**SUMMARY OF OUTCOMES - PROPOSALS INCLUDED IN DISCUSSION PAPER 5**

This document has been prepared by the Secretariat of the Accounting Standards Board (ASB). It outlines the key outcomes of the responses received to Discussion Paper 5, *Comparison of the Standards of GRAP to the IFRS for SMEs.* The ASB's responses to individual comments received are included in a separate document which is available on its website.

| Area | Decisions of the Board |
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| **Investments in other entities** | |
| Investments in associates and joint ventures (GRAP 7 and 8) | The IFRS for SMEs requires the capitalisation of transaction costs associated with an investment in an associate or a joint venture. GRAP 7 and 8 are silent on the treatment of transaction costs. As this may result in divergence in practice, the ASB requested views on whether GRAP 7 and 8 should be amended to require the capitalisation of borrowing costs.<br><br>Since most respondents supported this amendment, the ASB agreed to amend GRAP 7 and 8 as part of the Improvements Project for 2011. |
| **Assets** | |
| *Pervasive issues:* | |
| Borrowing costs (GRAP 5) | The IFRS for SMEs requires borrowing costs to be expensed while GRAP 5 requires the capitalisation of borrowing costs. The Board requested views on whether the approach in the IFRS for SMEs or GRAP is favoured either because an approach is simpler to apply or because of its conceptual merits.<br><br>Most respondents favoured the approach in the IFRS for SMEs which requires the expensing of borrowing costs. They noted that this approach is simpler and ensures that all assets are measured in the same way irrespective of the manner in which they are financed. Some respondents noted that while they agreed with expensing borrowing costs, entities should be allowed a choice of either capitalising or expensing such costs. The ASB agreed in principle to change the approach in GRAP 5 to require the expensing of borrowing costs. This amendment will be dealt with as part of a broader GRAP simplification project. |
| Non-current assets held for sale (GRAP 100) | Unlike the Standards of GRAP, there are no specific measurement requirements in the IFRS for SMEs for assets that are held for sale. As GRAP 100 has already been issued by the ASB and applied for some time already by entities, the Board requested respondents' views on any aspects of GRAP 100 that could be improved or clarified.<br><br>The following comments were received:<br><br>(a) Further guidance is needed on the classification of assets, as held for sale. In particular, explanatory commentary on the criteria used to determine whether an entity is committed to a binding sale transaction could be expanded to deal with the following situations:<br>- The process to approve sales. For example, the various processes involved in approving a transaction may require managerial approval, council approval or ministerial approval. This means that the classification, as held for sale, may occur only once the final approval has been obtained.<br>- The effect on the classification of assets, as held for sale, when it takes significantly longer than 12 months for the necessary approvals to be obtained for sales transactions.<br>(b) Guidance is needed on whether transfers of assets at zero value (usually as part of a non-exchange transaction) are subject to the requirements of GRAP 100.<br>(c) Guidance on whether sales of assets at an auction are subject to the requirements of GRAP 100.<br>(d) The requirements for discontinued operations and assets held for sale should be separated (similar to the previous requirements of IASs). It was noted that, in practice, practitioners assess only whether they have assets that are held for sale in determining whether GRAP 100 should be applied and often neglect the principles on discontinued operations.<br><br>Based on the comments received, the Board agreed to review GRAP 100 in its entirety |

