NATIONAL TREASURY

NOTICE 3578 OF 2025

PUBLIC FINANCE MANAGEMENT ACT, 1999:

INVITATION FOR PUBLIC COMMENTS ON PROPOSED REGULATIONS ON ACCOUNTING STANDARDS

1. The Minister of Finance, in terms of section 91(1) of the Public Finance Management Act, 1999 (Act No. 1 of 1999 – the Act), proposes to make the regulations set out in the Schedule and the proposed implementation date is from the financial year commencing on 1 April 2028:

   (a) Annual Improvements to the Standards of GRAP (2024);

2. Public comments on the proposed regulations are, in terms of section 91(4) of the Act, invited and comments may be submitted to CommentDraftLegislation@treasury.gov.za within 30 days from the date of publication of this notice.

SCHEDULE

Annual Improvements to the Standards of GRAP (2024): available on the website of the ASB

A – Amendments to the Standard of GRAP on *Presentation of Financial Statements*

The relevant GRAP 1 paragraphs on going concern have been included for purposes of this Exposure Draft. Amended text is shown with new text underlined and deleted text struck through. The following paragraphs in GRAP 1 have been amended:

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Going concern

.27 When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. Financial statements shall be prepared on a going concern basis unless there is an intention to liquidate the entity or to cease operating, or if there is no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. When the financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.

.28 Financial statements are normally prepared on the assumption that the entity is a going concern and will continue in operation or some modified form, for example a transfer of functions to another entity or a merger, and meet its statutory obligations for the foreseeable future. In assessing whether the going concern assumption is appropriate management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the reporting date. (Also refer to the Standard of GRAP on *Events After the Reporting Date* (GRAP 14) for guidance on assessing going concern).

.28A The establishment, liquidation and/or cessation of an entity, transfers of functions, and mergers are usually governed by legislation or similar means. A decision may be taken to liquidate an entity, to cease or scale back its operations, to transfer some or all of its functions to another entity, or to merge one or more entities. Under each of these scenarios, some or all the functions may continue, or may cease.

Liquidation and cessation of an entity

.28B Subject to paragraph .28C, if the intention is to liquidate the entity, to cease its operations in its entirety, or when there is no realistic alternative but to do so following the passing of legislation or a decision by the appropriate authority, the going concern basis is inappropriate. An entity will need to prepare its financial statements on a basis other than the going concern as all the functions and operations of the entity will be ceased.

Transfer of functions and mergers

.28C The going concern basis remains appropriate where a decision is taken to transfer some, or all of an entity's functions to another entity, or to merge two or more entities. The entity's functions will continue in a modified form, even if the functions will no longer be provided by the entity itself. The transferor or combining entity applies the Standards of GRAP on *Transfer of Functions Under Common Control, Transfer of Functions Not Under Common Control* and *Mergers*. The presentation and disclosure requirements in the Standard of GRAP on *Discontinued Operations* should be considered.

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Disclosure on going concern

.134A In assessing whether the going concern assumption is appropriate, an entity shall disclose, in the notes to the financial statements, significant judgements and assumptions made as part of management's assessment of whether the going concern assumption is appropriate.

.134B Paragraph .27 requires disclosure of material uncertainties related to events or conditions that may cast significant doubt upon an entity's ability to continue as a going concern. Where one or more uncertainties exist that may cast doubt on the entity's ability to continue as a going concern, the entity shall disclose the following in the notes to the financial statements:

(a) the fact that there is one or more uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern;

(b) information about the principal events or conditions that give rise to these uncertainties;

(c) the possible effects that the events or conditions resulting in uncertainties may have on current and future reporting periods; and

(d) information about management's plans to address the events or conditions that resulted in uncertainties, and their actions to mitigate the effect of the events or conditions.

.134C If the information required in paragraph .134B(d) is published with the financial statements, a cross reference to those documents can be included in the notes to the financial statements.

Effective date

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Entities already applying Standards of GRAP

.150D Paragraphs .28A to .28C, .134A to .134C were added, and paragraph .28 amended by the Amendments to the Standard of GRAP on Presentation of Financial Statements (2022). These amendments are effective for annual periods beginning on or after [proposed as Month Year]. An entity shall apply these amendments prospectively in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors. Earlier

application is permitted. If an entity elects to apply these amendments earlier, it shall disclose this fact.

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 presentation of financial statements. This basis for conclusions accompanies, but is not part of, this Standard.

BC1. The Board undertook a project in 2021 to consider the guidance and disclosure requirements on going concern in the relevant Standards of GRAP. As an outcome of this project, the Board agreed to include additional guidance and disclosures on going concern in this Standard. Consequential amendments are also made to the Standard of GRAP on *Events After the Reporting Date.*

Applicability of going concern in the public sector

BC2. An entity prepares its financial statements on a going concern basis unless there is an intention to liquidate the entity, to cease operating, or if there is no realistic alternative but to do so. A liquidation or cessation of an entity's operations will result in the termination of all its functions.

BC3. In South Africa, specific legislative requirements need to be followed before a decision is taken to liquidate a public sector entity, to cease or scale back its operations, to transfer some or all of its functions to another entity, or to merge one or more entities. The "intention" to liquidate an entity, to cease or scale back its operations, to transfer some or all of its functions to another entity, or to merge one or more entities needs to be established. This intention can be reflected in a number of ways and may encompass legislation passed in Parliament or a provincial legislature, cabinet decision, ministerial order, a decision made by a municipal council, board, council or equivalent, a regulation or a notice, or other official means.

BC4. The liquidation or cessation of a public sector entity's operations is rare, and only in the case of dissolution without any continuation of the entity's operations will the going concern basis cease to apply. When all, or some of the functions of an entity are transferred to another entity, or when a decision is taken to merge one or more entities, the application of the going concern basis remains appropriate. This is because the entity's functions will continue to be provided in a modified form, even though they are executed by another entity.

BC5. The Board agreed to include explanatory guidance in this Standard on the application of the going concern assumption by public sector entities.

BC6. Where some of an entity's functions are transferred in a transfer of functions, and the remaining functions are discontinued, there are two separate transactions. The Board concluded that management should assess these transactions separately based on the functions transferred, those to be discontinued (if any), and those that may be retained and continued (if any), to determine if preparing the entity's financial statements on a going concern basis remains appropriate.

Disclosure on going concern

BC7. The Board's project highlighted a need for specific disclosures on going concern, material uncertainties relating to going concern, and actions taken by management to mitigate these uncertainties. Consideration was also given to the practices, guidance and requirements in other countries and/or from other standard-setting bodies on these matters.

BC8. To address the diversity in the information disclosed on going concern, the Board agreed to expand the disclosure requirements in this Standard to ensure that consistent disclosures are provided.

Transitional provisions

BC9. The Board agreed that the amendments to this Standard should be applied prospectively to avoid the application of hindsight.

Consequential amendments to Standards of GRAP

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

A1. GRAP 14 *Events After the Reporting Date*

Amend the following paragraphs in GRAP 14:

Going concern

.14 The determination of whether the going concern assumption is appropriate needs to be considered by each entity. ~~However, the~~ The assessment of going concern is likely to be of more relevance for individual entities than for a government as a whole. For example, an individual entity may not be a going concern because the government of which it forms part has decided to liquidate it ~~transfer all its activities to another entity~~. ~~However this restructuring has no impact upon the assessment of~~ Nonetheless, the effect of liquidating individual entities should be considered in assessing going concern for the government itself.

.15 An entity shall not prepare its financial statements on the going concern basis if management determines after the reporting date either that there is an intention to liquidate the entity or to cease operating, or that there is no realistic alternative but to do so.

.16 In assessing whether the going concern assumption is appropriate for an individual entity, management needs to consider a wide range of factors. Those factors will include the current and expected performance of the entity, any announced and potential restructuring of organisational units, the likelihood of continued government funding and, if necessary, potential sources of replacement funding.

.17 In the case of entities whose operations are substantially budget-funded by government, going concern issues generally only arise when a decision is taken to ~~if the government announces its intention cease funding the entity~~ liquidate an entity, to cease its operations in its entirety, or when there is no realistic alternative but to do so.

……..

.21 GRAP 1 requires certain disclosures if:

(a) the financial statements are not prepared on a going concern basis. GRAP 1 requires that when the financial statements are not prepared on a going concern basis, this must be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not considered to be a going concern; or

(b) management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The events or conditions requiring disclosure may arise after the

reporting date. GRAP 1 requires such uncertainties, and the events or conditions that gave rise to them, to be disclosed, along with possible effects of these uncertainties on current and future operations, and management's plans to address these uncertainties and mitigate the impact.

Effective date

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Entities already applying Standards of GRAP

.30A Paragraphs .17 and .21 were added by the Amendments to the Standards of GRAP on Presentation of Financial Statements (2022). These amendments are effective for annual periods beginning on or after [proposed as Month Year]. An entity shall apply these amendments prospectively in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors. Earlier application is permitted. If an entity elects to apply these amendments earlier, it shall disclose this fact.

Objective

.01 The objective of this Standard is to prescribe the accounting treatment for heritage assets and related disclosure requirements.

Scope

.02 An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in the recognition, measurement and disclosure of all assets that meet the definition of a heritage asset, except:

(a) the initial recognition and initial measurement of heritage assets acquired in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control) or a merger (see the Standard of GRAP on Mergers);

(b) bearer plants and biological assets related to agricultural activity (see the Standards of GRAP on Property, Plant and Equipment (GRAP 17) and Agriculture (GRAP 27)); and

(b)A living and non-living resources other than land (see the Standard of GRAP on Living and Non-living Resources (GRAP 110)).

.03 [Deleted].

.03A This Standard applies to heritage assets after its initial recognition and measurement in accordance with the Standard of GRAP on *Service Concession Arrangements: Grantor* (GRAP 32).

Definitions

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

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Cultural significance means aesthetic, architectural, historical, scientific, social, spiritual, linguistic or technological value or significance.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have cultural significance, ~~environmental, historical, natural, scientific, technological or artistic significance~~ and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an entity is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

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

Heritage assets

Cultural significance

.04A In applying the definition of a heritage asset, an entity needs to assess the item's cultural significance. "Cultural significance" is a broad term that means that the item has significance or other special value because of:

(a) its importance in the community, or pattern of South Africa's history;

(b) its possession of uncommon, rare or endangered aspects of South Africa's natural or cultural heritage;

(c) its potential to yield information that will contribute to an understanding of South Africa's natural or cultural heritage;

(d) its importance in demonstrating the principal characteristics of a particular class of South Africa's natural or cultural places or objects;

(e) its importance in exhibiting particular aesthetic characteristics valued by a community or cultural group;

(f) its importance in demonstrating a high degree of creative or technical achievement at a particular period;

(g) its strong or special association with a particular community or cultural group for social, cultural or spiritual reasons;

(h) its strong or special association with the life or work of a person, group or organisation of importance in the history of South Africa; and

(i) sites of significance relating to the history of slavery in South Africa.

.04B Characteristics often displayed by heritage assets include the following:

(a) their cultural significance ~~value in cultural, environmental, educational, technological, and historical terms~~ is unlikely to be fully reflected in monetary terms;

(b) ethical, legal and/or statutory obligations may impose prohibitions or severe stipulations on a heritage asset's use, disposal, transfer or exchange, ~~by sale~~ (hereafter referred to as protective rights);

(c) they are often irreplaceable;

(d) their value may increase over time even if their physical condition deteriorates;

(e) they have an indefinite life ~~and their value appreciates over time due to their cultural, environmental, educational, natural, scientific, technological, artistic or historical significance~~; and

(f) they are protected, kept unencumbered, cared for and preserved.

These characteristics are not necessarily exclusive to all heritage assets.

.05 Illustrations of the range of assets that can be regarded as ~~classes of~~ heritage assets include the following:

(a) places, buildings, structures and equipment of cultural significance;

(b) places to which oral traditions are attached or which are associated with living heritage;

(c) historical settlements and townscapes;

(d) landscapes and natural features of cultural significance;

(e) geological sites of scientific or cultural importance;

(f) archaeological and palaeontological sites;

(g) graves and burial grounds, including:

(i) ancestral graves;

(ii) royal graves and graves of traditional leaders;

(iii) graves of victims of conflict;

(iv) graves of individuals;

(v) historical graves and cemeteries;

(vi) other human remains;

(h) sites of significance relating to the history of slavery in South Africa;

(i) protected areas; and

(j) movable objects, including:

(i) objects recovered from the soil or waters of South Africa, including archaeological and palaeontological objects and material, meteorites and rare geological specimens;

(ii) objects to which oral traditions are attached or which are rare geological specimens;

(iii) ethnographic art and objects;

(iv) military objects;

(v) objects of decorative or fine art;

(vi) objects of scientific or technological interest; and

(vii) books, records, documents, photographic positives and negatives, graphic, film or video material or sound recordings, excluding those that are public records as designated in legislation.

~~(a) works of art, antiquities and exhibits such as preserved biological and mineral specimens or technological artifacts;~~

~~(b) collections of insects, butterflies and fossils;~~

~~(c) collections of rare books, manuscripts, records, photographic positives and negatives, and other reference material held by libraries to be preserved for their historical and cultural value;~~

~~(d) objects of scientific or technological interest;~~

~~(e) historical monuments, such as graves and burial grounds;~~

~~(f) archaeological and paleontology sites;~~

~~(g) conservation areas, such as national parks;~~

~~(h) historical buildings that have a significant historical association;~~

~~(i) movable objects, such as military insignia, medals, coins, stamp collections or objects of decorative or fine art; and~~

~~(j) recreational parks used for leisure to be preserved for the benefit of present and future generations.~~

.05A For an item to have "cultural significance" as described in paragraph .04A, it need not have significance in a South African context. Items could have a broader cultural significance as described in the circumstances in paragraphs (e) to (g).

.06 [Deleted]~~Characteristics often displayed by heritage assets include the following:~~

~~(a) their cultural significance value in cultural, environmental, educational, technological, and historical terms is unlikely to be fully reflected in monetary terms;~~

~~(b) ethical, legal and/or statutory obligations may impose prohibitions or severe stipulations disposal, by sale;~~

~~(c) they are often irreplaceable~~;

~~(d) their value may increase over time even if their physical condition deteriorates;~~

~~(e) they have an indefinite life and their value appreciates over time due to their cultural significance cultural, environmental, educational, natural, scientific, technological, artistic or historical significance; and~~

~~(f) they are protected, kept unencumbered, cared for and preserved.~~

~~These characteristics are not necessarily exclusive to all heritage assets~~.

.07 [Deleted]~~Entities may have large holdings of heritage assets that have been acquired over many years and by various means, for example, through purchase, discovery, donations, or bequests. These assets are not necessarily held for their ability to generate cash inflows, and there may be ethical, legal, or social obstacles to using them for such purposes~~.

.08 [Deleted]~~In order to meet the definition of an asset, it must be controlled by the entity as a result of past events and future economic benefits, or service potential are expected to flow to the entity from holding it. Some entities hold heritage assets to meet service delivery objectives rather than to generate future economic benefits. The service potential embodied in a heritage asset arises from the benefit to preserve the specific asset for present and future generations~~.

Heritage assets with more than one use

.09 Some heritage assets have more than one use ~~purpose~~, e.g., a ~~an~~ historic building which, in addition to meeting the definition of a heritage asset, is also used as office accommodation. ~~The entity needs to determine whether the significant portion of the asset meets the definition of a heritage asset. The entity must use its judgement to make such an assessment.~~ Irrespective of whether a heritage asset has more than one use, it is ~~The asset should be~~ accounted for ~~as a heritage asset~~ in accordance with this Standard if~~, and only if,~~ the definition of a heritage asset is met.~~, and only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. If, however, the definition of a heritage asset is not met, or a significant portion is held for use in the production or supply of goods or services or for administrative purposes, the asset should not be accounted for as a heritage asset. Instead, the entity should account for the asset in accordance with the applicable Standard of GRAP.~~

.10 If~~, however,~~ the definition of a heritage asset is not met, ~~or a significant portion is held for use in the production or supply of goods or services or for administrative purposes~~, the asset should not be accounted for as a heritage asset. Instead, the entity should account for the asset in accordance with the applicable Standard of GRAP. A building used to house heritage assets is recognised as a heritage asset only if it also meets the definition of a heritage asset. If not, the building should be accounted for in accordance with GRAP 17.

.11A In some instances, items of property, plant and equipment may be required to safeguard or otherwise operate the heritage assets. For example, a museum may maintain a constant room temperature to safeguard a manuscript collection using a specialised air conditioning system, or include elevators, escalators, display units, etc. to view the assets. Such items of property, plant and equipment are recognised as assets in terms of GRAP 17 and not as part of the cost of the heritage asset.

