



**ANALYSIS AND RESPONSES TO VERBAL COMMENT  
RECEIVED ON**

**PROPOSED REVISIONS TO THE STANDARDS OF GRAP  
ON *TRANSFER OF FUNCTIONS BETWEEN ENTITIES  
UNDER COMMON CONTROL (GRAP 105), TRANSFER OF  
FUNCTIONS BETWEEN ENTITIES NOT UNDER COMMON  
CONTROL (GRAP 106) AND MERGERS (GRAP 107)***

**(ED 204)**

**SUMMARY AND ANALYSIS OF VERBAL COMMENT RECEIVED ON THE *PROPOSED REVISIONS TO THE STANDARDS OF GRAP ON TRANSFER OF FUNCTIONS BETWEEN ENTITIES UNDER COMMON CONTROL (GRAP 105), TRANSFER OF FUNCTIONS BETWEEN ENTITIES NOT UNDER COMMON CONTROL (GRAP 106) AND MERGERS (GRAP 107)* (ED 204)**

**RESPONSES TO THE VERBAL COMMENT RECEIVED ON EXPOSURE DRAFT 204 ON *PROPOSED REVISIONS TO THE STANDARDS OF GRAP ON TRANSFER OF FUNCTIONS BETWEEN ENTITIES UNDER COMMON CONTROL (GRAP 105), TRANSFER OF FUNCTIONS BETWEEN ENTITIES NOT UNDER COMMON CONTROL (GRAP 106) AND MERGERS (GRAP 107)***

The Accounting Standards Board (Board) approved Exposure Draft 204 on *Proposed Revisions to the Standards of GRAP on Transfer of Functions Between Entities Under Common Control (GRAP 105), Transfer of Functions Between Entities Not Under Common Control (GRAP 106) and Mergers (GRAP 107)* in March 2023. A Notice was published in the Government Gazette on 28 April 2023 (Notice 48483). The comment period closed on 15 July 2023.

ED 204 was discussed with preparers, auditors, consultants and other interested parties by way of virtual engagements, as listed in the table on the next page. No written comment was received on ED 204. The verbal comment on ED 204 is summarised in this document.

**CLASSIFICATION OF VERBAL COMMENT RECEIVED ON THE *PROPOSED REVISIONS TO THE STANDARDS OF GRAP ON TRANSFER OF FUNCTIONS BETWEEN ENTITIES UNDER COMMON CONTROL (GRAP 105), TRANSFER OF FUNCTIONS BETWEEN ENTITIES NOT UNDER COMMON CONTROL (GRAP 106) AND MERGERS (GRAP 107) (ED 204)***

<b>No.</b>	<b>Name/Organisation</b>	<b>Preparers</b>	<b>Users</b>	<b>Auditors</b>	<b>Other interested parties</b>
1.	Auditors and technical advisors			√	√
2.	Public entities, municipalities, waterboards and the Office of the Accountant-General (OAG)	√			
3.	Public Sector Accounting Forum (PSAF) members	√	√	√	√
4.	CIGFARO members <sup>1</sup>	√			
5.	City of Cape Town	√			

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<sup>1</sup> No comment was received from this stakeholder group during the engagement, therefore no comment is included in the next section of this summary for this group.

**SUMMARY AND ANALYSIS OF VERBAL COMMENT RECEIVED ON THE PROPOSED REVISIONS TO THE STANDARDS OF GRAP ON TRANSFER OF FUNCTIONS BETWEEN ENTITIES UNDER COMMON CONTROL (GRAP 105), TRANSFER OF FUNCTIONS BETWEEN ENTITIES NOT UNDER COMMON CONTROL (GRAP 106) AND MERGERS (GRAP 107) (ED 204)**

