value or amortised cost in accordance with GRAP 104; and

(b) assessment of whether an embedded derivative should be separated from the holders of compound financial instruments in accordance with GRAP 104.

.45 This Standard provides two exceptions to the principle in:

(a) classification of a lease contract as either an operating lease or a finance lease in accordance with the Standard of GRAP on *Leases*; and

(b) classification of a contract as an insurance contract in accordance with the IFRS Accounting Standard(s) on insurance.

The combined entity should classify the binding arrangement on the basis of the contractual terms and other factors at the inception of the binding arrangement (or, if the terms of the binding arrangement have been modified in a manner that would change its classification, at the date of that modification, which might be the merger date).

.46 The financial statements of the combined entity shall be prepared using uniform accounting policies for similar transactions and other events or similar circumstances.

.47 Since the merger results in a single reporting entity, a single uniform set of accounting policies is adopted by the combined entity. Therefore, the combined entity recognises the assets acquired or received, the liabilities assumed and non-controlling interests of the combining entities on the merger date at their existing carrying amounts and subsequently adjust it only as a result of conforming with the

combined entity's accounting policies.

Accounting by the combining entities

Assets transferred, liabilities derecognised and non-controlling interests

.48 ***As of the merger date, the combining entities shall transfer and derecognise from its financial statements, all the assets, liabilities and non-controlling interests at their carrying amounts.***

.49 Until the merger date, the combining entities should continue to measure these assets, liabilities and non-controlling interests in accordance with applicable Standards of GRAP.

.50 ***The difference between the carrying amounts of the assets transferred, ~~and~~ the liabilities derecognised, and any non-controlling interests shall be recognised in accumulated surplus or deficit.***

Disclosure

.51 ***Following a merger, the combined entity's first set of financial statements following the merger shall 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, either as a separate additional financial statement or as a budget column in the financial statements; and

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

.52 ***The combined entity and the combining entities shall disclose information that enable~~s~~ users of its financial statements to evaluate the nature and financial effect of a merger that occurs either:***

(a) during the current reporting period; or

(b) after the end of the reporting period but before the financial statements are authorised for issue.

.53 To meet the objective in paragraph .52, the combined entity and the combining entities should disclose the following information for each merger that occurs during the reporting period:

(a) the accounting policy adopted for a merger that occurred during the reporting period;

(b) the name and description of the entities involved in the merger and a brief description of the merger;

(c) the merger date;

(d) the primary reason for the merger including, and a description of how the merger was governed, including, where applicable, the legal basis for the merger; and

(e) the amounts recognised as of the merger date for each major class of assets acquired or received, liabilities assumed or derecognised and any non-controlling interests.

.54 For individually immaterial mergers occurring during the reporting period that are material collectively, the combined entity and combining entity should disclose in aggregate the information required by paragraphs .53, .57 and .59.

.55 If the specific disclosures required by this and other Standards of GRAP do not meet the objectives set out in paragraphs .51 to .54 and .56 to .62, the combined entity and combining entities should disclose whatever additional information is necessary to meet those objectives.

Combined entity

.56 The combined entity need not present comparative information in the first reporting period.

.57 To meet the objective in paragraph .52, the combined entity should disclose the following information for each merger that occurs during the reporting period:

(a) for each effected line item in financial statements, the amounts recognised as of the merger date for each major class of the assets acquired or received and liabilities assumed;

(b) the difference between the carrying amounts of the assets acquired or received liabilities assumed, any non-controlling interests and any adjustments required to the basis of accounting as described in paragraph .24, as a separate line item in net assets;

(c) additional contingent liabilities and contingent assets assumed in the merger; and

(d) the period for which the results of the merger are included in the financial statements of the combined entities.

Financial statements for subsequent periods need not repeat these disclosures.

.58 The combined entity shall disclose information that enable users of its financial statements to evaluate the financial effects of adjustments recognised in the current reporting period that relate to a merger that occurred in the period or previous reporting period periods.

.59 To meet the objective in paragraph .58, the combined entity should disclose the following information:

(a) If the initial accounting for a merger is incomplete (see paragraph .30) for particular assets, liabilities, non-controlling interests or any consideration, and the amounts recognised in the financial statements for the merger thus have been determined only provisionally:

(i) the reasons why the initial accounting for the merger is incomplete;

(ii) the assets, liabilities, non-controlling interests or any consideration for which the initial accounting is incomplete; and

(iii) the nature and the amount of any measurement period adjustments recognised during the reporting period in accordance with paragraph .34.