.11 [Deleted]~~Some heritage assets are described as "inalienable", because the entity is restricted from disposing of these heritage assets, unless approval is granted. Stipulations may be imposed, inter alia, by a trust, statute or law, or from the transferor's stipulations on disposal, use, alteration, etc. For example, the department of arts and culture may acquire a historical building through a donation subject to conditions restricting the building's use to a museum~~.

.12 [Deleted]~~For some entities, heritage assets are essential to the performance of the principal objectives of the entity. For example, the fundamental objective of a museum is to restore, conserve and preserve heritage assets for the benefit of present and future generations. Yet, a heritage asset may be incidental to the fundamental objective of the entity, such as a bequest of an art collection to a local authority~~.

Recognition

.13 A heritage asset shall be recognised as an asset if, and only if:

(a) it is probable that future economic benefits or service potential associated with the asset will flow to the entity; and

(b) the cost or fair value of the asset can be measured reliably.

.14 For the heritage asset to be recognised in accordance with the criteria in paragraph .13, it needs to be controlled by the entity as a result of past events (see the definition of assets in paragraph .04). Even though a protective right may be imposed on a heritage asset, ~~the entity may be restricted from disposing of a heritage asset based on a stipulation imposed by, for example, a trust, statute or law, or from the transferor's stipulations,~~ the heritage asset is still controlled by the entity when it is able to generate future economic benefits or service potential from the asset. Accordingly, the entity recognises the heritage asset when the recognition criteria in paragraph .13 are met.

.14A Some heritage assets are described as "inalienable" because protective rights are imposed on ~~because the entity is restricted from disposing of~~ these heritage assets.~~, unless approval is granted. Stipulations may be imposed, inter alia, by a trust, statute or law, or from the transferor's stipulations on disposal, use, alteration, etc.~~ For example, the department of arts and culture may acquire a historical building through a donation subject to conditions restricting the building's use to a museum. Despite these protective rights, an entity will account for the heritage asset if it controls the heritage asset.

.14B ~~In order to~~ To meet the definition of an asset, the asset ~~it~~ must be controlled by an ~~the~~ entity as a result of past events, and when future economic benefits, or service potential are expected to flow to the entity ~~from~~ holding it. Entities generally hold heritage assets to meet service delivery objectives rather than to generate future economic benefits. Some entities may also hold heritage assets incidental to meeting their service delivery objectives. For example, a municipality may receive an art collection through a donation and use it for decorative purposes in its offices. The service potential embodied in a heritage asset arises from the benefit to preserve the specific asset for present and future generations.

.15 The entity uses judgement to assess the degree of certainty attached to the flow of future economic benefits or service potential that are attributable to the heritage asset on the basis of the evidence available at the time of initial recognition.

.15A Entities may have large holdings of heritage assets that have been acquired over many years and by various means, for example, through purchase, discovery, donation, or bequest. These assets are not necessarily held for their ability to generate cash inflows, and there may be ethical, legal, or social obstacles to using them for such purposes.

.16 Future economic benefits or service potential flowing from a heritage asset may include revenue, for example an entrance fee charged by a museum. The revenue generated by the entity under such circumstances is normally insignificant compared to the operating costs of the museum. The revenue generated is rather used towards the maintenance of the heritage asset. The heritage asset should, however, be accounted for in terms of this Standard as the heritage value attached to the specific asset constitutes its service potential.

.16A This Standard does not prescribe the unit of measure for recognition of a class of heritage assets. Thus, judgement is required in applying the recognition criteria to an entity's specific circumstances. It may be appropriate to aggregate items when this is a more relevant representation of the items' cultural significance. For example, a single item may have limited cultural significance but, when combined with a number of similar items, the collection has increased cultural significance.

.17 If the cost or fair value of an asset cannot be measured reliably on initial recognition as noted in paragraphs .47A to .47C, the heritage asset shall not be recognised as the recognition criteria are not met (see paragraph .13). Instead, ~~If~~

~~an entity holds an asset that might be regarded as a heritage asset but which, on initial recognition, does not meet the recognition criteria of a heritage asset because it cannot be reliably measured,~~ relevant and useful information about it shall be disclosed in the notes to the financial statements.

.17A An entity shall assess at each reporting date whether there is an indication that a heritage asset that did not meet the recognition criteria in paragraph .13 on initial recognition, can subsequently be measured reliably. If any such indication exists, the entity shall recognise the heritage asset.

.17B In assessing whether a heritage asset can subsequently be measured reliably, an entity shall consider, as a minimum, the following indicators:

(a) Changes in the condition of the heritage asset.

(b) Information about the fair value of a heritage asset becomes available.

(c) Changes in the demand by the market for a specific heritage asset.

.17C The above list is not exhaustive. There may be other indicators that result in a reliable value becoming available that enables the entity to recognise a heritage asset when the recognition criteria in paragraph .13 are met.

.17D A change in the condition of the heritage asset may occur for example, when a heritage asset is restored into a useable condition and can now be compared to heritage assets selling in the market. Information about a heritage asset can become available, for example, through the establishment of new markets or new valuation techniques being developed. Changes in the demand by the market may also be triggered by changes in technology that result in a reliable value becoming available for a heritage asset.

.18 Judgement is required in applying the initial recognition criteria to the specific circumstances surrounding the entity and the asset. If, on initial recognition of a heritage asset, it cannot be reliably measured by the entity, then it should not be recognised as such in the financial statements. Instead, relevant, and useful information about the heritage asset, as required in paragraph .96, should be disclosed until the heritage asset can subsequently be measured reliably.

.18A When a reliable measure becomes available after initial recognition, the heritage asset shall be recognised. The resulting difference should be recognised in surplus or deficit and classified using the relevant Standard of GRAP. Information about the recognised heritage asset, as required by paragraph .99A, shall be disclosed.

.19 [Deleted]~~In some instances, items of property, plant and equipment may be required to safeguard the heritage assets. For example, a museum may maintain a constant room temperature to safeguard a manuscript collection using an air conditioning system. Such items of property, plant and equipment are recognised as assets in terms of GRAP 17 and not as part of the cost of the heritage asset.~~

.20 If the heritage asset is not recognised in terms of paragraph .17, any initial costs to assess the state of the heritage asset and any costs incurred subsequently should be recognised in surplus or deficit as incurred.

.21 Under the recognition principles in paragraph .13, the entity does not recognise in the carrying amount of a heritage asset the day-to-day operating costs of the heritage asset, or the costs to maintain or to hold the heritage asset. Rather, these costs are recognised in surplus or deficit as incurred. For example, the day-to-day operating costs incurred to maintain an air conditioning system in a library that is necessary to ensure that the books are kept in good condition, should be expensed as incurred. Such day-to-day operating costs also include the costs of inspecting the heritage asset, consumables, and other maintenance costs.

<u>.21A Under the recognition principle in paragraph .13, an entity recognises in the carrying amount of a heritage asset, the cost of a replacement for part of the asset. The carrying amount of the parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard (see paragraphs .82 to .85A).</u>

.22 Costs incurred to enhance or restore the heritage asset to preserve its indefinite useful life should be capitalised as part of its cost. Such costs should be recognised in the carrying amount of the heritage asset as incurred, when the recognition criteria in paragraph .13 are met.

.23 Reference should be made to the guidance on research and development costs in the Standard of GRAP on *Intangible Assets* (GRAP 31) for guidance on the treatment of exploration costs in searching for new heritage assets. GRAP 31 requires that expenditure incurred on research or on the research phase of an internal project, for example, exploration costs, should be recognised as an expense when it is incurred as the entity cannot demonstrate that a heritage asset that meets the definition and recognition criteria in terms of this Standard will be located. Only when the criteria for development costs, as set in GRAP 31 are met, should these costs be capitalised in the carrying amount of the heritage asset.

Measurement at recognition

.24 A heritage asset that qualifies for recognition as an asset shall be measured at its cost.

.25 Where a heritage asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

.26 A heritage asset may be acquired through a non-exchange transaction. For example, a museum may receive a valuable art collection from an estate benefactor. Under these circumstances, the cost of the heritage asset is its fair value as at the date of acquisition. In determining the fair value of a heritage asset acquired through a non-exchange transaction, the entity should apply the principles in paragraphs .38 to .48. Any transaction costs incurred are recognised in accordance with the requirements of paragraphs .28 to .30.

.27 For the purposes of this Standard, the measurement at recognition of a heritage asset acquired through a non-exchange transaction, at its fair value consistent with the requirements of paragraph .25 does not constitute a revaluation.

Elements of cost

.28 The cost of a heritage asset comprises:

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and

(b) any costs directly attributable to bringing the heritage asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

.29 Examples of directly attributable costs are:

(a) costs of employee benefits (as defined in the Standard of GRAP on *Employee Benefits*) which may arise, for example, from the initial assessment of the state of a heritage asset by museum staff when initially acquired along with any time spent on the restoration of an asset;

(b) costs incurred to remove the heritage asset or restore the site where it is located;

(c) professional fees;

(d) property transfer taxes;

(e) initial delivery and handling costs;

(f) installation and assembly costs; and

(g) other transaction costs.

.30 Examples of costs that are not included in the carrying amount are:

(a) costs of opening a new exhibition, e.g., a new section in a museum to display an art collection;

(b) costs of conducting operations in a new location (including staff training); and

(c) administration and other general overhead costs.

.31 The cost of a heritage asset is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit, unless such interest is recognised in the carrying amount of the heritage asset in accordance with the allowed alternative treatment in the Standard of GRAP on *Borrowing Costs* (GRAP 5).

Measurement of cost

.32 The cost of a heritage asset is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit, unless such interest is recognised in the carrying amount of the heritage asset in accordance with GRAP 5.

.33 One or more items of heritage assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an item of heritage assets is measured at fair value unless the fair value of neither the asset received, nor the asset given up is reliably measurable. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up. The acquired item is measured in this way even if an entity cannot immediately derecognise the asset given up.

.34 ~~The fair value of an asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.~~ If an entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

Measurement after recognition

.35 An entity shall choose as its accounting policy either the cost model in paragraph .36, or the revaluation model in paragraph .37, and shall apply that policy to an entire class of heritage assets.

Cost model

.36 After recognition as an asset, a class of heritage assets shall be carried at its cost less any accumulated impairment losses.

Revaluation model

.37 After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. The accounting treatment for revaluations is set out in paragraphs .54 to .56.

Determining fair value

.38 This Standard requires all entities to determine the fair value of a class of heritage assets for the purpose of measurement if the entity uses the revaluation model~~, and for the purpose of the encouraged disclosure of fair value in paragraph .95 if it uses the cost model.~~

.39 The fair value of a heritage asset is the price at which the heritage asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. Fair value specifically excludes an estimated price inflated or deflated by special terms or circumstances, such as special considerations or concessions granted by anyone associated with the exchange.

.40 An entity determines fair value without any deduction for transaction costs it may incur on sale or other disposal.

.41 The definition of fair value refers to "knowledgeable, willing parties". In this context, "knowledgeable" means that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the heritage asset, its actual and potential uses, and market conditions at the date of the revaluation. A willing buyer is motivated, but not compelled, to buy. Such a buyer is neither over-eager nor determined to buy at any price. The assumed buyer would not pay a higher price than a market comprising knowledgeable, willing buyers and sellers.

.42 A willing seller is neither an over-eager nor a forced seller, prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in current market conditions. The willing seller is motivated to sell the heritage asset at market terms for the best price obtainable. The factual circumstances of the actual heritage asset owner are not a part of this consideration because the willing seller is a hypothetical owner.

.43 The definition of fair value refers to an arm's length transaction. An arm's length transaction is one between parties that do not have a particular or special relationship that makes prices of transactions uncharacteristic of market conditions. The transaction is presumed to be between unrelated parties, each acting independently.

.44 [Deleted]~~When determining the fair value of a heritage asset that has more than one purpose as explained in paragraph .09, the fair value of the heritage asset should reflect both the asset's heritage value and the value obtained from its use in the production or supply of goods or services or for administrative purposes.~~

.45 In determining the fair value of a collection, the entity should consider whether the entire collection has a higher value than the sum of the values of the individual items making up that collection. Under such circumstances, the carrying value of the entire collection may need to be reassessed, when a group of individual heritage assets constitutes a collection. If items are removed from the collection, the value of the collection may also need to be reassessed.

.46 The fair value of a heritage asset can be determined from market-based evidence determined by appraisal. ~~The fair value will be ascertained by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for certain collections of butterflies and other movable objects, such as coin or stamp collections. The existence of published price quotations in an active market is the best evidence of the fair value, such as the quoted price from recent auctions. A restriction on the disposal of a heritage asset resulting from a stipulation~~

~~imposed by, a trust, statute or law, or from the transferor's stipulations, for instance, does not preclude the entity from determining its fair value~~. An appraisal of the value of the asset may be undertaken by a member of the valuation profession, who holds a recognised and relevant professional qualification, or by another expert with the requisite competence to undertake such appraisals in accordance with the requirements of the applicable Standards of GRAP. The valuer or other expert may be employed by the entity.

.46A The best evidence of fair value is a price quoted in an active and liquid market, for example, prices from recent sale transactions. ~~The fair value will be ascertained by reference to quoted prices in an active and liquid market.~~ ~~For example,~~ Current market prices can, ~~usually~~ be obtained for certain art collections and other movable objects, such as coin or stamp collections. ~~The existence of published price quotations in an active market is the best evidence of the fair value, such as the prices from recent sale transactions quoted price from recent auctions~~.

.47 Where no evidence is available to determine the market value in an active market of a heritage asset, a valuation technique may be used to determine its fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, and reference to the current fair value of other heritage assets that have substantially similar characteristics in similar circumstances and locations, adjusted for any specific differences in circumstances. If there is a valuation technique commonly used by market participants to price such an asset, and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity may use that technique in determining the fair value.

.47A A protective right does not preclude the entity from determining fair value. Where a protective right is imposed on a heritage asset and that heritage asset is disposed, an entity should apply the disclosure requirements in paragraph .99B.

.47B The fair value of a heritage asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that heritage asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

.47C There are situations in which the variability in the range of reasonable fair value estimates of a heritage asset, that does not have a market value in an active market, is likely to be significant. If a fair value cannot be determined for a heritage asset because the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, a fair value should not be determined. For example, due to the unique nature of a heritage asset, e.g. archaeological or paleontological items, or because it is unethical to value certain types of heritage assets, e.g. human remains, market information may not be

available, or the range of reasonable fair values could be significant. An entity may therefore not be able to determine a reliable fair value for the heritage asset.

.47D In valuing heritage assets an entity may use peer group data. Peer group data means valuing heritage assets based on the value of a comparable heritage asset held by another entity. For a heritage asset to be comparable, it must be of a similar nature, demonstrate similar characteristics and be held in a similar condition as the heritage asset held by the entity. In considering peer data, an entity needs make adjustments based on the nature, condition, and specific characteristics of the heritage asset for which a reliable value is determined.

.48 In the case of specialised heritage buildings and other man-made heritage structures, such as monuments, the entity may need to determine fair value by using a replacement cost approach. The reproduction cost or the restoration cost approach may be the best indicator of the heritage asset's replacement cost.

The revaluation model

.49 The frequency of revaluations depends upon the changes in the fair values of the heritage asset being revalued. When the fair value of a revalued heritage asset differs materially from its carrying amount, a further revaluation is required. Some heritage assets experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary, however, for a heritage asset which shows insignificant changes in fair value. It may then be necessary to revalue the heritage asset only every three to five years.

.50 If a heritage asset is revalued, the entire class of heritage assets to which that asset belongs shall be revalued.

.51 A class of heritage assets is a grouping of assets of a similar nature or function in an entity's operations. The following are examples of separate classes:

(a) Art collections.

(b) Stamp collections.

(c) Collections of rare books or manuscripts.

(d) Historical buildings.

.52 When grouping heritage assets into classes, an entity should take into account the nature and characteristics of those assets ~~involved~~. Judgement, based on an entity's specific circumstances, is required in grouping heritage assets. It may be appropriate to aggregate individually insignificant items, and to apply the criteria to the aggregate value.

.53 Items within a class of heritage assets are revalued simultaneously to avoid selective revaluation of heritage assets and the reporting of amounts in the financial statements that are a mixture of costs and values at different dates. Nevertheless, a class of heritage assets may be revalued on a rolling basis provided revaluation of the class of heritage assets is completed within a short period, and provided the revaluations are kept up to date.