No.	Comments	Board's response
<b>SPECIFIC MATTERS FOR COMMENT</b>		
<p><b>Question 1</b></p> <p>In revising the Standards of GRAP dealing with transfer of functions and mergers, the Board agreed that any amendments made to IFRS 3 <i>Business Combinations</i> after the publication of IPSAS 40 on <i>Public Sector Combinations</i>, should be included in the proposed revisions to the Standards.</p> <p>As a result, the guidance from IFRS 3 that sets out an optional test (the concentration test) to permit a simplified assessment of whether a transferred set of activities and assets and/or liabilities is a function or not is included in GRAP 105 and GRAP 106. In addition, guidance has also been included to assess whether a transferred process is substantive if the transferred set of activities and assets and/or liabilities does not have outputs. The guidance is included in GRAP 105.13 to .19 and Appendix A paragraphs AG1 to AG11 and GRAP 106.14 to .20 and Appendix A paragraphs AG1 to AG11.</p> <p>The Board is of the view that this guidance could be useful to entities to assess if the transaction or event should be accounted for as a transfer of functions, and to assess if a transferred process is substantive.</p> <p><b>Do you agree that this guidance is useful, and should be included in GRAP 105 and GRAP 106? Please explain the reason for your response.</b></p>		
<b>1.</b>	<b>Auditors and technical advisors</b>	
	There was support for the additional guidance included on the optional test, and to assess whether a transferred process is substantive. This will ensure more consistency in applying the principles in the revised Standards.	Noted. No further action required.
<b>2.</b>	<b>Public entities, municipalities, waterboards and the OAG</b>	
	No specific comment.	Noted. No further action required.
<b>3.</b>	<b>PSAF members</b>	
	No specific comment.	Noted. No further action required.
<b>4.</b>	<b>City of Cape Town</b>	
	There was support for the additional guidance included on the optional test and to assess if a transferred process is substantive. The additional guidance will be helpful to assess if the definition of a function has been met.	Noted. No further action required.

No.	Comments	Board's response
	<p><b>Question 2</b></p> <p><b>IPSAS 40 allows a one year measurement period when the initial accounting for a transfer of functions is incomplete by the end of the reporting period in which the transfer occurs. The Board agreed that the local Standards should allow a measurement period of two years. This is because, from practical experience, it was observed that entities need more than one year to obtain the necessary information to identify and measure the assets acquired or received, liabilities assumed and non-controlling interests in a transfer of functions or merger.</b></p> <p><b>Do you agree with the Board retaining a measurement period of two years in GRAP 105, GRAP 106 and GRAP 107? Please explain your response.</b></p>	
5.	<b>Auditors and technical advisors</b>	
	<p>Not all entities are aware that GRAP 105 to GRAP 107 allow a two year measurement period. The measurement period enables an entity to recognise provisional amounts at the transfer date, along with additional time to obtain the information necessary to identify, recognise and measure the assets acquired or received and liabilities assumed as of the transfer date.</p>	<p>Noted. The need to raise awareness will be addressed through communication initiatives by the Secretariat.</p>
6.	<b>Public entities, municipalities, waterboards and the OAG</b>	
	<p>Members recommended that the measurement period be extended to three years. It was noted that during the last demarcation process, funding for the demarcation was only provided after the elections. Because the financial information from the combining entities was poor, the trial balances had to be reconstructed from source documents.</p> <p>As entities did not have the necessary skills to identify the assets to be transferred, or the liabilities to be relinquished, consultants had to be appointed. Entities had to comply with the supply chain management procedures that delayed the accounting for the assets acquired or received and liabilities assumed. As this is a lengthy process, some combined entities only had fifteen months left to apply the measurement period.</p>	<p>Noted. This question tested if stakeholders supported retaining the extended measurement period of two years compared to IPSAS 40 that only allows a measurement period of one year. Respondents to the Exposure Draft were generally in support of the measurement period of two years.</p> <p>The Board concluded that the relevance and timeliness of the information in the financial statements on the transfer of functions or merger will be significantly reduced if the measurement period is extended beyond two years. No amendment to the measurement period is made.</p>
7.	<b>PSAF members</b>	
	<p>Members supported retaining a measurement period of two years.</p>	<p>Noted. No further action required.</p>

**SUMMARY AND ANALYSIS OF VERBAL COMMENT RECEIVED ON THE *PROPOSED REVISIONS TO THE STANDARDS OF GRAP ON TRANSFER OF FUNCTIONS BETWEEN ENTITIES UNDER COMMON CONTROL (GRAP 105), TRANSFER OF FUNCTIONS BETWEEN ENTITIES NOT UNDER COMMON CONTROL (GRAP 106) AND MERGERS (GRAP 107) (ED 204)***

No.	Comments	Board's response
8.	City of Cape Town	
	No specific comment.	Noted. No further action required.