Combining entities

.60 Comparative information shall not be restated or adjusted by the combining entities.

.61 The combining entities shall disclose the following for a merger:

(a) for each asset transferred, liability derecognised, the carrying amount of the assets transferred and the liabilities derecognised for each major class of asset and liability; and

(b) the difference between the carrying amounts of the assets transferred, liabilities derecognized and non-controlling interests, as a separate line item in accumulated surplus and deficit.

.62 If the merger date is after the end of the reporting period but before the financial statements are authorised for issue, the combining entities should disclose the information required by paragraph .61 unless the initial accounting for the merger is incomplete at the time the financial statements are authorised for issue. In that situation, the combining entities should describe which disclosures could not be made and the reasons why they cannot be made.

Transitional provisions

Initial adoption of the Standards of GRAP

.63 ***The transitional provisions to be applied by entities on the initial adoption of this Standard are prescribed in a directive(s). The provisions of this Standard should be read in conjunction with each applicable directive.***

Effective date

Initial adoption of the Standards of GRAP

.64 ***An entity shall apply this Standard for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.***

Withdrawal of the Standard of GRAP on *Mergers* (2010)

.65 This Standard supersedes the Standard of GRAP on *Mergers* issued in 2010.

Appendix A - Consequential amendments to Standards of GRAP

The purpose of this appendix is to identify the consequential amendments to other Standards of GRAP resulting from the issue of this Standard. Amended text is shown with new text underlined and deleted text struck through.

A1. DIRECTIVE 2 *Transitional Provisions for Public Entities, Trading Entities, Municipal Entities, Public Technical and Vocational Education and Training Colleges, and Constitutional Institutions*

Amend and delete the following paragraphs in Directive 2:

GRAP 107 *Mergers*

Transitional provisions

.94 ***The requirements ~~in~~of GRAP 107 (revised 2023) shall be applied prospectively to a transaction or event that involves a merger when the merger date is on or after the ~~initial~~ adoption of ~~the Standard~~ GRAP 107 (revised 2023). The transitional provisions should be read in conjunction with the requirements on the measurement period as included in GRAP 107 (revised 2023) paragraphs .30~~.24~~ to .35~~.29~~ ~~of the Standard~~.***

.95 [Deleted] ~~GRAP 107 only applies to a merger that occurs after the initial adoption of the Standard. Assets acquired and liabilities assumed as a result of a merger where the merger date preceded the adoption of the Standard, should not be adjusted upon initial adoption of the Standard.~~

A2. DIRECTIVE 3 *Transitional Provisions for High Capacity Municipalities*

Amend and delete the following paragraphs in Directive 3:

GRAP 107 *Mergers*

Transitional provisions

.105 ***The requirements ~~in~~of GRAP 107 (revised 2023) shall be applied prospectively to a transaction or event that involves a merger when the merger date is on or after the ~~initial~~ adoption of ~~the Standard~~ GRAP 107 (revised 2023). The transitional provisions should be read in conjunction with the requirements on the measurement period as included in GRAP 107 (revised 2023) paragraphs .30~~.24~~ to .35~~.29~~ ~~of the Standard~~.***

.106 [Deleted] ~~GRAP 107 only applies to a merger that occurs after the initial adoption of~~

~~the Standard. Assets acquired and liabilities assumed as a result of a merger where the merger date preceded the adoption of the Standard, should not be adjusted upon initial adoption of the Standard.~~

A3. DIRECTIVE 4 *Transitional Provisions for Medium and Low Capacity Municipalities and Trading Entities*

Amend and delete the following paragraphs in Directive 4:

GRAP 107 *Mergers*

Transitional provisions

.132 ***The requirements ~~in~~of GRAP 107 (revised 2023) shall be applied prospectively to a transaction or event that involves a merger when the merger date is on or after the ~~initial~~ adoption of ~~the Standard~~ GRAP 107 (revised 2023). The transitional provisions should be read in conjunction with the requirements on the measurement period as included in GRAP 107 (revised 2023) paragraphs .30~~.24~~ to .35~~.29 of the Standard~~.***