.54 ***If a heritage asset's carrying amount is increased as a result of a revaluation, the increase shall be credited directly to a revaluation surplus. However, the increase shall be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.***

.55 ***If the heritage asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in surplus or deficit. However, the decrease shall be debited directly in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset. The decrease recognised directly in net assets reduces the amount accumulated in net assets under the heading revaluation surplus.***

.56 Some or all of the revaluation surplus included in net assets in respect of a heritage asset may be transferred directly to accumulated surpluses or deficits when it is derecognised. This may involve transferring some or the whole of the surplus when the heritage assets to which the surplus relates are retired or disposed of. Transfers from revaluation surplus to accumulated surpluses or deficits are not made through surplus or deficit.

.57 Guidance on the effects of taxes on revenue, if any, resulting from the revaluation of a heritage asset, are recognised, and disclosed in accordance with the International Accounting Standard® on *Income Taxes*.

Inability to determine fair value reliably

.58 ***There is a presumption that fair value can be measured reliably for a heritage asset. However, that presumption can be rebutted when market-determined prices or values are not available and alternative estimates of fair value are determined to be clearly unreliable. In such a case, the heritage asset shall be measured using the cost model in paragraph .36. The carrying amount of the heritage asset shall be its revalued amount at the date of the last revaluation less any subsequent accumulated impairment losses.***

.59 In the exceptional cases when the entity is compelled, for the reason given in the previous paragraph, to measure a heritage asset at its cost less any accumulated impairment losses, the entity should continue to account for each of the remaining heritage assets using the revaluation model.

.60 If an active market no longer exists for a revalued heritage asset, the entity needs to assess whether it might be impaired in accordance with the Standards of GRAP on *Impairment of Non-cash-generating Assets* (GRAP 21) and *Impairment of Cash-generating Assets* (GRAP 26).

.61 If the fair value of the heritage asset can be determined by reference to an active market at a subsequent measurement date, the revaluation model is applied from that date.

Impairment

.62 ***A heritage asset shall not be depreciated but an entity shall assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the entity shall estimate the recoverable amount or the recoverable service amount of the heritage asset.***

.63 ***In assessing whether there is an indication that an asset may be impaired, an entity shall consider, as a minimum, the following indicators ~~indications~~:***

External sources of information

(a) ***During the period, a heritage asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.***

(b) ***The absence of an active market ~~for a revalued heritage asset~~.***

(bA) ***Significant long-term changes with an adverse effect on the asset have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the entity operates.***

Internal sources of information

(a) ***Evidence is available of physical damage or deterioration of a heritage asset.***

(b) ***A decision to halt the construction of the heritage asset before it is complete or in a usable form.***

.64 The above list is not exhaustive. An entity may identify other indicators ~~indications~~ that a heritage asset may be impaired, and these would also require the entity to determine the heritage asset's recoverable amount or recoverable service amount. A change in the use of a heritage asset does not necessarily indicate impairment, but may require the asset to be transferred in terms of paragraphs .71 and .73.

.65 A decline in the demand for an art collection of a famous artist, or a decline in the demand for a specific coin ~~fossil~~ collection, could indicate an impairment of the heritage asset. In assessing whether impairment has occurred, the entity must assess changes in the future economic benefits or service potential.

.66 Impairment can arise from physical damage to a heritage asset, for example damage by fire or flood. The physical damage to a tape that contains a voice recording of a famous person will result in the impairment of the intangible heritage asset itself if sound quality on the tape is affected.

.67 In assessing whether a halt in the construction of a heritage asset has triggered impairment, the reason for it should be considered. If the construction work will not be completed in the foreseeable future, the heritage asset may have been impaired.

.67A A deterioration in the condition of the heritage asset may arise when the asset is not properly maintained, managed and preserved by the entity. For example, an art collection needs to be held under certain climatic and lighting conditions. Not preserving a heritage asset under the right conditions may result in an impairment.

.68 The existence of impairment indicators will result in the entity estimating the heritage asset's recoverable amount and recoverable service amount determined in accordance with GRAP 21 and GRAP 26. GRAP 21 and GRAP 26 explain how an entity reviews the carrying amount of its assets, how it determines the recoverable amount or recoverable service amount of an asset, and when it recognises or reverses the recognition of, an impairment loss. Any excess of the carrying amount over the recoverable amount or recoverable service amount should be recognised as an impairment loss.

Compensation for impairment

.69 Compensation from third parties for heritage assets that have been impaired, lost or given up, shall be included in surplus or deficit when the compensation becomes receivable.

.70 Impairments or losses of heritage assets, related claims for or payments of compensation from third parties and any subsequent purchase or replacement of heritage assets, are separate economic events that are accounted for separately as follows:

(a) Impairments of a heritage asset are recognised in accordance with GRAP 21 and GRAP 26.

(b) Derecognition of a heritage asset retired or disposed of is determined in accordance with this Standard.

(c) Compensation from third parties for a heritage asset that has been impaired, lost, or given up is included in determining surplus or deficit when it becomes receivable.

(d) The cost of a heritage asset restored, purchased, or replaced is determined in accordance with this Standard.

Transfers

.71 Transfers from heritage assets shall be made when, and only when, the particular asset no longer meets the definition of a heritage asset.

.72 Transfers from heritage assets should be made when, and only when, the asset no longer meets the definition of a heritage asset (see paragraph .04). For instance, if an item in an art collection is destroyed in a fire and the remaining paintings in the

collection no longer meet the definition of a heritage asset, the remaining value of the collection should be transferred from heritage assets to property, plant and equipment, providing the definition of property, plant and equipment in GRAP 17 is met.

.73 Transfers to heritage assets shall be made when, and only when, the asset meets the definition of a heritage asset.

.74 In some instances, the classification of an asset may change when the definition of a heritage asset is met. For example, a work of art may have been initially acquired for decorative purposes, but the entity may decide to preserve it as a result of its artistic significance after the death of the artist.

.75 Changed circumstances may result in a transfer from inventory or property, plant or equipment, because the asset now meets the definition of a heritage asset. For example, the Department of Defence, which previously classified military medals as inventory, may decide that it should preserve the medals because of their historical significance. As these assets now meet the definition of a heritage asset, they should be treated as such.

.76 Paragraphs .77 to .81 apply to the recognition and measurement issues that arise when the entity uses the revaluation model for heritage assets. When the entity uses the cost model, transfers between heritage assets, items of property, plant and equipment, inventories, investment property or intangible assets do not change the carrying amount of the asset transferred, or its cost for measurement or disclosure purposes.

.77 For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset's deemed cost for subsequent accounting in accordance with the applicable Standard of GRAP shall be its revalued amount at the date of transfer. The entity shall apply the principles in this Standard up to the date of transfer. The entity treats any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this Standard.

.78 If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset.

.79 The entity recognises any impairment losses that have occurred up to the date when a heritage asset becomes an item of property, plant and equipment, an investment property, or an intangible asset. The entity depreciates the asset and recognises any impairment losses that have occurred up to the date when an item of property, plant and equipment or an intangible asset becomes a heritage asset at a revalued amount. The entity treats any difference at that date between the carrying amount of the asset to be transferred and its fair value in the same way as a revaluation in accordance with the principles of this Standard, or in accordance with the principles in the applicable Standard of GRAP relating to that asset, as appropriate. In other words:

(a) any resulting decrease in the carrying amount of the asset is recognised in surplus or deficit. To the extent, however, that an amount is included in revaluation surplus for that asset, the decrease is charged against that revaluation surplus; and

(b) any resulting increase in the carrying amount is treated as follows:

(i) To the extent that the increase reverses a previous impairment loss for that asset, the increase is recognised in surplus or deficit. The amount recognised in surplus or deficit does not exceed the amount needed to restore the carrying amount to that which would have been determined (net of depreciation) had no impairment loss been recognised.

(ii) Any remaining part of the increase is credited directly to net assets in the revaluation surplus.

.80 When a heritage asset carried at a revalued amount is transferred to inventories, the revaluation reserve included in net assets in respect of the heritage asset should be transferred directly to the accumulated surplus or deficit when the inventory is consumed or distributed in the production process, or in the ordinary course of operations.

.81 For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount shall be recognised in surplus or deficit.

Derecognition

.82 The carrying amount of a heritage asset shall be derecognised:

(a) on disposal (including disposal through a non-exchange transaction); or

(b) when no future economic benefits or service potential are expected from its use or disposal.

.83 The gain or loss arising from the derecognition of a heritage asset shall be ***included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on Leases (GRAP 13) requires otherwise on a sale and leaseback).***

.84 The disposal of a heritage asset may occur in a variety of ways (e.g., by sale or by entering into a finance lease or through a non-exchange transaction). In determining the date of disposal of a heritage asset, the entity applies the criteria in the Standard of GRAP on *Revenue from Exchange Transactions* (GRAP 9), for recognising revenue from the sale of goods. GRAP 13 applies to a disposal by a sale and leaseback.

.85 The consideration receivable on disposal of a heritage asset is recognised initially at its fair value. If payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with GRAP 9 reflecting the effective yield on the receivable.

.85A If, under the recognition principle in paragraph .13, an entity recognises in the carrying amount of a heritage asset, the cost of a replacement for part of the asset, then it derecognises the carrying amount of the replaced part. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

Disclosure

.86 The financial statements shall disclose, for each class of heritage assets recognised in the financial statements:

(a) the measurement bases used for determining the gross carrying amount;

(b) the gross carrying amount aggregated with accumulated impairment losses at the beginning and end of the period;

(c) a reconciliation of the carrying amount at the beginning and end of the period showing:

(i) additions;

(ii) disposals;

(iii) acquisitions through a transfer of functions between entities under common control, a transfer of functions between entities not under common control or a merger;

(iv) increases or decreases resulting from revaluations under paragraphs .37, .54 and .55 and from impairment losses recognised or reversed directly in net assets in accordance with GRAP 21 or GRAP 26, as appropriate;

(v) impairment losses recognised in surplus or deficit in accordance with GRAP 21 or GRAP 26, as appropriate;

(vi) impairment losses reversed in surplus or deficit in accordance with GRAP 21 or GRAP 26, as appropriate;

(vii) the net exchange differences arising from the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity;

(viii) transfers to and from property, plant and equipment, investment property, inventories or intangible assets; and

(ix) other changes.

.87 ***An entity shall disclose the following in the notes to the financial statements in relation to heritage assets which are in the process of being constructed or developed:***

(a) The cumulative expenditure recognised in the carrying value of such heritage assets. These expenditures shall be disclosed in aggregate per class of heritage asset.

(b) An analysis of the carrying value of heritage assets that are taking a significantly longer period of time to complete than expected, including reasons for any delays.

(c) An analysis of the carrying value of heritage assets where construction or development has been halted. The entity shall also disclose reasons for halting the construction or development of the asset and indicate whether any impairment losses have been recognised in relation to these assets.

In providing the disclosures in paragraphs .87(b) and (c) an entity shall decide how to present the information required, i.e. individually or in aggregate, for example per project, per class or another relevant basis.

.88 ***An entity shall ~~separately~~ disclose separately expenditure incurred to repair and maintain heritage assets in the notes to the financial statements.***

.89 As entities may apply different bases for determining expenditure on repairs and maintenance, an entity shall disclose information about the specific costs included in the amount of repairs and maintenance disclosed in the notes. In determining the amount disclosed in the notes to the financial statements on expenditure incurred to repair and maintain heritage assets, an entity may include amounts paid to service providers, as well as amounts spent on materials and time spent by employees in repairing and maintaining the asset(s).

.90 [Deleted]~~To the extent that it provides useful and relevant information, entities are encouraged to disclose:~~

~~(a) information that will enable users to appreciate the age and/or condition of the heritage assets; and~~

~~(b) information on heritage assets that are borrowed from, or on loan to other entities~~.

.90A ***For heritage assets that are borrowed from, or on loan to other entities, at the reporting date, the following shall be disclosed:***

(a) a description of the heritage asset borrowed from or on loan to the other entity;

(b) the entity from which the heritage asset is borrowed or the entity to which the heritage asset is on loan; and

(c) the period for which the heritage asset will be borrowed or on loan.

.90B An entity should apply judgement to assess if the disclosures in paragraph .90A should be provided for individual heritage assets or collections of similar heritage assets based on the nature of the heritage assets that are borrowed from, or on loan to other entities.

.91 ***The financial statements shall also disclose for each class of heritage assets recognised in the financial statements:***

(a) the existence and amounts of restrictions on title and disposal of heritage assets;

(b) heritage assets pledged as securities for liabilities;

(c) the amount of contractual commitments for the acquisition, maintenance, and restoration of heritage assets; and

(d) if it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of heritage assets that were impaired, lost or given up that is included in surplus or deficit.

.92 ***Heritage assets should be presented as a separate line item on the face of the statement of financial position.***

.93 In accordance with the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* (GRAP 3), an entity discloses the nature and effect of a change in an accounting estimate in the current period or subsequent periods.

.94 ***Where a heritage asset has more than one use, information about the heritage asset's alternative use shall be disclosed in the notes to the financial statements. ~~The financial statements shall disclose information about the alternative use and value of heritage assets that are used by the entity for more than one purpose.~~***

.95 ***If a class of heritage assets is stated at revalued amounts, the following shall be disclosed:***

(a) the effective date of the revaluation;

(b) the method used to determine the heritage asset's fair value;

(c) the significant assumptions applied in estimating the heritage assets' fair values;

(d) the extent to which the heritage assets' fair values were determined directly by reference to observable prices in an active market or recent

market transactions on arm's length terms, or were estimated using other valuation techniques; and

(e) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to owners of net assets.

.96 In accordance with GRAP 21 or GRAP 26, as appropriate, an entity discloses information on impaired heritage assets in addition to the information required by paragraphs .86(c)(iv) to (vi).

.97 Financial statements shall also disclose the carrying amount of each class of heritage assets retired from active use and held for disposal.

.98 [Deleted]~~When the cost model is used, financial statement users also find information relevant to the fair value of the heritage asset when this is materially different from the carrying amount. Therefore, entities are encouraged to disclose these amounts~~.

.99 When an entity does not recognise a heritage asset, or a class of heritage assets as a result of reliable measurement not being possible on initial recognition (see paragraph .17), the entity shall disclose the following for each heritage asset or class of heritage assets:

(a) a description of the heritage asset or class of heritage assets;

(b) the reason why the heritage asset or class of heritage assets could not be measured reliably; ~~and~~

(c) on disposal of the heritage asset or class of heritage assets, the compensation received, and the amount recognised in the statement of financial performance; and

(d) where a protective right is imposed on the heritage asset or class of heritage assets, the disclosures as required by paragraph .99B(a) and (c).

.99A When a heritage asset, or class of heritage assets can be measured reliably after initial recognition (see paragraph .17A), the entity shall disclose the following for each heritage asset or class of heritage assets:

(a) a description of the heritage asset or class of heritage assets;

(b) the events or circumstances that led to a reliable value becoming available; and

(c) the value at which the heritage asset or class of heritage assets are recognised.

.99B Where a protective right is imposed on a heritage asset, or a class of heritage assets, the financial statements shall disclose:

(a) a description of the heritage asset or class of heritage assets on which protective rights are imposed;

(b) the carrying value of the heritage asset or class of heritage assets on which protective rights are imposed; and

(c) a description of the protective right.

.99C Where a protective right is imposed on a heritage asset, or a class of heritage assets, and the heritage asset or class of heritage asset is disposed, the financial statements shall disclose:

(a) a description of the heritage asset or class of heritage assets that were disposed;

(b) the circumstances that permitted the entity to dispose of the asset; and

(c) the compensation received and the amount recognised in the financial statements.

.99D An entity should apply judgement to assess if the disclosures in paragraphs .99B and .99C should be provided for individual heritage assets or collections of similar heritage assets based on the nature of the heritage assets on which protective rights are imposed.

.100 In the exceptional cases referred to in paragraph .58, when an entity measures a heritage asset or class of heritage assets using the cost model, the reconciliation required by paragraph .86 shall disclose amounts relating to that heritage asset or class of heritage assets separately from amounts relating to other heritage assets or classes of heritage assets. In addition, an entity shall disclose:

(a) a description of the heritage asset or class of heritage assets;

(b) an explanation why fair value cannot be determined reliably;

(c) on disposal of the heritage asset or class of heritage assets;

(i) the fact that the entity has disposed of the heritage asset or class of heritage assets;

(ii) the carrying amount of that heritage asset or class of heritage assets at the time of sale; and

(iii) the amount of gain or loss recognised.