No.	Comments	Board's response
	<p><b>Question 3</b></p> <p>When the Board developed GRAP 106 (2010), the principles in IFRS 3 were considered in the absence of a public sector standard at that point in time. IFRS 3 requires the recognition of goodwill at the acquisition date, measured as the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the net of the acquisition date amounts of the identifiable assets acquired or received, liabilities assumed, and any non-controlling interests. Goodwill is subject to an annual impairment test.</p> <p>The Board agreed to depart from the IFRS 3 requirements on the recognition of goodwill because the excess of the purchase consideration paid (if any) over the fair value of the assets acquired or received, the liabilities assumed and any non-controlling interests is seen as a premium that is paid by the acquirer to the previous owners. Furthermore, the Board agreed that the definition of an asset or liability in terms of the <i>Framework for the Preparation and Presentation of Financial Statements</i> has not been met to support the recognition of goodwill. GRAP 106 (2010) required the excess to be recognised in surplus and deficit on the acquisition date.</p> <p>In revising GRAP 106 (2010) with the principles in IPSAS 40, the Board reconsidered its previous conclusion on the treatment of the excess when it departed from the IFRS 3 requirements. The Board concluded that the arguments to not recognise the excess as goodwill, remain relevant. The Board also concluded that, even though the excess may meet the definition of an asset, the entity may not be able to reliably measure the goodwill.</p> <p>Do you agree with the Board's conclusion to continue to recognise the excess of the purchase consideration paid (if any) over the fair value of the assets acquired or received, the liabilities assumed and any non-controlling interests in surplus and deficit, rather than to recognise the excess as goodwill? Please explain your response.</p>	
9.	<b>Auditors and technical advisors</b>	
	No specific comment.	Noted. No further action required.
10.	<b>Public entities, municipalities, waterboards and the OAG</b>	
	No specific comment.	Noted. No further action required.
11.	<b>PSAF members</b>	
	No specific comment.	Noted. No further action required.
12.	<b>City of Cape Town</b>	
	No specific comment.	Noted. No further action required.

**SUMMARY AND ANALYSIS OF VERBAL COMMENT RECEIVED ON THE PROPOSED REVISIONS TO THE STANDARDS OF GRAP ON TRANSFER OF FUNCTIONS BETWEEN ENTITIES UNDER COMMON CONTROL (GRAP 105), TRANSFER OF FUNCTIONS BETWEEN ENTITIES NOT UNDER COMMON CONTROL (GRAP 106) AND MERGERS (GRAP 107) (ED 204)**

No.	Comments	Board's response
	<p><b>Question 4</b></p> <p>The Board has included relevant illustrative examples from IPSAS 40 and IFRS 3 to illustrate the principles in GRAP 105, GRAP 106 and GRAP 107. Even though the principles that are illustrated by these examples do not always relate to new guidance included in the Standards, the Board agreed to include the examples as they are available internationally. In your view:</p> <p>(a) do you agree that these examples are relevant and should be retained? Please explain your response; and</p> <p>(b) are there any other illustrative examples that should be included in GRAP 105 to GRAP 107 to explain the principles in any of these Standards? Please explain your response.</p>	
13.	<b>Auditors and technical advisors</b>	
	No specific comment.	Noted. No further action required.
14.	<b>Public entities, municipalities, waterboards and the OAG</b>	
	No specific comment.	Noted. No further action required.
15.	<b>PSAF members</b>	
	No specific comment.	Noted. No further action required.
16.	<b>City of Cape Town</b>	
	No specific comment.	Noted. No further action required.



No.	Comments	Board's response
	<p><b>Question 5</b></p> <p>Are there any specific implementation issues that the Board should be aware of? Are there any regulatory or other issues that exist in the South African environment that may affect the implementation of the proposed Standards of GRAP? If yes, please provide details of these regulatory or other issues that should be considered in finalising the proposed Standards of GRAP.</p>	
17.	<b>Auditors and technical advisors</b>	
	No specific comment.	Noted. No further action required.
18.	<b>Public entities, municipalities, waterboards and the OAG</b>	
	No specific comment.	Noted. No further action required.
19.	<b>PSAF members</b>	
	No specific comment.	Noted. No further action required.
20.	<b>City of Cape Town</b>	
	No specific comment.	Noted. No further action required.