.133 [Deleted] ~~GRAP 107 only applies to a transfer of functions that occurs after the initial adoption of the Standard. Assets acquired and liabilities assumed as a result of a merger where the merger date preceded the adoption of the Standard, should not be adjusted upon initial adoption of the Standard.~~

A4. DIRECTIVE 8 *Transitional Provisions for Parliament and Provincial Legislatures*

Amend and delete the following paragraphs in Directive 8:

GRAP 107 *Mergers*

Transitional provisions

.93 ***The requirements ~~in~~of GRAP 107 (revised 2023) shall be applied prospectively to a transaction or event that involves a merger when the transfer date is on or after the ~~initial~~ adoption of ~~the Standard~~ GRAP 107 (revised 2023). The transitional provisions should be read in conjunction with the requirements on the measurement period as included in GRAP 107 (revised 2023) paragraphs .30~~.24~~ to .35~~.29 of the Standard~~.***

.94 [Deleted] ~~GRAP 107 only applies to a merger that occurs after the initial adoption of the Standard. Assets acquired and liabilities assumed as a result of a merger where the merger date preceded the adoption of the Standard, should not be adjusted upon initial adoption of the Standard.~~

Illustrative Examples

These examples accompany, but are not part of, GRAP 107.

Assessing if a transaction or event is a merger

IE1. A regulation was passed by the Municipal Demarcation Board that requires Municipality A, Municipality B and Municipality C to transfer all their functions into a new metropolitan municipality. The combined entity will be the new metropolitan municipality ABC. In the new Municipality ABC, management will be equally represented by the previous management of Municipality A, Municipality B and Municipality C. The sizes of the three municipalities involved in the merger are not so disparate that one entity dominates Municipality ABC by virtue of its relative size.

IE2. To assess if the transfer needs to be accounted for using GRAP 107 the following should be assessed (see paragraphs .05 and .09):

(a) Do the assets acquired or received and/or the liabilities assumed meet the definition of a function?: Yes – all the assets and liabilities of Municipality A, Municipality B and Municipality C that are transferred to the new metropolitan municipality comprise an integrated set or activities. The functions previously provided by Municipality A, Municipality B and Municipality C will now be provided by the new municipality, i.e. Municipality ABC.

(b) Does the transaction or event involve the formation of a joint arrangements?: No, two or more parties do not have joint control, as neither of the parties involved in the transaction or event agreed the sharing of control by way of a binding arrangement. Furthermore, the unanimous consent of the parties sharing the control is also not required in the binding arrangement. A joint arrangement is therefore not established.

(c) Can an acquirer be identified?: No – a new reporting entity is established and no party to the merger is seen to be dominant. Also, all parties to the merger, as represented by management will participate in the management structure of the combined entity Municipality ABC. The relative sizes of Municipality A, Municipality B and Municipality C are similar and no one dominates the new entity by virtue of its relative size.

IE3. The transaction should therefore be accounted as a merger using GRAP 107.

Measurement period in a merger

IE4. Suppose that Municipality A, Municipality B and Municipality C is required by the Municipal Demarcation Board to transfer all its functions to a new combined Municipality ABC following the enactment of a regulation. The transfer comprises a merger and is effective on 30 March 20X3. Prior to the merger, all the municipalities measure land and buildings using the revaluation model. Municipality A had, at the merger date, undertake an independent valuation for its land and buildings. This

valuation was not complete by the time Municipality ABC authorised for issue its financial statements for the year ended 30 June 20X3. In its 20X3 annual financial statements, Municipality ABC recognised provisional values for the land and buildings of R150 000 and R275 000 respectively. At the merger date, the buildings had a remaining useful life of fifteen years. The land had an indefinite life. Four months after the merger date, Municipality ABC received an independent valuation, which estimated the merger date value of the land as R160 000 and the merger date value of the buildings as R365 000.

IE5. In its financial statements for the year ended 30 June 20X4, Municipality ABC retrospectively adjusts the 20X3 prior year information as follows:

(a) The carrying amount of the land as of 30 June 20X3 is increased by R10 000. As the land has an indefinite life, no depreciation is charged.

(b) The carrying amount of the buildings as of 30 June 20X3 is increased by R89 500. That adjustment is measured as the valuation adjustment at the merger date of R90 000 less the additional depreciation that would have been recognised if the asset's value at the merger date had been recognised from that date (R500 for one months' depreciation).