.101 [Deleted]~~To the extent that information is available, entities are encouraged to disclose the range of estimates within which fair value is highly likely to lie when a heritage asset or a class or heritage assets are not recognised on initial recognition because they could not be measured reliably (see paragraph .17). Entities are further encouraged to disclose the range of estimates within which fair value is highly likely to lie when heritage assets are measured using the cost model under the exceptional cases referred to in paragraph .58~~.

.102 If the fair value of the heritage asset or class of heritage assets previously measured at cost less any impairment losses becomes reliably measurable during the current period, an entity shall disclose for those heritage assets or classes of heritage assets:

(a) a description of the heritage asset or class of heritage assets;

(b) an explanation why fair value has become reliably measurable; and

(c) the effect of the change.

Transitional provisions

Initial adoption of the Standards of GRAP

.103 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.

Amendments to Standards of GRAP

.104 [Deleted]~~Paragraphs .02, .03, .04, .11, .16, .26, .27, .37, .53, .56, .57, .82, .83, and .84 were amended and paragraphs .33 and .34 were added by the Improvements to the Standards of GRAP issued on 1 April 2014. An entity shall apply these amendments retrospectively for annual periods beginning on or after 1 April 2015. If an entity elects to apply these amendments earlier, it shall disclose this fact.~~

.105 [Deleted]~~Paragraphs .44, .87 and .95(b) were amended by the Amendments to the Standards of GRAP on Investment Property and Property, Plant and Equipment (2014) issued on 26 May 2015. An entity shall apply these amendments prospectively in accordance with GRAP 3.~~

.106 [Deleted]~~Amendments to paragraphs .88 and .89 relating to the disclosure of expenditure incurred to repair and maintain heritage assets, shall be applied prospectively.~~

.106A [Deleted]~~The following paragraphs were amended by the Improvements to the Standards of GRAP issued in April 2017. These amendments are effective for annual periods beginning on or after 1 April 2018. An entity shall apply these amendments as follows:~~

~~(a) paragraph .26 shall be applied prospectively in accordance with GRAP 3; and~~

~~(b) paragraph .33 shall be applied retrospectively in accordance with GRAP 3.~~

~~Earlier application is encouraged. If an entity elects to apply these amendments earlier, it shall disclose this fact.~~

.106B Paragraphs .14, .17, .18, .46, .63, .64 and .65 were amended, paragraphs .14A, .14B, .15A, .17A, .17B, .17C, .17D, .18A, .46A, .47A, .47B, .47C, .47D, .67A, .90A, .90B, .99A,.99B, .99C and .99D were added and paragraphs .07, .08, .11, .12, .104 to .106A, .108A and .108B were deleted by the Amendments to the Standards of GRAP on Heritage Assets (2022) issued on DDMM2022. An entity shall apply these amendments prospectively in accordance with GRAP 3.

.106C Paragraphs .04, .05, .09, .10 and .94, were amended, paragraphs .04A, .04B, .05A, .11A, .16A, .21A and .85A were added, and paragraphs .06, .19, .44, .38, .90, .98 and .101 were deleted by the Amendments to the Standards of GRAP on Heritage Assets (2022) issued on DDMM 2022. An entity shall apply these amendments retrospectively in accordance with GRAP 3.

.106D When, on adoption of the amendments in paragraphs .09 and .10, an entity reclassifies a heritage asset previously accounted for using another Standard of GRAP, as a heritage asset using this Standard, any previously recognised depreciation is adjusted retrospectively against accumulated surplus or deficit. The heritage asset is reclassified at its cost on initial recognition and tested for impairment on the date that the amendments are first applied.

Effective date

Initial adoption of the Standards of GRAP

.107 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.

Entities already applying Standards of GRAP

.108 [Deleted].

.108A [Deleted]~~Paragraph .03A was added by GRAP 32 issued in August 2013. An entity shall apply this amendment for annual financial statements covering periods beginning on or after 1 April 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before 1 April 2019, it shall disclose that fact.~~

.108B [Deleted]~~Paragraph .02 was amended and paragraph .03 was deleted by GRAP 110 issued March 2017. An entity shall apply these amendments retrospectively for annual financial periods beginning on or after 1 April 2020. If an entity elects to apply these amendments earlier, it shall disclose this fact.~~

Objective

.01 The objective of this Standard is to establish principles and requirements for the acquirer and transferor in a transfer of functions between entities under common control and its effects.

Scope

.02 ***An acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for a transfer of functions between entities under common control. This Standard does not apply to:***

(a) ***the acquisition or receipt of an asset or a group of assets (and any related liabilities), and/or a liability or a group of liabilities that do not constitute a function. In such cases an entity shall identify and recognise the individual asset or a group of assets (and any related liabilities), and/or a liability or group of liabilities transferred;***

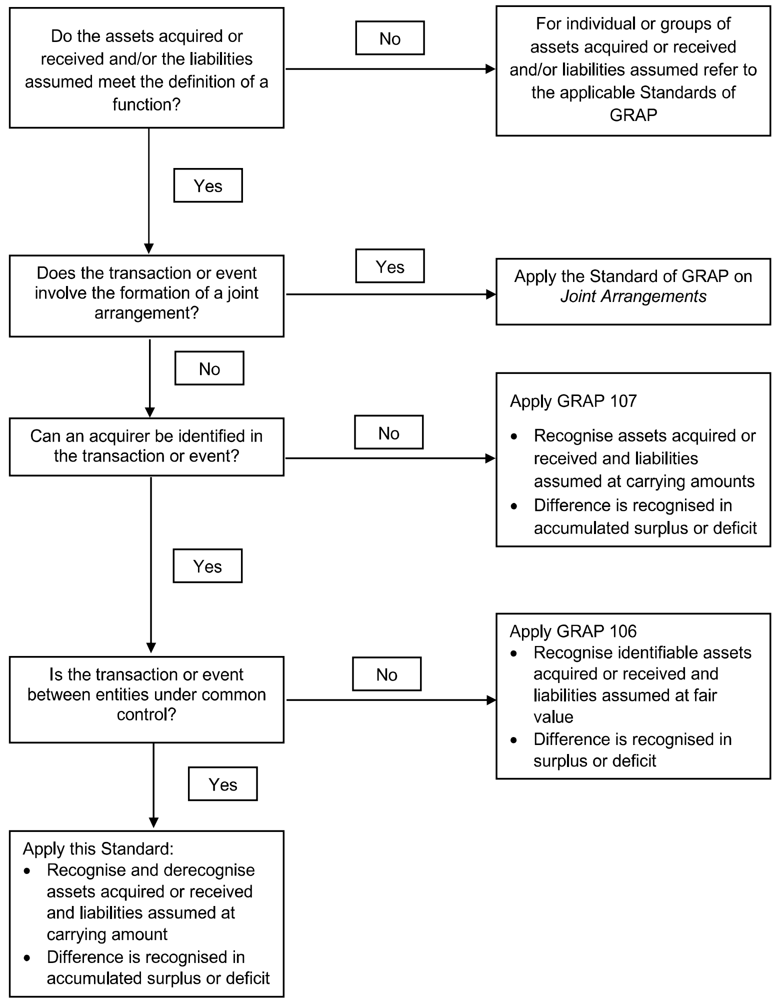
(b) ***a transfer of functions between entities not under common control (see the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106));***

(c) ***a merger (see the Standard of GRAP on Mergers (GRAP 107)); and***

(d) ***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 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:



.05 The acquisition or receipt of an asset or a group of assets (and any related liabilities), and/or the assumption of a liability or group of liabilities are excluded from the scope of this Standard. These arrangements result in the acquisition, receipt of an asset or a group of assets (and any related liabilities) and/or the assumption or transfer of a liability or a group of liabilities by an entity rather than the transfer of functions. For example, when a national roads agency takes control of a provincial road from various provincial departments, it is a transfer of individual assets.

.06 If no acquirer can be identified in the transaction or event, GRAP 107 should be applied. 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.

.07 A transaction or event in which an acquirer can be identified, and that occurs between entities under common control falls within the scope of this Standard. A transfer of functions between entities under common control is a reorganisation and/or reallocation of functions between entities that are ultimately controlled by the same entity before and after a transfer of functions, and that control is not transitory.

.08 A transaction or event in which an acquirer can be identified and that are between entities not under common control should be accounted for in terms of GRAP 106.

Definitions

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

An <u>acquirer</u> is the entity that gains control of one or more functions in a transfer of functions.

A <u>binding arrangement</u> 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.

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

<u>Control</u>: 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 <u>function</u> is an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purposes of achieving an entity's objectives, by providing goods and/or services or generating revenue.

A <u>merger</u> 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.

<u>Transfer date</u> is the date on which the acquirer obtains control of the function and the transferor loses control of that function.

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

A <u>transferor</u> is the entity that loses control of one or more functions that the acquirer obtains control in a transfer of functions.

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

Binding arrangements

.10 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.

Common control

.11 For a transaction or event to occur between entities under common control, the transaction or event needs to be undertaken between entities within the same sphere of government or between entities that are part of the same economic entity. Entities that are ultimately controlled by the same entity before and after the transfer of functions are within the same economic entity. For example, a national Health Department is mandated through legislation to transfer its primary school nutrition programme to the national Education Department. Because the national Education Department is identified as the acquirer, and both departments are within the national sphere of government and within the same economic entity, the transfer of functions falls within the scope of this Standard.

.12 The extent of non-controlling interests in each of the entities that are involved in a transfer of functions before and after the transfer of functions is not relevant in determining whether the transaction or event involves entities under common control.

Function

.13 A function is an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purposes of achieving an entity's objectives by providing goods and/or services or generating revenue. Although a function usually has outputs, outputs are not required for an integrated set of activities and related assets and/or liabilities to qualify as a function. A function consists of inputs and processes applied to those inputs that have the ability to create outputs. A function can either be a part or a portion of an entity or can consist of the whole entity. For the purpose of this Standard, the three elements of a function are defined as follows:

(a) **Input:** Any resource that creates outputs, or has the ability to contribute to the creation of outputs when one or more processes are applied to it. Examples include non-current assets (including intangible assets or rights to use non-current assets), intellectual property, and the ability to obtain access to necessary materials or rights and employees.

(b) **Process:** Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates outputs or has the ability to contribute to the creation of outputs. Examples include strategic management processes, operational processes and resource management processes. These processes typically are documented, but the intellectual capacity of an organised workforce having the necessary skills and experience following rules and conventions may provide the necessary processes that are capable of being applied to inputs to create outputs. (Accounting, billing, payroll and other administrative systems typically are not processes used to create outputs.)

(c) **Output:** The result of inputs and processes applied to achieve and improve efficiency of those inputs that provide goods and/or services or generate revenue. This may be in the form of achieving service delivery objectives, or the delivery of goods and/or services.

Optional test to assess if a set of activities, assets and/or liabilities is a not a function (see Appendix A paragraphs AG1. to AG5.)

.14 An entity may elect to apply an optional test (the concentration test) to assess if an acquired or received set of activities, assets and/or liabilities is a not a function. The concentration test is met if substantially all of the carrying amounts of the gross assets acquired or received is concentrated in a single asset or group of similar assets (see Appendix A paragraph AG2.). An entity may elect to apply the concentration test separately for each transaction or other event.

.15 If the concentration test is not met, or if the entity elects not to perform the assessment, the requirements in paragraphs .16 to .19 should be applied to determine if the acquired or received set of activities and assets and/or liabilities are a function.

Elements of a function

.16 Although functions usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a function. To be capable of being conducted and managed for the purposes identified in the definition of a function, an

integrated set of activities and assets and/or liabilities requires two essential elements - inputs and processes applied to those inputs. A function need not include all of the inputs or processes that the transferor used in operating that function. However, to be considered a function, an integrated set of activities and assets and/or liabilities must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Appendix A paragraphs AG8. to AG10. provide guidance on how to assess whether an acquired or received process is substantive.

.17 If an acquired or received set of activities and assets and/or liabilities has outputs, continuation of revenue does not on its own indicate that both an input and substantive process have been acquired or received.

.18 The nature of the elements of a function varies by sector and by the structure of an entity's operations (activities), including the entity's stage of development. Established functions often have many different types of inputs, processes and outputs, whereas new functions often have few inputs and processes and sometimes only a single output (product). Nearly all functions also have liabilities, but a function need not have liabilities. Furthermore, an acquired or received set of activities and assets that is not a function might have liabilities.

.19 Determining whether a particular set of activities and assets and/or liabilities is a function should be based on whether the integrated set is capable of being conducted and managed as a function by another entity. Thus, in evaluating whether a particular set is a function, it is not relevant whether a transferor operated the set as a function or whether the acquirer intends to operate the set as a function.

Identifying the acquirer and transferor

.20 For each transfer of functions between entities under common control an acquirer and transferor shall be identified.

.21 The terms and conditions of a transfer of functions between entities under common control are set out in a binding arrangement.

.22 The binding arrangement governing the terms and conditions of a transfer of functions may identify which entity to the transaction or event is the transferor(s) and which entity is the acquirer. Where the binding arrangement does not clearly identify the acquirer or the transferor, the behaviour or actions of the entities may indicate which entity is the acquirer and which entity is the transferor. For example, if the Department of Health used to feed primary school children on a daily basis and it subsequently ceases to do so following a transfer of the programme to the Department of Education, this is a clear indication that the Department of Health is the transferor and the Department of Education is the acquirer. Additional evidence may be that an entity no longer receives funding from the fiscus to carry out certain activities.

.23 In a transfer of functions effected primarily by transferring cash or other assets (where applicable) and/or by incurring liabilities, the acquirer is usually the entity that transfers the cash or other assets (where applicable) and/or incurs the liabilities.

.24 In a transfer of functions involving more than one entity, one of the entities that existed before the transaction or event may be identified as the acquirer on the basis of available evidence. For example, if the management of one of the entities involved in the transfer of functions dominates the selection of the management team in the newly establish entity, the dominant entity is usually the acquirer.

.25 Determining the acquirer should include a consideration of, amongst other things, which of the entities involved in the transfer of functions initiated the transaction or event, the relative size of the 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. If no acquirer can be identified, the transaction or event should be accounted for in terms of GRAP 107.

Determining the transfer date

.26 The acquirer and the transferor shall identify the transfer date, which is the date on which the acquirer obtains control of the function and the transferor loses control of that function.

.27 The binding arrangement governing the terms and conditions of a transfer of functions between entities under common control may specify that the transaction or event is effective from a specific date. The date on which the acquirer obtains control of one or more functions is generally the date on which the acquirer transfers the consideration (if any), and/or acquires or receives the assets and/or assumes the liabilities of the transferor as identified in the binding arrangement – closing date. However, the acquirer may obtain control on a date that is either earlier or later than the closing date. For example, legislation passed in Parliament on 1 April 20X1 requires Department A to take over the functions of Department B. Both Departments are within the same province. A directive is issued stating that the effective date of the transfer is 1 June 20X1. Department A however only obtains control of the assets and liabilities on 1 July 20X1 through a memorandum of understanding drawn up between the two departments. As Department A can only use or otherwise benefit from the transfer of functions 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. The acquirer should consider all relevant facts and circumstances in identifying the transfer date.

.28 The fact that a binding arrangement exists creates an obligation for either one or both of the parties to act in order to fulfil the terms and conditions of the arrangement. This means that under the binding arrangement, the acquirer has an enforceable claim over the transferor either, to relinquish control of the entity, or over the assets, liabilities and non-controlling interests of the function to be transferred.

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

Recognition principle

.29 As of the transfer date, the acquirer shall recognise the assets acquired or received, liabilities assumed and any non-controlling interests received in a transfer of functions. The recognition of assets acquired or received, liabilities assumed, and any non-controlling interests acquired or received by the acquirer, and the derecognition of assets and/or liabilities by the transferor is subject to the conditions specified in the paragraphs below.

Criteria for the acquirer and transferor

.30 The assets acquired or received and/or liabilities assumed that qualify for recognition by the acquirer or derecognition by the transferor in a transfer of functions between entities under common control are normally governed by the terms and conditions of the binding arrangement.

.31 The assets acquired, received or transferred and/or the liabilities assumed or relinquished must be part of what had been agreed in terms of the binding arrangement, rather than the result of separate transactions. The acquirer and transferor should apply the guidance in paragraphs .32 and .33 to determine which assets are acquired, received or transferred and/or which liabilities are assumed or relinquished as part of a transfer of functions and which, if any, are the result of separate transactions to be accounted for in accordance with their nature and the applicable Standard of GRAP.