**SUMMARY AND ANALYSIS OF VERBAL COMMENT RECEIVED ON THE PROPOSED REVISIONS TO THE STANDARDS OF GRAP ON TRANSFER OF FUNCTIONS BETWEEN ENTITIES UNDER COMMON CONTROL (GRAP 105), TRANSFER OF FUNCTIONS BETWEEN ENTITIES NOT UNDER COMMON CONTROL (GRAP 106) AND MERGERS (GRAP 107) (ED 204)**

No.	Comments	Board's response
	<p><b>Question 6</b></p> <p><b>In your view, overall, does the application of the proposed revisions to GRAP 105, GRAP 106 and GRAP 107 result in financial statements that would be useful to users? Please explain your response.</b></p>	
21.	<b>Auditors and technical advisors</b>	
	No specific comment.	Noted. No further action required.
22.	<b>Public entities, municipalities, waterboards and the OAG</b>	
	No specific comment.	Noted. No further action required.
23.	<b>PSAF members</b>	
	No specific comment.	Noted. No further action required.
24.	<b>City of Cape Town</b>	
	No specific comment.	Noted. No further action required.

No.	Comments	Board's response
	<p><b>Question 7</b></p> <p><b>In your view, what are the costs and benefits of the proposals relative to the current accounting for transfer of functions and mergers? In relation to quantitative financial and resource costs and time involved to implement the proposals, the ASB would be interested to understand the nature and estimated amounts of any expected incremental costs, or cost savings, of the proposals relative to the existing accounting.</b></p>	
25.	<b>Auditors and technical advisors</b>	
	No specific comment.	Noted. No further action required.
26.	<b>Public entities, municipalities, waterboards and the OAG</b>	
	No specific comment.	Noted. No further action required.
27.	<b>PSAF members</b>	
	No specific comment.	Noted. No further action required.
28.	<b>City of Cape Town</b>	
	No specific comment.	Noted. No further action required.

**SUMMARY AND ANALYSIS OF VERBAL COMMENT RECEIVED ON THE PROPOSED REVISIONS TO THE STANDARDS OF GRAP ON TRANSFER OF FUNCTIONS BETWEEN ENTITIES UNDER COMMON CONTROL (GRAP 105), TRANSFER OF FUNCTIONS BETWEEN ENTITIES NOT UNDER COMMON CONTROL (GRAP 106) AND MERGERS (GRAP 107) (ED 204)**

GENERAL MATTERS FOR COMMENT		
No.	Comments	Board's response
<b>29.</b>	<b>Auditors and technical advisors</b>	
29.1	<p>Following demarcations, some municipalities accounted for the transaction as a merger despite there being dominant management representation by one party to the arrangement after the merger. The relative sizes of the municipalities involved in the transaction also indicated that the transaction should have been accounted for using GRAP 106 rather than GRAP 107.</p>	<p>Noted. The guidance in the Standard is sufficient to conclude which Standard should be applied in specific circumstances. Therefore, no amendment will be made.</p> <p>The comment will be shared with the OAG for consideration in providing additional guidance in the GRAP Accounting Guideline.</p>
29.2	<p>The accounting for an intangible asset acquired in a transfer of functions between entities not under common was questioned. The following example was shared: "a computer system recognised as an intangible asset by the acquiree prior to the transfer, that will not be used by the acquirer following the transfer".</p> <p>It was questioned if the acquirer should account for the intangible asset as part of the transfer of functions and subsequently impair the intangible asset, or whether the intangible asset should not be considered in the transfer of functions at all.</p>	<p>Noted. GRAP 106.38 explains that to qualify for recognition when applying the acquisition method, the identifiable assets acquired or received and/or liabilities assumed should meet the definition of an asset or liability in the <i>Framework for the Preparation and Presentation of Financial Statements</i> and the recognition criteria in the applicable Standards of GRAP at the acquisition date.</p> <p>As the principles are explained in GRAP 106, no amendment to the Standard will be made.</p> <p>The Board agreed that guidance be provided through a Frequently Asked Question (FAQ) to illustrate the application of the principles.</p>

No.	Comments	Board's response
29.3	<p>Some entities receive qualified or disclaimed audit opinions on their financial statements prior to a transfer or merger. From the acquirer and combined entity's perspective, this could impact their financial statements when they account for the transfer of functions or merger.</p> <p>Guidance should be developed to explain how entities should address these challenges to avoid qualified or disclaimed opinions on material assets acquired or received and liabilities assumed following a transfer of function or merger.</p>	<p>Noted. The measurement period of two years allows an entity additional time to obtain the necessary information to identify and measure the assets acquired or received, or the liabilities assumed. The measurement period may be utilised where the transferor or combining entities received qualified or disclaimed audit opinions prior to the transfer or merger - to obtain the required information to account for the transfer of functions or merger without the previous qualified or disclaimed opinion having a material effect on the financial statements of the acquirer or combined entity.</p> <p>As this is an application issue, it will be shared with the OAG for consideration.</p>