(c) An adjustment of R100 000 is recognised in accumulated surplus or deficit as of 30 June 20X4.

(d) Depreciation expense for 20X3 is increased by R500.

IE6. In accordance with paragraph.58, Municipality ABC discloses:

(a) In its 20X3 financial statements, that the initial accounting for the merger has not been completed because the valuation of land and buildings previously controlled by Municipality A has not yet been received.

(b) In its 20X4 financial statements, the amounts and explanations of the adjustments to the provisional values recognised during the current reporting period. Therefore, Municipality ABC discloses that the 20X3 comparative information is adjusted retrospectively to increase the value of the land and buildings by R99 500 (R100 000 at the merger date), an increase in depreciation expense of R500 and an increase in accumulated surplus or deficit of R100 000.

Disclosure requirements relating to a merger

Illustrating the consequences of applying the disclosure requirements in paragraphs .52 to .55

IE7. The following example illustrates some of the disclosure requirements relating to a merger. It is not based on an actual transaction. The example assumes that Municipality ABC was formed following the publication of a regulation by the Municipal Demarcation Board to combine Municipality A, Municipality B and Municipality C on 30 March 20X3. The illustration presents the disclosures in a tabular format that refers to the specific disclosure requirements illustrated.

Paragraph reference		
.53 .53(d)	On 1 July 20X2 Municipality ABC was formed after the merger of Municipality A, Municipality B and Municipality C after the publication of regulation by the Municipal Demarcation board. The merger aimed at improving services to customers in the province.	
Amounts recognised for each major class of assets and/or liabilities as at 1 July 20X2		
.53(e)		**R'000**
	Financial assets	1 701
	Inventory	5
	Property, plant and equipment	74 656
	Intangible assets	42
	Liabilities	(320)
	Financial liabilities	(60)
	Total net assets	76 024

Basis for conclusions

This basis for conclusions gives the Accounting Standards Board's (the Board's) reasons for accepting or rejecting certain proposals related to the accounting for mergers. This basis for conclusions accompanies, but is not part of, this Standard.

Initial development of this Standard

BC1. This basis for conclusions summarises the Board's considerations in developing this Standard. In forming its views, the Board considered the views expressed and the comment received from stakeholders that responded to the Invitation to Comment (ITC) on a Discussion Paper on *Transfer of Functions* (Discussion Paper 4) issued in November 2007. The Board further considered the responses to an ITC on an Exposure Draft of this Standard (issued May 2010).

BC2. In developing this Standard, the Board considered the principles in the Standards of GRAP on *Revenue from Exchange Transactions*, *Revenue from Non-exchange Transactions (Taxes and Transfers)*, *Non-current Assets Held for Sale and Discontinued Operations* and the IFRS Accounting Standard on *Business Combinations* (IFRS 3) (2008) issued by the International Accounting Standards Board.

BC3. A project on the accounting for entity combinations arising from exchange transactions is included on the International Public Sector Accounting Standards Board's (IPSASB) work programme. The Board will continue to monitor this project and, at an appropriate time, consider the implications of the IPSASB project on this Standard, if any.

Scope (paragraphs .02 to .05)

BC4. A merger involves the establishment of a new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified. The combining entities rather came together for the mutual sharing of risks and benefits of the combined entity. A transaction or event in which no acquirer can be identified can either involve the combination of two or more entities in which one of the combining entities continues to become the combined entity, or a new reporting entity is established from the combining entities. Discussion Paper 4 considered various alternatives to account for a transaction or event that meets the definition of merger. In considering IFRS 3, the Board agreed that the acquisition method will not be appropriate to account for a transaction or event that meets the definition of merger. The acquisition method requires the identification of an acquirer that obtains control of an acquiree in a transaction or event that meets the definition of a business combination, as defined in IFRS 3. In a merger however, no acquirer is identified, and a merger does thus not result in one entity obtaining control over another. While entities in an entity combination obtain control over another entity, mergers do not involve control as no acquirer can be identified. This Standard

should be applied in accounting for a merger. Even though reference was made to IFRS 3 in developing this Standard, this Standard departs from the acquisition method principles as established in IFRS 3.