Determining what is part of the transfer of functions transaction

.32 The acquirer and the transferor may have a pre-existing relationship or other relationship before or when negotiations for a transfer of functions began, or they may enter into a binding arrangement during the negotiations that is separate from a transfer of functions i.e. amounts that are not part of that transferred by the transferor. In either situation, the acquirer shall identify any amounts that are not part of what the acquirer and transferor exchanged in a transfer of functions. The acquirer shall apply this Standard only to the consideration transferred, if any, and the assets acquired, received liabilities assumed and any non-controlling interests acquired or received by the acquirer in a transfer of functions as governed by the terms and conditions of the binding arrangement. Similarly, the transferor shall apply this Standard to recognise only the consideration received (if any) and derecognise the assets transferred and/or liabilities relinquished in a transfer of functions as governed by the terms and conditions of the binding arrangement. Apart from

those transactions identified in paragraphs .35 and .36, separate transactions shall be accounted for in accordance with the applicable Standards of GRAP.

.33 A transaction entered into by or on behalf of the acquirer or primarily for the benefit of the acquirer, rather than primarily for the benefit of the transferor before the transfer of functions, is likely to be a separate transaction. The following are examples of separate transactions that are not part of a transfer of functions:

(a) a transaction that in effect settles pre-existing relationships between the acquirer and the transferor;

(b) a transaction that reimburses the transferor for paying the acquirer's acquisition-related costs; and

(c) contributions received from third parties as compensation for future services as a result of undertaking the transfer of functions.

Paragraphs .35 to .37 provide related guidance.

.34 The acquirer and transferor should consider the following factors, which are neither mutually exclusive nor individually conclusive, to determine whether a transaction is part of a transfer or function or whether the transaction is separate:

(a) **The reasons for the transaction** — Understanding the reasons why the parties to the transfer of functions entered into a particular transaction or arrangement may provide insight into whether it is part of the consideration transferred, if any, and the assets acquired, received or transferred, and/or liabilities assumed or relinquished. For example, if a transaction is arranged primarily for the benefit of the acquirer rather than primarily for the benefit of the transferor before the transfer of function, that portion of the consideration (and any related assets and/or liabilities) is less likely to be part of the exchange of the transferor. Accordingly, the acquirer would account for that portion separately from the transfer.

(b) **Who initiated the transaction** — Understanding who initiated the transaction may also provide insight into whether it is part of the exchange for the transferor. For example, a transaction or other event that is initiated by the acquirer may be entered into for the purpose of providing future economic benefits or service potential to the acquirer with little or no benefit received by the transferor before the transfer of functions. On the other hand, a transaction or arrangement initiated by the transferor is less likely to be for the benefit of the acquirer and more likely to be part of the transfer of functions transaction.

(c) **The timing of the transaction** — The timing of the transaction may also provide insight into whether it is part of the transfer of functions. For example, a transaction between the acquirer and transferor that takes place during the negotiations of the terms of the transfer of functions may have been entered into in contemplation of the transfer of function to provide future economic benefits

or service potential to the acquirer. If so, the transferor before the transfer of functions is likely to receive little or no benefit from the transaction except for benefits they receive as part of the transfer of functions.

Effective settlement of a pre-existing relationship between the acquirer and transferor in a transfer of functions (application of paragraph .33(a))

.35 The acquirer and transferor may have a relationship that existed before they contemplated the transfer of functions, referred to here as a "pre-existing relationship". A pre-existing relationship between the acquirer and transferor may be contractual (for example, vendor and customer or supplier) or non-contractual (for example, plaintiff and defendant).

.36 If a transfer of functions in effect settles a pre-existing relationship, the acquirer recognises a gain or loss, measured as follows:

(a) for a pre-existing non-contractual relationship (such as a lawsuit), fair value.

(b) for a pre-existing contractual relationship, the lesser of (i) and (ii):

(i) The amount by which the binding arrangement is favourable or unfavourable from the perspective of the acquirer when compared with terms for current market transactions for the same or similar items. (An unfavourable contract is a contract that is unfavourable in terms of current market terms. It is not necessarily an onerous contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.)

(ii) The amount of any stated settlement provisions in the binding arrangement available to the counterparty to whom the binding arrangement is unfavourable.

If (ii) is less than (i), the difference is included as part of a transfer of functions accounting. The amount of gain or loss recognised may depend in part on whether the acquirer had previously recognised a related asset and/or liability, and the reported gain or loss therefore may differ from the amount calculated by applying the above requirements.

.37 A pre-existing relationship may be a binding arrangement that the acquirer recognises as a reacquired right. If the binding arrangement includes terms that are favourable or unfavourable when compared with pricing for current market transactions for the same or similar items, the acquirer recognises, separately from the transfer of functions, a gain or loss for the effective settlement of the binding arrangement, measured in accordance with paragraph .35.

Criteria for the acquirer

.38 The assets received and/or liabilities assumed 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 transfer date.

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

Accounting by the acquirer

Initial recognition and measurement

.40 As of the transfer date, the acquirer shall recognise the purchase consideration paid (if any) to the transferor, and all the assets acquired or received, the liabilities assumed, and any non-controlling interests acquired or received in a transfer of functions. Recognition of the assets acquired or received, liabilities assumed and any non-controlling interests acquired or received is subject to the conditions specified in paragraphs .30, .31, .38 and .39.

Measurement principle

.41 The acquirer shall measure the assets received, liabilities assumed and non-controlling interests at their carrying amounts as of the transfer date.

.42 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 transfer date, the acquirer recognises these amounts separately in its financial statements.

.43 If, on the transfer date, the transferor did not apply Standards of GRAP, the acquirer should adjust the basis of accounting used for the assets acquired or received, and/or liabilities assumed to align it to Standards of GRAP prior to the transfer.

.44 The consideration paid by the acquirer can be in the form of cash, cash equivalents or other assets. If the consideration paid is in the form of other assets, the acquirer

[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*.

should de-recognise such assets on the transfer date at their carrying amounts, i.e. the amount at which the asset is recognised by the acquirer in its statement of financial position as of the transfer date.

.45 An entity often obtains control of a function in a non-exchange transaction in which it transfers no consideration. Such circumstances include, but are not limited to:

(a) the transfer of a function to the entity by a donor for no consideration. Such transfers may take the form of a bequest; and

(b) the transfer of a function to the entity where the function has net liabilities. The entity may accept the acquisition or receipt of net liabilities to prevent the cessation of the function.

.46 An acquirer that obtains control of a transfer of functions in a non-exchange transaction in which it transfers no consideration, recognises a surplus or deficit in accordance with paragraph .40.

Recognising and measuring components arising as a result of the transfer of functions

.47 The acquirer shall recognise within accumulated surplus and deficit amounts equal and opposite to the following items:

(a) the difference between the carrying amounts of the assets acquired or received;

(b) the carrying amounts of liabilities assumed;

(c) the carrying amounts of the transferor's non-controlling interests; and

(d) the consideration paid (if any) to the transferor and adjustments required to the basis of accounting as described in paragraph .43.

Measurement period

.48 If the initial accounting for a transfer of functions is incomplete by the end of the reporting period in which the transfer occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the transfer date to reflect new information obtained about facts and circumstances that existed as of the transfer date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the acquirer shall also recognise additional assets, liabilities and non-controlling interests if new information is obtained about facts and circumstances that existed as of the transfer date, and if known, would have resulted in the recognition of those assets, liabilities and non-controlling interests as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of

the transfer date or learns that more information is not obtainable. However, the measurement period shall not exceed two years from the transfer date.

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

(a) the assets acquired or received, liabilities assumed, and any non-controlling interest in the transfer of functions;

(b) the consideration transferred, if any, in the transfer of functions; and

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

The information necessary to identify and measure the assets, liabilities and any non-controlling interests in the transferor will generally be available at the transfer date. However, this may not be the case where the transferor has previously prepared their financial statements using different accounting policies.

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

.51 The acquirer recognises an increase (decrease) in the provisional amount recognised for an asset, liability and any non-controlling interests by adjusting accumulated surplus or deficit in accordance with paragraph .47. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset, liability and any non-controlling interests. For example, the acquirer might have assumed a liability to pay damages related to an accident in one of the transferor's facilities, part or all of which are covered by the transferor's liability insurance policy. If the acquirer obtains new information during the measurement period about the transfer date carrying amounts of that liability, the adjustment to the accumulated surplus or deficit from a change to the provisional amount recognised for the liability would be offset (in whole or in part) by a corresponding adjustment to accumulated surplus of deficit resulting from a change to the provisional amount recognised for the claim receivable from the insurer.

.52 During the measurement period, the acquirer should recognise adjustments to the provisional amounts as if the accounting for the transfer of functions had been completed at the transfer date. Thus, the acquirer should revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation, amortisation or other income effects recognised in completing the initial accounting.

.53 After the measurement period ends, the acquirer should revise the accounting for a transfer of functions only to correct an error in accordance with the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors*.

Acquisition-related costs

.54 Acquisition-related costs are costs that the acquirer or transferor incurs to effect the transfer of functions. These costs include finders fees, advisory, legal, accounting, valuation and other professional or consulting fees, general administrative costs including the costs of maintaining an internal acquisitions department, and any costs of registering and issuing debt and equity securities. The acquirer should account for acquisition-related costs as expenses in the period in which the costs are incurred and the services are received, with one exception. 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

.55 The acquirer shall measure and account for assets acquired or received, liabilities assumed and any non-controlling interests in a transfer of functions in accordance with the applicable Standards of GRAP for those items, depending on their nature.

.56 At the transfer date, the acquirer shall classify or designate the assets acquired or received and/or liabilities assumed as necessary to subsequently apply other Standards of GRAP. The acquirer shall make those classifications or designations on the basis of the terms of the binding arrangement, economic conditions, its operating or accounting policies and other relevant conditions that exist at the transfer date.

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

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

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

.58 This Standard provides two exceptions to the principle in paragraph .56:

(a) classification of a lease contract as either an operating lease or a finance lease in accordance with the Standard of GRAP on *Leases* (GRAP 13); and

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

The acquirer should classify those contacts on the basis of the terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the transfer date).

Accounting by the transferor

Derecognition of assets transferred, liabilities relinquished and non-controlling interests transferred

.59 As of the transfer date, the transferor shall derecognise from its financial statements, all the assets transferred, liabilities relinquished and non-controlling interests transferred in a transfer of functions at their carrying amounts.

.60 Until the transfer date, the transferor should continue to measure these assets, liabilities and non-controlling interests in accordance with applicable Standards of GRAP.

.61 The consideration received from the acquirer can be in the form of cash, cash equivalents or other assets. If the consideration received is in the form of other assets, the transferor should measure such assets at their fair value on the transfer date in accordance with the applicable Standard of GRAP.

.62 The difference between the carrying amounts of the assets transferred, the liabilities relinquished and the consideration received (if any) from the acquirer shall be recognised in accumulated surplus or deficit.

Disclosure

.63 The acquirer and transferor shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a transfer of functions 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.

.64 To meet the objective in paragraph .63, the acquirer and transferor should disclose the following information for each ~~a~~ transfer of functions that occurs during the reporting period:

(a) the accounting policy adopted for a transfer of functions that occurred during the reporting period;

(b) the name and description of the entities involved in the transfer of functions, and a brief description of the functions transferred;

(c) the transfer date;

(d) the primary reason for the transfer of functions and a description of how the acquirer obtained control of the functions, where applicable, the legal basis for the transfer of functions; and

(e) the amounts recognised as of the transfer date for each major class of assets acquired or received and/or transferred and/or liabilities assumed or relinquished.

.65 For a transaction that is recognised separately from the acquisition or receipt or transfer of assets, and/or assumption or relinquish of liabilities in accordance with paragraph .32:

(a) a description of each transaction;

(b) how the transaction was accounted for;

(c) the amounts recognised for each transaction and the line item in the financial statements in which each amount is recognised; and

(d) if the transaction is the effective settlement of a pre-existing relationship, the method used to determine the settlement amount.

.66 The disclosure of separately recognised transactions required by paragraph .65 should include the amount of acquisition-related costs and, separately, the amount of those costs recognised as an expense and the line item or items in the statement of financial performance in which those expenses are recognised. The amount of any issue costs not recognised as an expense and how they were recognised should also be disclosed.

.67 For individually immaterial transfer of functions occurring during the reporting period that are material collectively, the acquirer and transferor should disclose in aggregate the information required by paragraphs .65 and .66.

.68 If the specific disclosures required by this and other Standards of GRAP do not meet the objectives set out in paragraphs .64 to .67 and .69 to .72, the acquirer and transferor should disclose whatever additional information is necessary to meet those objectives.

Acquirer

.69 To meet the objective in paragraph .63 the acquirer should disclose the following information for each transfer of functions that occurs during the reporting period:

(a) for each affected line item in the financial statements, the amounts recognised as of the transfer date for each major class of asset acquired or received and/or liability assumed;

(b) the difference between the carrying amounts of the assets acquired or received, the liabilities assumed, the non-controlling interests and the consideration paid (if any) to the transferor and any adjustments required to the basis of accounting as described in paragraph .43, as a separate line item in net assets;

(c) additional contingent liabilities and contingent assets disclosed attributable to a transfer of functions; and

(d) revenue and expenditure attributable to a transfer of functions subsequent to its transfer.

Financial statements of subsequent periods need not repeat these disclosures.

.70 If the transfer date of a transfer of functions is after the end of the reporting period but before the financial statements are authorised for issue, the acquirer should disclose the information required by paragraphs .65 and .66 unless the initial accounting for the transfer of functions is incomplete at the time the financial statements are authorised for issue. In that situation, the acquirer should describe which disclosures could not be made and the reasons why they cannot be made.

.71 The acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments in the current reporting period that relate to transfer of functions that occurred in the period or previous reporting periods.

.72 To meet the objective in paragraph .71, the acquirer should disclose the following information if the initial accounting for a transfer of functions is incomplete (see paragraph .48) for particular assets, liabilities, and any consideration and the amounts recognised in the financial statements for the transfer of functions thus have been determined only provisionally:

(a) the reasons why the initial accounting for the transfer of functions is incomplete;

(b) the assets, liabilities, or any items of consideration for which the initial accounting is incomplete; and

(c) the nature and the amount of any measurement period adjustments recognised during the reporting period in accordance with paragraph .52.

Transferor

.73 The transferor shall disclose the following, in addition to the disclosure requirements in the Standard of GRAP on Discontinued Operations

(GRAP 100), for each transfer of functions that occurred during the reporting period:

(a) for each affected line item in the financial statements, the carrying amount of the assets transferred, the liabilities relinquished and non-controlling interests transferred for each major class of asset and/or liability; and

(b) the difference between the carrying amounts of the assets transferred, the liabilities relinquished, the non-controlling interests transferred and the consideration received (if any) from the acquirer, as a separate line item in net assets.

Financial statements of subsequent periods need not repeat these disclosures.

Transitional provisions

Initial adoption of the Standards of GRAP

.74 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 shall be read in conjunction with each applicable directive.

Effective date

Initial adoption of the Standards of GRAP

.75 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 (PFMA).

Withdrawal of the Standard of GRAP on *Transfer of Functions Between Entities Under Common Control* (2010)

.76 This Standard supersedes the Standard of GRAP on *Transfer of Functions Between Entities Under Common Control* issued in 2010.

PUBLIC FINANCE MANAGEMENT ACT, 1999

REGULATIONS ON ACCOUNTING STANDARDS

The Minister of Finance, acting in terms of section 91(1)(b) and (c) of the Public Finance Management Act, 1999 (Act No. 1 of 1999), has made regulations prescribing the following standards of generally recognised accounting practice set out in the Schedule with an implementation date of 1 April 2027:

(a) GRAP 1 on Presentation of Financial Statements (Revised 2022);

(b) GRAP 103 on Heritage Assets (Revised 2022);

(c) GRAP 105 on Transfers of Functions Between Entities Under Common Control (Revised 2023);

(d) GRAP 106 on Transfers of Functions Between Entities Not Under Common Control (Revised 2023); and

(e) GRAP 107 on Mergers (Revised 2023);

SCHEDULE

Introduction

This pronouncement is set out in paragraphs .01 to .128. 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 acquirer in a transfer of functions between entities not under common control and its effects.