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| | as part of a separate GRAP simplification project. |
| Review of residual values, useful lives and depreciation methods (GRAP 17 and GRAP 102) | The IFRS for SMEs prescribes that entities should assess at every reporting date whether there has been any indication that the useful lives, residual values or depreciation methods used for property, plant and equipment or intangible assets have changed from the prior year before undertaking a detailed assessment. GRAP 17 and 102 require that these assessments be done for all assets at every reporting date. Respondents were asked to comment on whether an indicator-based approach was favoured.<br><br>Almost all respondents indicated that they favoured an indicator-based approach. They also indicated, however, that if this approach is followed, the indicators in the IFRS for SMEs would need to be revisited as they are not appropriate for the public sector.<br><br>The ASB agreed in principle to change the requirements in GRAP 17 and GRAP 102 to an indicator-based approach instead of an annual assessment. It also agreed that public sector specific indicators need to be developed. The amendments to GRAP 17 and GRAP 102 would be undertaken as part of the broader GRAP simplification project. |
| Measurement alternatives (GRAP 16, 17 and 102) | The IFRS for SMEs requires that certain types of assets can only be measured using cost or using fair value:<br><br>• Investment properties are all measured at fair value, where fair value can be determined reliably without undue cost and effort.<br>• Property, plant and equipment must be measured at cost.<br>• Intangible assets must be measured at cost.<br><br>As the Standards of GRAP allow either cost or fair value in GRAP 16 *Investment Property*, GRAP 17 *Property, Plant and Equipment* and GRAP 102 *Intangible Assets*, respondents' views were requested on whether measurement options should be retained.<br><br>Respondents' views on this issue were generally mixed.<br><br>• Many supported retaining the measurement options in GRAP 16, 17 and 102 as this allowed the management of each entity to develop appropriate measurement bases after assessing<br>    • whether the information is relevant for users of the financial,<br>    • which measurement basis results in the most reliable information, and<br>    • which measurement basis is appropriate after considering cost-benefit.<br>• Some suggested that only fair value should be allowed for GRAP 16. The rationale is that investment property is held for capital appreciation or for rental to others. Entities should thus be able to determine the fair value reliably. If fair value cannot be determined, then classification as investment property is questioned.<br>• Some suggested that, given the nature of intangible assets in the public sector, fair value is rarely used because fair value cannot be determined in an active, liquid market.<br><br>The ASB agreed to retain the measurement alternatives in the Standards as this allows entities flexibility to determine the most appropriate measurement basis for their assets after considering the use of the assets. Such measurement alternatives also illustrated what information would be useful to users of the financial statements and allowed for a consideration of the cost of applying a particular measurement basis. The Board noted that even though there may currently be limited examples of intangible assets that can be measured at fair value, new intangible assets may arise in the future which may meet these requirements. As a result, both alternatives should be retained. |
| *Issues specific to different types of assets:* | |
| Property, plant and equipment (GRAP 17)<br><br>- Componentisation of assets | <br><br>GRAP 17 requires assets to be componentised based on whether the cost of a component of an asset is significant in relation to the cost of the asset as a whole. The IFRS for SMEs indicates that assets should only be componentised when their useful lives differ. The Board requested respondents' views on the preferred approach.<br><br>Many respondents indicated that while this approach seemed simpler, they were concerned that more components would be identified if useful lives were considered on their own. As a result, it was emphasised that while this approach is favoured, it should |

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| | be combined with a significance test to ensure that only material components are identified.<br><br>The ASB agreed to amend the Standard as part of the broader GRAP simplification project. |
| - Disclosures | In response to the specific matter for comment on the elimination of disclosures, a respondent indicated that the disclosure of temporarily idle property, plant and equipment should be deleted as (a) it was not clear what "temporarily idle" meant, or (b) whether this disclosure only relates to those assets idle at the reporting date (or if it applies to all assets that were idle during the year).<br><br>The Board noted that the disclosure is useful as it provides an indication of how an entity managed its assets during a reporting period. It agreed, however, that the wording in the Standard could be improved to reflect the intention of the disclosure. This amendment would be made to GRAP 17 as part of the Improvements Project for 2011. |
| Investment property (GRAP 16) | |
| - Classifying property as investment property | In response to the specific matter for comment on the existence of any application/implementation issues that require guidance, many respondents indicated that the classification of multi-use properties, either as investment property or property, plant and equipment, on the basis of the property's most significant use, is difficult in practice.<br><br>A practical example cited was a social housing development owned by a municipality. Most of the building is used for social housing (which may or may not earn rentals), which qualifies as property, plant and equipment. The ground floor of the building is rented to shops, banks and other external parties so that certain facilities are provided to residents. The rental charged to these external parties is most often market-related and is significant in relation to the rental received for the remainder of the building. However, the most significant use of the building is still the provision of social housing.<br><br>In 2010, the ASB clarified that properties qualify as investment properties even if they do not earn market-related rentals. The ASB agreed that further changes may be necessary to GRAP 16 to clarify the assessment of the most "significant use" of an investment property.<br><br>Some respondents also noted that use of the words, "social service" and "social benefit", should be clarified in the context of GRAP 16. The ASB agreed that the wording of GRAP 16 should be revisited to ensure that the intention is adequately conveyed.<br><br>The changes to GRAP 16 will be included as part of the Improvements Project for 2011. |
| - Disclosures | In response to the specific matter for comment on whether any disclosure requirements could be eliminated from GRAP 16, a respondent said that the disclosure requirement in GRAP 16.88(e) could be deleted. GRAP 16.88(e) states: "The fair value of investment property. In the exceptional cases described in paragraph .61, when an entity cannot determine the fair value of the investment property reliably, the entity shall disclose:<br>(i) a description of the investment property,<br>(ii) an explanation of why fair value cannot be determined reliably, and<br>(iii) if possible, the range of estimates within which fair value is highly likely to lie".<br><br>The rationale for the proposed deletion is that the application of the cost model suggests that the fair value could not be obtained. As a result,<br><br>(a) there would be no benefit for the user as the fair value has no influence on the financial statements, and<br><br>(b) incurring the cost to estimate a fair value (by use of a valuer) would exceed the benefit, as there would be no change to the value of the property as presented on the face of the statement of financial position.<br><br>This paragraph applies when entities have elected to apply the fair value model in GRAP 16. In particular, this requirement caters for those instances where an entity measures all its investment properties at fair value, but is unable to measure the fair value of some individual properties.<br><br>The ASB agreed that this disclosure is useful where fair value has been selected as the measurement basis for investment property.<br><br>For an entity to be in a position to conclude that fair value cannot be estimated reliably |