BC5. For a transaction or event to fall within the scope of this Standard, no acquirer should be identified and the new reporting entity should be established, formed from combining entities that came together for the mutual sharing of risks and benefits. The relative risks and benefits of the combining entities prior to the merger are maintained and their decision making powers are preserved in the new reporting entity. All parties to the transaction or event, as represented by management, participate in establishing the management structure of the combined entity, and assist in selecting the management personnel. These decisions are made on the basis of consensus between the parties to the transaction or event.

BC6. The concept of control is not relevant in a transaction or event that meets the definition of a merger as no acquirer can be identified. A transaction or event in which an acquirer is identified and that is undertaken between entities under common control or a transaction undertaken between entities not under common control, should be accounted for in terms of GRAP 105 or GRAP 106.

Recognition and measurement

BC7. As limited guidance exists in the public sector on the accounting for mergers, the Board considered the appropriateness of the fresh start method and the pooling of interests method to account for a transaction or event that meets the definition of a merger.

BC8. Discussion Paper 4 concluded that, while the fresh start method might be appropriate because it assumes that a new entity is started and all the assets and liabilities of that new entity are valued at fair value, little literature is available on the mechanics and rationale of this method. The Board also noted that determining the fair value of the assets and liabilities to be transferred and derecognised by the combining entities, will have additional cost implications. The Board further noted that few countries apply the fresh start method in practice. Discussion Paper 4 thus concluded that the fresh start method is not an appropriate method to account for mergers.

BC9. Under the pooling of interests method, on the other hand, entities are deemed to continue within a new form, while the economic substance of the combining entities remains unchanged. As the combining entities are deemed to only continue under a new legislative framework, their assets and liabilities are transferred and derecognised at carrying amounts. Discussion Paper 4 concluded that the application of the pooling of interests method is the preferred method for purposes of developing accounting guidance for mergers.

BC10. Respondents to Discussion Paper 4 supported this proposal but questioned the practicality of the approach as it involves the restatement of comparative

information by applying uniform accounting policies to the prior year figures of the combining entities. The Board reconsidered the accounting principles to be applied under this approach. The Board confirmed that the pooling of interests method should be applied to account for a transaction or event that meets the definition of a merger, but agreed that the principles should be applied prospectively from the merger date. As a result, no comparative information will be required by the combined entity in its first year of operations. Respondents to the Exposure Draft supported these proposals.

BC11. During the comment period, some respondents raised concerns about the fact that the combining entities' carrying amounts could be incomplete on the merger date due to the values being inaccurate or because a combining entity is applying a different basis of accounting. A requirement has been included in this Standard to clarify that if a combining entity is not applying an accrual basis of accounting, that combining entity should change its basis of accounting to an accrual basis of accounting prior to the merger.

Measurement period

BC12. This Standard provides the combined entity with a reasonable period after the merger, a measurement period, during which to obtain the information necessary to identity and measure the assets acquired and liabilities assumed in a merger. If sufficient information is not available at the merger date to measure the assets and liabilities, the combined entity determines and recognises provisional amounts until the necessary information becomes available.

BC13. A constraint is placed on the period for which it is deemed reasonable to seek information necessary to complete the accounting for a merger. The measurement period ends as soon as the combined entity receives the necessary information about facts and circumstances that existed as of the merger date or learns that the information is not obtainable. The Board agreed to a measurement period of two years.

BC14. The Board also concluded that the combined entity should provide the users of financial statements with relevant information about the status of items that have been measured using provisional amounts. A disclosure requirement has been included to provide such information.

Revisions following the approval of IPSAS 40 on *Public Sector Combinations*

BC15. When the Board developed GRAP 107 during 2010, no equivalent International Public Sector Accounting Standard existed. The International Public Sector Accounting Standards Board issued IPSAS 40 on *Public Sector Combinations* during 2017. During 2022, the Board undertook a project to compare the principles in IPSAS 40 with that in the local Standards. The objective of the review was to identify any similarities and differences between IPSAS 40 and the local Standards.

BC16. The principles in IPSAS 40 relating to an amalgamation were compared to GRAP 107. This is because the first part of the definition of an amalgamation in IPSAS 40 requires that no party gains control of one or more operations involved in the combination, which is similar to the requirements in GRAP 107.