Scope

.02 An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for a transfer of functions between entities not under common control. This Standard does not apply to:

(a) the acquisition or receipt of an individual asset or a group of assets (and any related liabilities) and/or a liability or a group of liabilities that do not constitute a function. In such cases an entity shall identify and recognise the individual identifiable asset or a group of assets (and any related liabilities), and/or a liability or group of liabilities assumed;

(b) 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));

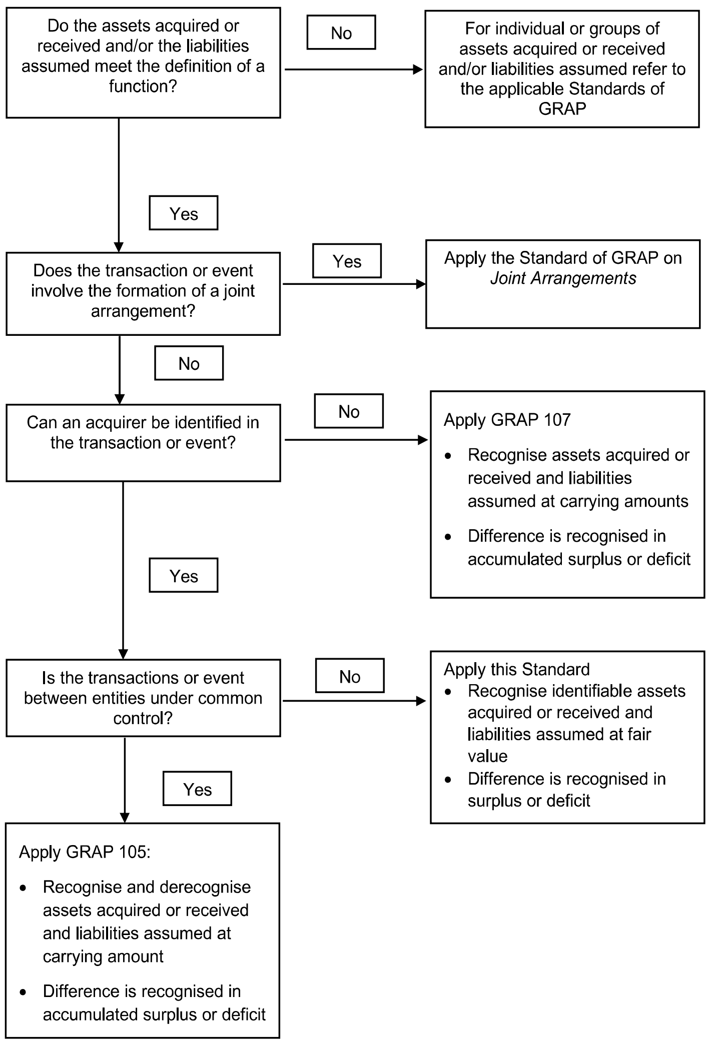
(c) a merger (see the Standard of GRAP on Mergers (GRAP 107)); and

(d) 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 (GRAP 35), or an investment in a controlled entity that is required to be measured at fair value through surplus or deficit.

.04 A transfer of functions between entities not under common control could involve a transfer of another entity or transfer of part of another entity.

.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:



.06 The acquisition or receipt of an individual asset or a group of assets (and any related liabilities), and/or the assumption of a liability or a group of liabilities are excluded from the scope of this Standard as these arrangements result in the acquisition or receipt of an asset or a group of assets (and any related liabilities) and/or the assumption of a liability or a group of liabilities by an entity rather than the transfer of functions. For example, when a national roads agency takes control of a provincial road from various provincial Departments, it is a transfer of individual assets.

.07 If no acquirer can be identified in a transaction or event, GRAP 107 should be applied. A merger is the establishment of new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified.

.08 A transaction or event in which an acquirer can be identified, and that occurs between entities not under common control falls within the scope of this Standard. A transfer of functions between entities not under common control is a reorganisation and/or reallocation of functions between entities that are not ultimately controlled by the same entity both before and after the transfer of functions and that control is not transitory.

.09 A transaction or event in which an acquirer can be identified and that results in a transfer of functions between entities under common control is excluded from the scope of this Standard. Such a transaction or event should be accounted for in terms of GRAP 105.

Definitions

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

An acquiree is the entity that loses control of one or more functions that the acquirer obtains control of in a transfer of functions.

An acquirer is the entity that gains control of one or more functions in a transfer of functions.

Acquisition date is the date on which the acquirer obtains control of the acquiree.

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.

Contingent consideration is usually, an obligation of the acquirer to transfer additional assets or a residual interest to the former owners of an acquiree as part of the exchange for control of the acquiree if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.

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.

<u>Fair value</u> is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

A <u>function</u> is an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purposes of achieving an entity's objectives, by providing goods and/or services or generating revenue.

An asset is <u>identifiable</u> if it either:

(a) is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset and/or liability, regardless of whether the entity intends to do so; or

(b) arises from rights arising from binding arrangements, but excluding rights granted by statute, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

A <u>merger</u> 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.

<u>Non-controlling interest</u> is the interest in the net assets of a controlled entity not attributable, directly or indirectly, to a controlling entity.

<u>Owners</u> (for the purposes of this Standard), is used broadly to include holders of residual interests.

A <u>residual interest</u> is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

(a) equity instruments or similar forms of unitised capital;

(b) a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or

(c) a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

A <u>transfer of functions</u> 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

.11 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.

Common control

.12 For a transaction or event to occur between entities under common control, the transaction or event needs to be between entities within the same sphere of government or between entities that are part of the same economic entity. Entities that are ultimately controlled by the same entity before and after the transfer of functions are within the same economic entity. For example, a national Health Department is mandated through legislation to transfer its primary school nutrition programme to the national Education Department. Because the national Education Department is identified as the acquirer, and both Departments are within the national sphere of government and within the same economic entity, the transfer of functions falls within the scope of GRAP 105.

.13 The extent of non-controlling interests in each of the entities that are involved in a transfer of functions before and after the transfer of functions is not relevant in determining whether the transaction or event involves entities under common control.

Function

.14 A function is an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purposes of achieving an entity's objectives by providing goods and/or services or generating revenue. Although a function usually has outputs, outputs are not required for an integrated set of activities and related assets and/or liabilities to qualify as a function. A function consists of inputs and processes applied to those inputs that have the ability to create outputs. A function can either be a part or a portion of an entity or can consist of the whole entity. For the purpose of this Standard, the three elements of a function are defined as follows:

(a) **Input:** Any resource that creates outputs, or has the ability to contribute to the creation of outputs when one or more processes are applied to it. Examples include non-current assets (including intangible assets or rights to use non-current assets), intellectual property, and the ability to obtain access to necessary materials or rights and employees.

(b) **Process:** Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates outputs or has the ability to contribute to the creation of outputs. Examples include strategic management processes, operational processes and resource management processes. These processes typically are documented, but the intellectual capacity of an organised workforce having the necessary skills and experience following rules and conventions may provide the necessary processes that are capable of being applied to inputs to create outputs. (Accounting, billing, payroll and other administrative systems typically are not processes used to create outputs.)

(c) **Output:** The result of inputs and processes applied to achieve and improve efficiency of those inputs that provide goods and/or services or generate revenue. This may be in the form of achieving service delivery objectives, or the delivery of goods and/or services.

Optional test to identify concentration of fair value (see Appendix A paragraphs AG1. to AG10.)

.15 An entity may elect to apply an optional test (the concentration test) to assess if an acquired or received set of activities, assets and/or liabilities is a not a function. The concentration test is met if substantially all of the fair value of the gross assets acquired or received is concentrated in a single identifiable asset or group of similar identifiable assets (see Appendix A paragraph AG2.). An entity may elect to apply the concentration test separately for each transaction or other event.

.16 If the concentration test is not met, or if the entity elects not to perform the assessment, the requirements in paragraphs .17 to .20 should be applied to determine if the acquired or received set of activities and assets and/or liabilities are a function.

Elements of a function

.17 Although functions usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a function. To be capable of being conducted and managed for the purposes identified in the definition of a function, an integrated set of activities and assets and/or liabilities requires two essential elements - inputs and processes applied to those inputs. A function need not include all of the inputs or processes that the acquiree used in operating that function. However, to be considered a function, an integrated set of activities and assets and/or liabilities must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Appendix A paragraphs AG8. to AG10. provide guidance on how to assess whether a process is substantive.

.18 If an acquired or received set of activities and assets and/or liabilities has outputs, continuation of revenue does not on its own indicate that both an input and substantive process have been acquired or received.

.19 The nature of the elements of a function varies by sector and by the structure of an

entity's operations (activities), including the entity's stage of development. Established functions often have many different types of inputs, processes and outputs, whereas new functions often have few inputs and processes and sometimes only a single output. Nearly all functions also have liabilities, but a function need not have liabilities. Furthermore, an acquired or received set of activities and assets that is not a function might have liabilities.

.20 Determining whether a particular set of activities and assets and/or liabilities is a function should be based on whether the integrated set is capable of being conducted and managed as a function by another entity. Thus, in evaluating whether a particular set is a function, it is not relevant whether a transferor operated the set as a function or whether the acquirer intends to operate the set as a function.

Residual interest

.21 A residual interest is a contract that shows evidence of an interest in the net assets of another entity. A residual interest entitles the holder of the interest to a part of the net assets of an entity, and any payments made to the holder are discretionary, e.g. dividends or similar distributions are paid to holders of residual interests at management's discretion.

.22 In the public sector, various forms of contributed capital exist. For example, some public entities may issue shares, while others may have been given capital contributions through the budget process. Where an entity receives capital contributions other than through the issue of shares or other unitised capital, the following evidence may indicate that the contribution is a residual interest:

(a) there is a formal designation of the contribution by the parties to the transaction either before or at the time of the contribution; or

(b) there is a formal agreement between the parties specifying that the contribution represents a residual interest of another entity.

Even though a formal transfer of resources may be proven by a designation or formal agreement, an entity assesses the nature of the transfer based on its substance and not merely its legal form.

Identifying a transfer of functions between entities not under common control

.23 An entity shall determine whether a transaction or other event is a transfer of functions between entities not under common control by applying the definition in this Standard, which requires that the assets acquired or received and/or liabilities assumed constitute a function. If the assets acquired or received and/or liabilities assumed do not constitute a function, the reporting entity shall account for the transaction or other event as in accordance with the applicable Standard of GRAP.

.24 This Standard defines a transfer of functions as the reorganisation and/or the re-allocation of functions between entities by transferring functions between entities or into another entity. The transfer of functions must be undertaken between entities not under common control. An acquirer might obtain control of an acquiree in a variety of ways, for example:

(a) by transferring cash, cash equivalents or other assets (including net assets that constitute a function);

(b) by incurring liabilities;

(c) by exchanging residual interests;

(d) by providing more than one type of consideration; or

(e) without transferring consideration, including through a binding arrangement.

.25 A transfer of functions between entities not under common control may be structured in a variety of ways, which include but are not limited to:

(a) one or more functions become controlled entities of an acquirer or the net assets of one or more functions are legally acquired or received by the acquirer; or

(b) one entity transfers its net assets, or its owners transfer their residual interests, to another entity or its owners.

The acquisition method of accounting

.26 An entity shall account for each transfer of functions between entities not under common control by applying the acquisition method of accounting.

.27 Applying the acquisition method of accounting requires:

(a) identifying the acquirer;

(b) determining the acquisition date;

(c) recognising and measuring the identifiable assets acquired or received, the liabilities assumed and any non-controlling interests in the acquiree; and

(d) recognising the difference between (c) and the consideration transferred to the seller.

Identifying the acquirer

.28 For each transfer of functions between entities not under common control, the party that gains control of one or more functions shall be identified as the acquirer.

.29 The terms and conditions of a transfer of functions between entities not under common control are set out in a binding arrangement. In a transfer of functions, it is assumed that one of the parties to the transaction or event can be identified as the acquirer. The binding arrangement governing the terms and conditions of a transfer of

functions may identify which entity to the transaction or event is the combining entities and which entity is the acquirer.

.30 In a transfer of functions effected primarily by transferring cash or other assets (where applicable) and/or by incurring liabilities, the acquirer is usually the entity that transfers the cash or other assets (where applicable), incurs the liabilities or transfers the non-controlling interests.

.31 In a transfer of functions effected primarily by exchanging residual interests, the acquirer is the entity that does not experience a change in control.

.32 In a transfer of functions involving more than one entity, one of the entities that existed before the transaction or event may be identified as the acquirer on the basis of available evidence available. For example, if the management of one of the entities involved in the transfer of functions dominates the selection of the management team in the newly establish entity, the dominant entity is usually the acquirer.

.33 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. If no acquirer can be identified, the transaction or event should be accounted for in terms of GRAP 107.

Determining the acquisition date

.34 The acquirer shall identify the acquisition date, which is the date on which it obtains control of the acquiree.

.35 The binding arrangement governing the terms and conditions of a transfer of functions between entities not under common control may specify that the transaction or event is effective from a specific date. The date on which the acquirer obtains control of one or more functions is generally the date on which the acquirer transfers the consideration (if any), and/or acquires or receive the assets, assumes the liabilities, and acquires or receives any non-controlling interests of the acquiree as identified to in the binding arrangement – closing date. However, the acquirer may obtain control on a date that is either earlier or later than the closing date. For example, legislation passed in Parliament on 1 April 20X1 requires Department A to take over the functions of Department B. The Departments are not within the same economic entity as they are not within the same sphere of government. A directive is issued stating that the effective date of the transfer is 1 June 20X1. Department A however only obtains control of the assets and liabilities on 1 July 20X1 through a memorandum of understanding drawn up between the two Departments. As Department A can only use or otherwise benefit from the transfer of functions 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. An acquirer should consider all relevant facts and circumstances in identifying the acquisition date.

.36 The fact that a binding arrangement exists creates an obligation for either one or both of the parties to act in order to fulfil the terms and conditions of the arrangement. This means that under the binding arrangement, the acquirer has an enforceable claim over the acquiree either, to relinquish control of the entity, or over the assets, liabilities and non-controlling interests of the function to be transferred.

Recognising the identifiable assets acquired or received, the liabilities assumed and any non-controlling interests in the acquiree

Recognition principle

.37 As of the acquisition date, the acquirer shall recognise, the identifiable assets acquired or received, the liabilities assumed and any non-controlling interests in the acquiree. Recognition of identifiable assets acquired or received, liabilities assumed, and any non-controlling interests is subject to the conditions specified in paragraphs .38 to .40.

Recognition conditions

.38 To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired or received and/or liabilities assumed must meet the definitions of assets or liabilities in the *Framework for the Preparation and Presentation of Financial Statements*[2] (the Conceptual Framework) and the recognition criteria in the applicable Standards of GRAP at the acquisition date. For example, costs the acquirer expects but is not obliged to incur in the future to effect its plan to exit an activity of an acquiree or to terminate the employment of or relocate an acquiree's employees are not liabilities at the acquisition date. Therefore, the acquirer does not recognise those costs as part of applying the acquisition method. Instead, the acquirer recognises those costs in its post-combination financial statements in accordance with other Standards of GRAP.

.39 In addition, to qualify for recognition as part of applying the acquisition method, the identifiable assets acquired or received, liabilities assumed, and any non-controlling interests must be part of what the acquirer and the acquiree agreed in the binding arrangement rather than the result of separate transactions. The acquirer should apply the guidance in paragraphs .99 to .105 to determine which assets acquired or received, liabilities assumed and any non-controlling interests are part of the transfer of functions for the acquiree and which, if any, are the result of separate transactions to be accounted for in accordance with their nature and the applicable Standards of GRAP.

.40 The acquirer's application of the recognition principle and conditions may result in recognising some assets, liabilities and non-controlling interests that the acquiree had

[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*.

not previously recognised as assets, liabilities and non-controlling interests in its financial statements. For example, the acquirer recognises the acquired or received identifiable intangible assets, such as, a patent, that the acquiree did not recognise as assets in its financial statements because it developed them internally and charged the related costs to expense.

.41 Paragraphs .42 to .48 provide guidance on recognising operating leases and intangible assets. Paragraphs .64 to .78 specify the types of identifiable assets and/or liabilities that include items for which this Standard provides limited exceptions to the recognition principle and conditions.

Operating leases

.42 The acquirer should not recognise assets and/or liabilities related to an operating lease in which the acquiree is the lessee except as required by paragraphs .43 and .44.

.43 The acquirer should determine whether the terms of each operating lease in which the acquiree is the lessee are favourable or unfavourable. The acquirer should recognise an intangible asset if the terms of an operating lease are favourable relative to market terms and a liability if the terms are unfavourable relative to market terms. Paragraph .59 provides guidance on measuring the acquisition-date fair value of assets subject to operating leases in which the acquiree is the lessor.