**SUMMARY AND ANALYSIS OF VERBAL COMMENT RECEIVED ON THE PROPOSED REVISIONS TO THE STANDARDS OF GRAP ON TRANSFER OF FUNCTIONS BETWEEN ENTITIES UNDER COMMON CONTROL (GRAP 105), TRANSFER OF FUNCTIONS BETWEEN ENTITIES NOT UNDER COMMON CONTROL (GRAP 106) AND MERGERS (GRAP 107) (ED 204)**

No.	Comments	Board's response
30.	<b>Public entities, municipalities, waterboards and the OAG</b>	
30.1	It was questioned why the Standards on transfer of functions and mergers allow for a two year measurement period, while the Directives, in some instances, allow for a three year transitional period.	<p>Noted. There is a difference between transitional provisions and the measurement period.</p> <p>Transitional provisions allow entities time to meet the requirements of a Standard of GRAP upon initial adoption of the Standard.</p> <p>The measurement period allows an entity additional time to identify assets and/or liabilities that are part of the transfer of functions or merger and to determine the value for the assets acquired or received and liabilities assumed following a transfer of function or merger. The measurement period is applied to each transaction that involves a transfer of functions or merger, and not only on the initial adoption of the Standard.</p> <p>The Board agreed that clarity be provided on the difference between transitional provisions and the measurement period through a FAQ.</p>

No.	Comments	Board's response
30.2	Members questioned when the disclosure requirements should be provided for a merger – when the combined entity commences its operations, or when the legislation that enacted the combining entity, is repealed.	<p>Noted.</p> <p>GRAP 107 requires that the combined entity accounts for transactions and events as from the merger date. This is the date on which the combined entity gains control of the assets and liabilities, and the combining entities lose control of the assets and liabilities. The merger date is governed by the binding arrangement that sets out the terms and conditions of the merger.</p> <p>The disclosures should be presented every time a merger is enacted and not only on the initial adoption of the Standard.</p> <p>As the principle is already included in the Standard, no further action is required.</p> <p>The comment will be shared with the OAG for consideration.</p>
30.3	It was questioned if the combined entity should reflect any opening balances in its financial statements following a merger.	<p>Noted. Prior to the merger, the combined entity did not exist, and would therefore not have entered into any transactions. Balances should be reflected as from the merger date for all the assets acquired or received and the liabilities assumed. The difference between the assets acquired or received, the liabilities assumed, any consideration paid and any non-controlling interest is recognised in accumulated surplus or deficit.</p> <p>As guidance is already included in GRAP 107, no further action is needed.</p>

**SUMMARY AND ANALYSIS OF VERBAL COMMENT RECEIVED ON THE PROPOSED REVISIONS TO THE STANDARDS OF GRAP ON TRANSFER OF FUNCTIONS BETWEEN ENTITIES UNDER COMMON CONTROL (GRAP 105), TRANSFER OF FUNCTIONS BETWEEN ENTITIES NOT UNDER COMMON CONTROL (GRAP 106) AND MERGERS (GRAP 107) (ED 204)**

No.	Comments	Board's response
30.4	<p>It was questioned if an acquirer or combined entity should present the assets acquired or received following a transfer of functions or merger, to reflect the assets' carrying amount only or if all three components i.e the asset's cost, accumulated depreciation and accumulated impairment losses should be presented separately in the financial statements of the acquirer or combined entity. A similar question was asked on liabilities assumed.</p>	<p>GRAP 105 and GRAP 107 require that the assets acquired or received, and liabilities assumed be recognised at their carrying amounts. The carrying amount for an asset is the amount at which the asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon. The carrying amount of a liability is the amount at which the liability is recognised in the statement of financial position.</p> <p>As there are different interpretations in recognising assets acquired or received and/or liabilities assumed, guidance is included in GRAP 105 and GRAP 107. The guidance clarifies that, depending on the type of asset acquired or received, the asset's cost less accumulated depreciation and accumulated impairment losses should be recognised separately in the financial statements of the acquirer or combined entity. A similar approach is applied when liabilities are assumed.</p>