BC17. Based on the outcome of the review, the Board agreed that GRAP 107 should be revised by including additional, authoritative guidance from IPSAS 40, where applicable. The Board also agreed that any additional guidance in GRAP 107, that is not included in IPSAS 40, should be retained if it remains relevant. Any amendments to IFRS 3, that were issued subsequent to IPSAS 40 being issued, should be included in GRAP 107.

BC18. The Board agreed to retain the format of the local guidance, i.e. three separate Standards of GRAP. This is because preparers find it easier to apply the appropriate Standard based on the nature of the transaction or event, and because no substantive implementation issues have been raised by stakeholders.

Measurement period

BC19. IPSAS 40 allows a one year measurement period, whereas GRAP 107 (2010) allowed for a measurement period of two years. The Board agreed to retain a two year measurement period in this Standard, as from practical experience it was observed that entities need more than one year to obtain the necessary information to identity and measure the assets acquired or received, liabilities assumed and any non-controlling interests in a merger.

Measurement principle

BC20. IPSAS 40 requires that the assets and liabilities of the combining entities be measured at their carrying amounts in the financial statements of the resulting entity (combined entity). The combining entity should adjust the carrying amounts of the assets and liabilities to conform to the resulting entity's (combined entity's) financial statements. Adjustments also need to be made to eliminate transactions between the combining entities in calculation the excess.

BC21. The Board agreed that the principle in this Standard should be retained, i.e. that the assets, liabilities and non-controlling interests are measured at their carrying amounts. No adjustments need to be made to the carrying amounts to conform to the resulting entity's (combined entity's) accounting policy, and no transactions between the combining entities need be eliminated. This is to avoid additional costs following the decision to merge entities, and because the combining entities will continue in a new entity under a new legislative framework.

Presentation

BC22. IPSAS 40 allows an entity to present financial statements for periods prior to the amalgamation date. The Board concluded that this principle should not be included in this Standard as in a merger, a new reporting entity is formed under a new

legislative framework. This entity will only commence its operations from the merger date.

Comparison with the International Public Sector Accounting Standard on *Public Sector Combinations* (January 2017)

This Standard is drawn primarily from the International Public Sector Accounting Standard on *Public Sector Combinations* (IPSAS 40). The main differences between this Standard and IPSAS 40 are as follows:

- The heading and related text in this Standard were amended from "amalgamation", "acquisition", "public sector combination", "combining operation", "amalgamation date" and "resulting entity" to "merger", "transfer of functions", "combining entity", "merger date", and "combined entity.
- Definitions and explanatory guidance from other Standards of GRAP were included as part of this Standard where they are relevant to the understanding of this Standard.
- The definition of an amalgamation focuses on the combination of one or more functions whereas a merger involves the combination of two or more entities.
- A diagram and related text explaining the distinction between a transfer of functions under common control, a transfer of functions not under common control and a merger have been included to assist entities in determining if this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.
- The guidance in IPSAS 40 to distinguish between an amalgamation and an acquisition was omitted.
- Guidance to explain a merger, including criteria that indicate that the transaction or event is a merger were included in this Standard to clarify the application of this Standard.
- Additional guidance is included in this Standard explaining that the terms and conditions of a binding arrangement should be considered to identify the combined entity, the assets and liabilities and any non-controlling interests. IPSAS 40 does not include similar guidance.
- This Standard does not apply "the modified pooling of interests method" as described in IPSAS 40. Instead, the assets acquired or received, liabilities assumed and non-controlling interests are measured at their carrying amounts, and transactions between the entities prior to the merger are not eliminated in calculating the excess.
- This Standard provides guidance, and prescribes disclosure for both the combined entity and the combining entity. IPSAS 40 only provides guidance and prescribes disclosures for the resulting (combined) entity.
- Exceptions to the recognition and measurement principles on income taxes and employee benefits are not included in this Standard.

- The measurement period of two years in GRAP 107 (2010) was retained due to practical considerations. IPSAS 40 only permits a year.
- Illustrative examples from IPSAS 40 that are not relevant have not been included in this Standard.
- Any related application guidance included as an appendix to IPSAS 40 was included as part of the text of this Standard, where applicable.
- The option in IPSAS 40 to present financial statements for periods prior to the merger has not been included in this Standard.
- Transitional provisions to this Standard are dealt with differently than in IPSAS 40.