.44 An identifiable intangible asset may be associated with an operating lease, which may be evidenced by market participants' willingness to pay a price for the lease even if it is at market terms.

Intangible assets

.45 The acquirer should separately recognise the identifiable intangible assets acquired or received in a transfer of functions. An intangible asset is identifiable if it meets either the separability criterion or the contractual-legal right criterion.

.46 An intangible asset that meets the contractual-legal right criterion is identifiable even if the asset is not transferable or separable from the acquiree or from other rights and obligations. For example:

(a) An acquiree leases a manufacturing facility under an operating lease that has terms that are favourable relative to market terms. The lease terms explicitly prohibit transfer of the lease (through either sale or sublease). The amount by which the lease terms are favourable compared with the terms of current market transactions for the same or similar items is an intangible asset that meets the contractual-legal right criterion for separate recognition, even though the acquirer cannot sell or otherwise transfer the lease contract.

(b) An acquiree owns and operates a power plant. The licence to operate that power plant is an intangible asset that meets the contractual-legal right criterion for separate recognition, even if the acquirer cannot sell or transfer it separately from the acquired or received power plant. An acquirer may recognise the fair value of the operating licence and the fair value of the power plant as a single asset for financial reporting purposes if the useful lives of those assets are similar.

(c) An acquiree owns a technology patent. It has licensed that patent to others for their exclusive use outside the domestic market, receiving a specified percentage of future foreign revenue in exchange. Both the technology patent and the related licence agreement meet the contractual-legal right criterion for separate recognition separately even if selling or exchanging the patent and the related licence agreement separately from one another would not be practical.

.47 The separability criterion means that an acquired or received intangible asset is capable of being separated or divided from the acquiree and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset and/or liability. An intangible asset that the acquirer would be able to sell, licence or otherwise exchange for something else of value meets the separability criterion even if the acquirer does not intend to sell, licence or otherwise exchange it. An acquired or received intangible asset meets the separability criterion if there is evidence of exchange transactions for that type of asset or an asset of a similar type, even if those transactions are infrequent and regardless of whether the acquirer is involved in them. For example, lists of users of a service are frequently licenced and thus meet the separability criterion. Even if an acquiree believes its lists of users of a service have characteristics different from other lists, the fact that lists of users of a service are frequently licenced generally means that the transferred list of users of a service meets the separability criterion. However, a list of users of a service acquired or received in a transfer of functions would not meet the separability criterion if the terms of confidentiality or other agreements prohibit an entity from selling, leasing or otherwise exchanging information about its users of a service.

.48 An intangible asset that is not individually separable from the acquiree meets the separability criterion if it is separable in the transfer of functions with a related contract, identifiable asset and/or liability. For example:

(a) Market participants exchange deposit liabilities and related depositor relationship intangible assets in observable exchange transactions. Therefore, the acquirer should recognise the depositor relationship intangible asset separately.

(b) An acquiree owns a registered trademark and documented but unpatented technical expertise used to manufacture the trademarked product. To transfer ownership of a trademark, the owner is also required to transfer everything else necessary for the new owner to produce a product or service indistinguishable from that produced by the former owner. Because the unpatented technical expertise must be separated from the acquiree and sold if the related trademark is sold, it meets the separability criterion.

Assembled workforce and other items that are not identifiable

.49 The acquirer subsumes into the calculation of the resulting excess the value of an acquired or received intangible asset that is not identifiable as of the acquisition date. For example, an acquirer may attribute value to the existence of an assembled workforce, which is an existing collection of employees that permits the acquirer to continue to operate from the acquisition date. An assembled workforce does not represent the intellectual capital of the skilled workforce — the (often specialised) knowledge and experience that employees of an acquiree bring to their jobs. Because the assembled workforce is not an identifiable asset to be recognised separately from resulting excess, any value attributed to it is subsumed into calculation of the resulting excess.

.50 The acquirer also subsumes into the resulting excess any value attributed to items that do not qualify as assets at the acquisition date. For example, the acquirer might attribute value to potential binding arrangements the acquiree is negotiating at the acquisition date. Because those potential binding arrangements are not themselves assets at the acquisition date, the acquirer does not recognise them separately from the resulting excess. The acquirer should not subsequently reclassify the value of those binding arrangements from the resulting excess for events that occur after the acquisition date. However, the acquirer should assess the facts and circumstances surrounding events occurring shortly after the transfer of functions to determine whether a separately recognisable intangible asset existed at the acquisition date.

.51 After initial recognition, an acquirer accounts for intangible assets acquired or received in a transfer of functions in accordance with the provisions of the Standard of GRAP on I*ntangible Assets* (GRAP 31). However, as described in paragraph .04 of GRAP 31, the accounting for some acquired or received intangible assets after initial recognition is prescribed by other Standards of GRAP.

.52 The identifiability criteria determine whether an intangible asset is recognised separately from the resulting excess. However, the criteria neither provide guidance for measuring the fair value of an intangible asset nor restrict the assumptions used in measuring the fair value of an intangible asset. For example, the acquirer would take into account the assumptions that market participants would use when pricing the intangible asset, such as expectations of future renewals of binding arrangements, in measuring fair value. It is not necessary for the renewals themselves to meet the identifiability criteria. (However, see paragraph .43, which establishes an exception to the fair value measurement principle for reacquired rights recognised in a transfer of functions.)

Classifying or designating identifiable assets acquired or received liabilities assumed an any non-controlling interests in a transfer of functions

.53 At the acquisition date, the acquirer shall classify or designate the identifiable assets acquired or received, liabilities assumed or any non-controlling interests

as necessary to subsequently apply other Standards of GRAP subsequent to the acquisition date. The acquirer shall make those classifications or designations on the basis of the terms of the binding arrangement, economic conditions, its operating or accounting policies and other relevant conditions as they exist at the acquisition date.

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

(a) classification of particular financial assets and/or liabilities as a financial asset and/or liability at fair value or amortised cost in accordance with the Standard of GRAP on *Financial Instruments* (GRAP 104);

(b) assessment of whether an embedded derivative should be separated from the host contract in accordance with GRAP 104.

.55 This Standard provides two exceptions to the principle in paragraph .54:

(a) classification of a lease contract as either an operating lease or a finance lease in accordance with the Standard of GRAP on *Leases* (GRAP 13); and

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

The acquirer should classify those contacts on the basis of the terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the acquisition date).

Measurement principle

.56 The acquirer shall measure the identifiable assets acquired or received, the liabilities assumed and non-controlling interests at their acquisition-date fair values.

.57 For each transfer of functions, the acquirer should measure at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either:

(a) fair value; or

(b) the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets.

All other components of non-controlling interests should be measured at their acquisition-date fair values, unless another measurement basis is required by the Standards of GRAP.

Measuring the fair value of particular identifiable assets and non-controlling interests in an acquiree in a transfer of functions

Assets with uncertain cash flows (valuation allowances)

.58 The acquirer should not recognise a separate valuation allowance as of the acquisition date for assets acquired or received in a transfer of functions that are measured at their acquisition-date fair values because the effects of uncertainty about future cash flows are included in the fair value measure. For example, because this Standard requires the acquirer to measure acquired or received receivables, including loans, at their acquisition-date fair values in accounting for a transfer of functions, the acquirer does not recognise a separate valuation allowance for the cash flows of the binding arrangement that are deemed to be uncollectible at that date.

Assets subject to operating leases in which the acquiree is the lessor

.59 In measuring the acquisition-date fair value of an asset such as a building or a patent that is subject to an operating lease in which the acquiree is the lessor, the acquirer should take into account the terms of the lease. In other words, the acquirer does not recognise a separate asset and/or liability if the terms of an operating lease are either favourable or unfavourable when compared with market terms as paragraph .43 requires for leases in which the acquiree is the lessor.

Assets that the acquirer intends not to use or to use in a way that is different from the way other market participants would use them

.60 For security or other reasons, the acquirer may intend not to use an acquired or received non-financial asset actively. For example, that might be the case for an acquired or received research and development intangible asset that the acquirer plans to use defensively by preventing others from using it. Nevertheless, the acquirer should measure the fair value of the non-financial asset, both initially and when measuring fair value less costs of disposal for subsequent impairment testing.

Non-controlling interests in an acquiree

.61 This Standard allows the acquirer to measure a non-controlling interest in the acquiree at its fair value at the acquisition date. The acquirer should measure the fair value of the non-controlling interest using valuation techniques, unless a quoted price can be obtained for any equity shares in an active market. In these instances, the acquirer should determine the acquisition-date fair value of a non-controlling interest with reference to the quoted price in an active market for the equity shares (i.e. those not held by the acquirer).

.62 Paragraphs .64 to .78 specify the types of identifiable assets and/or liabilities that include items for which this Standard provides limited exceptions to the recognition or measurement principle.

Exceptions to the recognition or measurement principles

.63 This Standard provides limited exceptions to its recognition and measurement principles. Paragraphs .64 to .78 specify both the particular items for which exceptions are provided and the nature of those exceptions. The acquirer should account for those items by applying the requirements in paragraphs .64 to .78, which will result in some items being:

(a) Recognised either by applying recognition conditions in addition to those in paragraphs .38 and .39 or by applying the requirements of other Standards of GRAP, with results that differ from applying the recognition principle and conditions.

(b) Measured at an amount other than their acquisition-date fair values.

Exceptions to the recognition principles

Contingent liabilities and contingent assets

.64 The Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets* (GRAP 19) defines a contingent liability as:

(a) a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

(b) a present obligation that arises from past events but is not recognised because:

(i) it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or

(ii) the amount of the obligation cannot be measured with sufficient reliability.

.65 The acquirer should recognise as of the acquisition date a contingent liability assumed in a transfer of functions if it is a present obligation that arises from past events and its fair value can be measured reliably. Therefore, contrary to GRAP 19 paragraphs .21(b), .30, .34, .36 and .37, the acquirer recognises a contingent liability assumed in a transfer of functions where consideration is transferred at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation. Paragraph .108 of this Standard provides guidance on the subsequent accounting for contingent liabilities.

.66 GRAP 19 defines a contingent asset as "a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity". The acquirer should not recognise a contingent asset at the acquisition date.

Liabilities and contingent liabilities within the scope of the GRAP 19 or the Interpretation of the Standard of GRAP on *Liabilities to Pay Levies* (IGRAP 19)

.67 Paragraph .68 applies to liabilities and contingent liabilities that would be within the scope of GRAP 19 or IGRAP 19 if they were incurred separately rather than assumed in a transfer of functions.

.68 The Conceptual Framework[2] defines a liability as "a present obligation of the entity for an outflow of resources that results from a past event". For a provision or contingent liability that would be within the scope of GRAP 19, the acquirer shall apply GRAP 19 paragraphs .22 to .29 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IGRAP 19, the acquirer shall apply the Interpretation to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

.69 A present obligation identified in accordance with paragraph .68 might meet the definition of a contingent liability set out in paragraph .64(b). If so, paragraph .65 applies to that contingent liability.

Transfers, concessionary loans and similar benefits received by an acquirer or acquiree on the basis of criteria that may change as a result of a transfer of functions

.70 A transfer, concessionary loan or similar benefit, previously received by an acquirer or an acquiree on the basis of criteria that change as a result of a transfer of functions, should be reassessed prospectively in accordance with other Standards of GRAP.

Income taxes (where included in the terms of the transfer of functions)

.71 Transfer of functions by an entity may result in a tax authority forgiving amounts of tax due as part of the terms of the transfer of functions. The acquirer should not recognise any taxation items that are forgiven as a result of the terms of the transfer of functions.

.72 The acquirer should recognise and measure any remaining taxation items included in or arising from a transfer of functions in accordance with the IFRS Accounting Standard on *Income Taxes* (IAS 12). The acquirer entity should recognise and measure any remaining revenue from taxation included in or arising from a transfer of functions in accordance with the Standard of *Revenue from Non-exchange Transactions (Taxes and Transfers)* (GRAP 23).

Forgiveness of amounts of tax due in a transfer of functions (where included in the terms of the transfer of functions)

.73 The acquirer should not recognise any amounts in respect of an acquiree's tax due where these amounts have been forgiven by a tax authority as part of the terms of the transfer of functions. Where tax forgiveness occurs subsequent to a transfer of functions, the acquirer applies the requirements in paragraph .114. The acquirer should account for an acquiree's tax due that has not been forgiven by a tax authority in accordance with IAS 12.

.74 If the acquirer is itself the tax authority, it should derecognise any tax receivable relating to the acquiree's tax due that has been forgiven in accordance with GRAP 23.

.75 If, as a consequence of the terms of a transfer of functions, a tax authority forgives an amount of the acquirer's tax due, the acquirer should derecognise those amounts in accordance with IAS 12.

Exceptions to both the recognition and measurement principles

Employee benefits

.76 The acquirer should recognise and measure a liability and/or an asset related to the acquiree's employee benefit arrangements in accordance with the Standard of GRAP on *Employee Benefits*.

Indemnification assets

.77 The seller in a transfer of functions may contractually indemnify the acquirer for the outcome of a contingency or uncertainty related to all or part of a specific asset and/or liability. For example, the seller may indemnify the acquirer against losses above a specified amount on a liability arising from a particular contingency; in other words, the seller will guarantee that the acquirer's liability will not exceed a specified amount. As a result, the acquirer obtains an indemnification asset. The acquirer should recognise an indemnification asset at the same time that it recognises the indemnified item measured on the same basis as the indemnified item, subject to the need for a valuation allowance for uncollectible amounts. Therefore, if the indemnification relates to an asset and/or a liability that is recognised at the acquisition date and measured at its acquisition-date fair value, the acquirer should recognise the indemnification asset at the acquisition date measured at its acquisition-date fair value. For an indemnification asset measured at fair value, the effects of uncertainty about future cash flows because of collectability considerations are included in the fair value measure and a separate valuation allowance is not necessary (paragraph .58 provides related guidance).

.78 In some circumstances, the indemnification may relate to an asset and/or a liability that is an exception to the recognition or measurement principles. For example, an indemnification may relate to a contingent liability that is not recognised at the acquisition date because its fair value is not reliably measurable at that date. Alternatively, an indemnification may relate to an asset and/or a liability, for example, one that results from an employee benefit that is measured on a basis other than acquisition-date fair value. In those circumstances, the indemnification asset should be recognised and measured using assumptions consistent with those used to measure the indemnified item, subject to management's assessment of the collectability of the indemnification asset and any contractual limitations on the indemnified amount. Paragraph .109 provides guidance on the subsequent accounting for an indemnification asset.

Exceptions to the measurement principle

Reacquired rights

.79 The acquirer should measure the value of a reacquired right recognised as an intangible asset on the basis of the remaining contractual term of the binding arrangement regardless of whether market participants would consider potential renewals of the binding arrangement when measuring fair value. Paragraphs .80 and .81 provide related guidance.

.80 As part of a transfer of functions, an acquirer may reacquire a right that it had previously granted to the acquiree to use one or more of the acquirer's recognised or unrecognised assets. Examples of such rights include a right to use the acquirer's technology under a technology licencing agreement. A reacquired right is an intangible asset that the acquirer recognises separately from the difference between the identifiable assets acquired and liabilities assumed and the consideration transferred (if any). Paragraph .79 provides guidance on measuring a reacquired right and paragraph .107 provides guidance on the subsequent accounting for a reacquired right.

.81 If the terms of the binding arrangement giving rise to a reacquired right are favourable or unfavourable relative to the terms of current market transactions for the same or similar items, the acquirer should recognise a settlement gain or loss. Paragraph .103 provides guidance for measuring that settlement gain or loss.

Recognising and measuring the difference between the assets acquired or received, liabilities assumed, any non-controlling interests and the consideration transferred (if any)

.82 The acquirer shall recognise the difference between the assets acquired or received, liabilities assumed any non-controlling interests and the consideration transferred (if any) as of the acquisition date in surplus or deficit. This difference is measured as the excess of (a) over (b) below:

(a) The aggregate of:

(i) the consideration transferred (if any) measured in accordance with this Standard, which generally requires acquisition-date fair value (see paragraph .87);

(ii) the amount of any non-controlling interest in the acquiree measured in accordance with this Standard; and

(iii) in a transfer of functions achieved in stages (see paragraphs .91 and .92), the acquisition-date fair value of the acquirer's previously held residual interest in the acquiree.

(b) The net of the acquisition-date amounts of the identifiable assets acquired or received, liabilities assumed and any non-controlling interests measured

in accordance with this Standard.