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| | (usually based on the variability of the cash flows), it should have made a number of estimates or calculations to come to that conclusion. As a result, those calculations are included in the disclosures to the financial statements. The ASB agreed that it may be necessary to clarify the context of these disclosures by amending the Standard. It was agreed that this amendment should be made as part of the Improvements Project for 2011. |
| Agriculture (GRAP 101) | Respondents were requested to provide views on whether any of the disclosure requirements in GRAP 101 could be eliminated. One respondent said that the requirement in GRAP 101 that requires disclosure of a range of estimates within which fair value is likely to lie where the cost model is used, could be eliminated. The respondent noted that if an entity was unable to determine fair value, it is highly unlikely that an entity would be able to determine a reasonable range of estimates within which fair value is likely to lie.<br><br>The Board agreed that this issue was similar in nature to comments raised by respondents on the disclosures in GRAP 16. It agreed that the disclosure is useful and that no change is required to GRAP 101. |
| Leases (GRAP 13) | In straight-lining lease payments and receipts under the IFRS for SMEs, escalations that compensate the lessor for expected inflationary cost increases are excluded from the calculation. Respondents were requested to provide views on whether this approach is supported or not.<br><br>Respondents' views on this issue were mixed, partly because many did not have practical experience in applying this approach.<br><br>Given that such increases may already be excluded from the straight-lining of lease payments under the existing requirements of GRAP 13, because they are variable and consequently viewed as contingent rent, and because of the IASB impending revision of IAS 17 on which GRAP 13 is based, the ASB agreed that no change should be made to GRAP 13. |
| **Liabilities** | |
| Employee benefits | Entities frequently obtain actuarial valuations on a periodic basis and "roll forward" the valuations in the years between valuations. The IFRS for SMEs includes guidance on the roll forward of actuarial valuations. As this is an area that is problematic in practice, the ASB had suggested in the Discussion Paper that the guidance from the IFRS for SMEs should be incorporated into GRAP 25.<br><br>Most respondents agreed with this and, as a result, the Board agreed to amend GRAP 25 as part of the Improvements Project[1]. |
| **Preparation and presentation of financial statements** | |
| Accounting policies, changes in accounting estimates and errors | The IFRS for SMEs clarifies that where an entity changes from fair value to cost, or vice versa, based on the availability of information, the change is not regarded as a change in accounting policy. A similar clarification is currently not included in GRAP 3. Respondents were asked to provide views on whether such a clarification is needed and whether they agreed with the approach in the IFRS for SMEs.<br><br>Of those respondents who commented, one noted that they did not support the view that this was not a change in accounting policy, while another respondent commented that specific examples would be necessary.<br><br>On balance, the ASB agreed that the clarification may be useful, and supports the view in the IFRS for SMEs. The Board agreed that specific examples should be provided, and agreed that the following example may be appropriate: If an entity measures investment properties at fair value, but cannot determine the fair value of an individual property, measuring that individual property at cost does not result in a change in accounting policy as all other investment property is measured at fair value. The Board agreed that GRAP 3 should be amended as part of the Improvements Project for 2011. |

[1] Note: The Board has in the past only included those Standards of GRAP that are effective in the Improvements Project. While GRAP 25 has been signed off by the Minister, a Notice in the Government Gazette has not yet been published to this effect.