.83 In a transfer of functions in which the acquirer and the acquiree exchange only residual interests, the acquisition-date fair value of the acquiree's residual interests may be more reliably measurable than the acquisition-date fair value of the acquirer's residual interests. If so, the acquirer should determine the resulting excess by using the acquisition-date fair value of the acquiree's residual interests instead of the acquisition-date fair value of the residual interests transferred. To determine the resulting excess in a transfer of functions in which no consideration is transferred, the acquirer should use the acquisition-date fair value of the acquirer's interest in the acquiree in place of the acquisition-date fair value of the consideration transferred (paragraph .82(a)(i)).

Measuring the acquisition-date fair value's of the acquirer's interest in the acquiree using valuation techniques

.84 In a transfer of functions achieved without the transfer of consideration, the acquirer must substitute the acquisition-date fair value of its interest in the acquiree for the acquisition-date fair value of the consideration transferred to measure the resulting excess (see paragraphs .82 and .83).

A non-exchange transfer without the transfer of consideration

.85 An entity often obtains control of a function in a non-exchange transaction in which it transfers no consideration. Such circumstances include, but are not limited to:

(a) the transfer of a function to the entity by a donor for no consideration. Such transfers may take the form of a bequest; and

(b) the transfer of a function to the entity where the function has net liabilities. The entity may accept the acquisition or receipt of net liabilities to prevent the cessation of the function.

.86 The acquirer that obtains control of an acquiree in a non-exchange transaction in which it transfers no consideration recognises a surplus or deficit in accordance with paragraph .82.

Consideration transferred

.87 The consideration transferred in a transfer of functions should be measured at fair value, which should be calculated as the sum of the acquisition-date fair values of the assets acquired or received by the acquirer, the liabilities incurred by the acquirer, any non-controlling interests. Examples of potential forms of consideration include cash, other assets, a function or a controlled entity of the acquirer, contingent consideration, equity instruments, options, warrants and other owner interests.

.88 The consideration transferred may include assets, liabilities, and non-controlling interests of the acquirer that have carrying amounts that differ from their fair values at the acquisition date (for example, non-monetary assets or a function of the acquirer). If so, the acquirer should remeasure the transferred assets, liabilities, and non-

controlling interests to their fair values as of the acquisition date and recognise the resulting gains or losses, if any, in surplus or deficit. However, sometimes the transferred assets, liabilities and non-controlling interests remain within the new entity after the transfer of function (for example, because the assets, liabilities and non-controlling interests were transferred to the acquiree rather than to its former owners), and the acquirer therefore retains control of them. In that situation, the acquirer should measure those assets, liabilities and non-controlling interests at their carrying amounts immediately before the acquisition date and shall not recognise a gain or loss in surplus or deficit on assets, liabilities and non-controlling interests it controls both before and after the transfer of functions.

Contingent consideration

.89 The consideration the acquirer transfers in exchange for the acquiree includes any assets, liabilities and non-controlling interests resulting from a contingent consideration arrangement (see paragraph .87). The acquirer should recognise the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree.

.90 The acquirer should classify an obligation to pay contingent consideration that meets the definition of a financial instrument as a financial liability or as net assets on the basis of the definitions of a residual interest and a financial liability in GRAP 104. The acquirer should classify as an asset a right to the return of previously transferred consideration if specified conditions are met. Paragraph .113 provides guidance on the subsequent accounting for contingent consideration.

A transfer of functions achieved in stages

.91 An acquirer sometimes obtains control of an acquiree in which it held a residual interest immediately before the acquisition date. For example, on 31 March 20X1, Entity A holds a 35 per cent non-controlling interest in Entity B. On that date, Entity A purchases an additional 40 per cent interest in Entity B, which gives it control of Entity B. This Standard refers to such a transaction as a transfer of functions achieved in stages, sometimes also referred to as a step transfer of functions.

.92 In a transfer of functions achieved in stages, the acquirer should remeasure its previously held residual interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in surplus or deficit. In prior reporting periods, the acquirer may have recognised changes in the value of its residual interest in the acquiree in surplus or deficit. If so, the amount that was recognised in surplus or deficit should be recognised on the same basis as would be required if the acquirer had disposed directly of the previously held residual interest.

Measurement period

.93 If the initial accounting for a transfer of functions is incomplete by the end of the reporting period in which the transfer occurs, the acquirer shall report in its

financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the acquirer shall also recognise additional assets, ~~or~~ liabilities and any non-controlling interests if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets, ~~or~~ liabilities and any non-controlling interests as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed two years from the acquisition date.

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

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

(b) the consideration transferred, if any, for the acquiree;

(c) in a transfer of functions achieved in stages, the interest in the acquiree previously held by the acquirer; and

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

The information necessary to identify and measure the identifiable assets, liabilities and any non-controlling interests in the acquiree will generally be available at the acquisition date. However, this may not be the case where the acquiree has previously prepared their financial statements using different accounting policies.

.95 The acquirer should consider all relevant factors in determining whether information obtained after the acquisition date should result in an adjustment to the provisional amounts recognised or whether that information results from events that occurred after the acquisition date. Relevant factors include the date when additional information is obtained and whether the acquirer can identify a reason for a change to provisional amounts. Information that is obtained shortly after the acquisition date is more likely to reflect circumstances that existed at the acquisition date than is

information obtained several months later. For example, unless an intervening event that changed its fair value can be identified, the sale of an asset to a third party shortly after the acquisition date for an amount that differs significantly from its provisional fair value determined at that date is likely to indicate an error in the provisional amount.

.96 The acquirer recognises an increase (decrease) in the provisional amount recognised for an identifiable asset, liability and any non- controlling interests by means of decreasing (increasing) the excess of the purchase consideration paid (if any) over the fair value of the assets acquired or received, liabilities assumed and any non-controlling interests previously recognised in surplus or deficit. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset, liability and any non-controlling interests. For example, the acquirer might have assumed a liability to pay damages related to an accident in one of the acquiree's facilities, part or all of which are covered by the acquiree's liability insurance policy. If the acquirer obtains new information during the measurement period about the acquisition-date fair value of that liability, the adjustment to the resulting excess 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 previously recognised excess in surplus of deficit resulting from a change to the provisional amount recognised for the claim receivable from the insurer.

.97 During the measurement period, the acquirer should recognise adjustments to the provisional amounts as if the accounting for the transfer of functions had been completed at the acquisition date. Thus, the acquirer should revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation, amortisation or other income effects recognised in completing the initial accounting.

.98 After the measurement period ends, the acquirer should revise the accounting for a transfer of functions only to correct an error in accordance with the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* (GRAP 3).

Determining what is part of the transfer of functions transaction

.99 The acquirer and the acquiree may have a pre-existing relationship or other relationship before or when negotiations for the transfer of functions began, or they may enter into a binding arrangement during the negotiations that is separate from the transfer of functions, i.e. amounts that are not part of that transferred by the acquiree. In either situation, the acquirer shall identify any amounts that are not part of what the acquirer and the acquiree exchanged in the transfer of functions. The acquirer shall apply this Standard only to the consideration transferred (if any) and the identifiable assets acquired or received, liabilities assumed and any non-controlling interests acquired or

received by the acquirer in the transfer of functions as governed by the terms and conditions of the binding arrangement. Apart from the transactions identified in paragraphs .102 and .103, separate transactions shall be accounted for in accordance with the applicable Standards of GRAP.

.100 A transaction entered into by or on behalf of the acquirer or primarily for the benefit of the acquirer, rather than primarily for the benefit of the acquiree before the transfer of functions, is likely to be a separate transaction. The following are examples of separate transactions that are not to be included in applying the acquisition method:

(a) a transaction that in effect settles pre-existing relationships between the acquirer and acquiree;

(b) a transaction that reimburses the acquiree or its former owners for paying the acquirer's acquisition-related costs; and

(c) contributions received from third parties as compensation for future services as a result of undertaking a transfer of functions.

Paragraphs .101 to .104 provide related guidance.

.101 The acquirer should consider the following factors, which are neither mutually exclusive nor individually conclusive, to determine whether a transaction is part of the transfer of functions or whether the transaction is separate from the transfer of functions:

(a) **The reasons for the transaction** — Understanding the reasons why the parties to the transfer of functions entered into a particular transaction or arrangement may provide insight into whether it is part of the consideration transferred, if any, and the assets acquired, received or transferred and/or liabilities assumed or relinquished. For example, if a transaction is arranged primarily for the benefit of the acquirer rather than primarily for the benefit of the acquiree before the transfer of function, that portion of the consideration (and any related assets and/or liabilities) is less likely to be part of the exchange of the acquiree. Accordingly, the acquirer would account for that portion separately from the transfer.

(b) **Who initiated the transaction** — Understanding who initiated the transaction may also provide insight into whether it is part of the exchange for the acquiree. For example, a transaction or other event that is initiated by the acquirer may be entered into for the purpose of providing future economic benefits or service potential to the acquirer with little or no benefit received by the acquiree before the transfer of functions. On the other hand, a transaction or arrangement initiated by the acquiree is less likely to be for the benefit of the acquirer and more likely to be part of the transfer of functions transaction.

(c) **The timing of the transaction** — The timing of the transaction may also provide insight into whether it is part of the transfer of functions. For example, a

transaction between the acquirer and acquiree that takes place during the negotiations of the terms of the transfer of functions may have been entered into in contemplation of the transfer of functions to provide future economic benefits or service potential to the acquirer. If so, the acquiree or its former owners before the transfer of functions are likely to receive little or no benefit from the transaction except for benefits they receive as part of the transfer of functions.

Effective settlement of a pre-existing relationship between the acquirer and acquiree in a transfer of functions (application of paragraph .100(a))

.102 The acquirer and acquiree may have a relationship that existed before they contemplated the transfer of functions, referred to here as a "pre-existing relationship". A pre-existing relationship between the acquirer and acquiree may be contractual (for example, vendor or supplier) or non-contractual (for example, plaintiff and defendant).

.103 If the transfer of functions in effect settles a pre-existing relationship, the acquirer recognises a gain or loss, measured as follows:

(a) for a pre-existing non-contractual relationship (such as a lawsuit), fair value.

(b) for a pre-existing contractual relationship, the lesser of (i) and (ii):

(i) The amount by which the binding arrangement is favourable or unfavourable from the perspective of the acquirer when compared with terms for current market transactions for the same or similar items. (An unfavourable contract is a contract that is unfavourable in terms of current market terms. It is not necessarily an onerous contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.)

(ii) The amount of any stated settlement provisions in the binding arrangement available to the counterparty to whom the binding arrangement is unfavourable.

If (ii) is less than (i), the difference is included as part of the transfer of functions accounting. The amount of gain or loss recognised may depend in part on whether the acquirer had previously recognised a related asset and/or liability, and the reported gain or loss therefore may differ from the amount calculated by applying the above requirements.

.104 A pre-existing relationship may be a contract that the acquirer recognises as a reacquired right. If the binding arrangement includes terms that are favourable or unfavourable when compared with pricing for current market transactions for the same or similar items, the acquirer recognises, separately from the transfer of functions, a gain or loss for the effective settlement of the contract, measured in accordance with paragraph .103.

Acquisition-related costs

.105 Acquisition-related costs are costs the acquirer incurs to effect a transfer of functions. Those costs include finders fees, advisory, legal, accounting, valuation and other professional or consulting fees, general administrative costs including the costs of maintaining an internal acquisitions department, and any costs of registering and issuing debt and equity securities. The acquirer should account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities (if applicable) should be recognised in accordance with GRAP 104.

Subsequent measurement and accounting

.106 In general, an acquirer shall subsequently measure and account for assets acquired or received, liabilities assumed or incurred and the residual interest issued in a transfer of functions in accordance with other 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, liabilities assumed or incurred and residual interest issued in a transfer of functions:

(a) reacquired rights;

(b) contingent liabilities recognised as of the acquisition date;

(c) indemnification assets;

(d) contingent consideration;

(e) transfers, concessionary loans and similar benefits acquired or received by an acquirer or acquiree on the basis of criteria that may change as a result of a transfer of functions; and

(f) income taxes (where not included in the terms of the transfer of functions).

Reacquired rights

.107 A reacquired right recognised as an intangible asset should be amortised over the remaining period of the contract 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 acquirer should test the right for impairment at least annually, and whenever there is an indication that the right may be impaired. An acquirer that subsequently sells a reacquired right to a third party should include the carrying amount of the intangible asset in determining the gain or loss on the sale.

Contingent liabilities

.108 After initial recognition and until the liability is settled, cancelled or expires, the acquirer should measure a contingent liability recognised in a transfer of functions at

the higher of:

(a) the amount that would be recognised in accordance with GRAP 19; and

(b) the amount initially recognised less, if appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on *Revenue from Exchange Transactions*.

This requirement does not apply to contracts accounted for in accordance with GRAP 104.

Indemnification assets

.109 At the end of each subsequent reporting period, the acquirer should measure an indemnification asset that was recognised at the acquisition date on the same basis as the indemnified liability and/or asset, subject to any limitations as set in the binding arrangement on its amount and, for an indemnification asset that is not subsequently measured at its fair value, management's assessment of the collectability of the indemnification asset. The acquirer should derecognise the indemnification asset only when it collects the asset, sells it or otherwise loses the right to it.

Transfers, concessionary loans and similar benefits acquired or received by an acquirer or acquiree on the basis of criteria that may change as a result of a transfer of functions

.110 Prior to a transfer of functions taking place, an acquirer or an acquiree may acquire or receive a transfer from a third party, based on specified criteria. For example, a national government may provide grants to those municipalities where the municipality's revenue per head of population is below a threshold. A transfer of functions by a municipality of a cash-generating operation may increase the revenue per head of population of the municipality so that it is above the threshold. This may cause the government to review the grant.

.111 The acquirer should not account for any revisions to the grant amount as part of the transfer of functions, but accounts for any revisions at the point the grantor makes its intentions known in accordance with other Standards of GRAP.

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

Contingent consideration

.113 Some changes in the fair value of contingent consideration that the acquirer recognises after the acquisition date may be the result of additional information that the acquirer obtained after that date about facts and circumstances that existed at the acquisition date. Such changes are measurement period adjustments in accordance with paragraphs .93 to .97. However, changes resulting from events after the acquisition date, such as meeting a performance target, or reaching a milestone on a research and development project, are not measurement period adjustments. The acquirer should account for changes in the fair value of contingent consideration that are not measurement period adjustments as follows:

(a) Contingent consideration classified as net assets should not be remeasured and its subsequent settlement should be accounted for within net assets.

(b) Other contingent consideration that:

(i) is within the scope of GRAP 104 should be measured at fair value at each reporting period and changes in fair value should be recognised in surplus or deficit in accordance with that Standard of GRAP; or

(ii) is not within the scope of GRAP 104 shall be measured at fair value at each reporting period and changes in fair value shall be recognised in surplus or deficit.

Income taxes (where not included in the terms of the transfer of functions)

.114 Transfer of functions involving public sector entities may result in a tax authority forgiving amounts of tax subsequent to the transfer of functions. The acquirer should account for the tax forgiven prospectively in accordance with IAS 12.

.115 Examples of other Standards of GRAP that provide guidance on subsequently measuring and accounting for assets received and liabilities assumed or incurred in a transfer of functions include:

(a) GRAP 31 prescribes the accounting for identifiable intangible assets acquired or received in a transfer of functions.

(b) The IFRS Accounting Standard(s) on insurance provides guidance on the subsequent accounting for an insurance contract acquired or received in a transfer of functions.

(c) GRAP 35 provides guidance on accounting for changes in a controlling entity's ownership interest in a controlled entity after control is obtained.

.116 An acquirer should refer to the relevant International Standard(s) for guidance on subsequently measuring and accounting for insurance contracts and IAS 12.

Disclosures

.117 The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a transfer of functions 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.

.118 To meet the objective in paragraph .117, the acquirer shall disclose the following information for each transfer of functions that occurs during the reporting period:

(a) The name and a description of the acquiree.

(b) The acquisition date.

(c) The percentage of voting rights acquired through a residual interest.

(d) The primary reasons for the transfer of functions and a description of how the acquirer obtained control of the acquiree, including, where applicable, the legal basis for the transfer of functions.

(e) The acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as:

(i) cash;

(ii) other tangible or intangible assets, including a function or controlled entity of the acquirer;

(iii) liabilities incurred, for example, a liability for contingent consideration; and

(iv) residual interests of the acquirer, including the number of instruments or interests issued or issuable and the method of measuring the fair value of those instruments or interests.

(f) For contingent consideration arrangements and indemnification assets:

(i) the amount recognised as of the acquisition date;

(ii) a description of the arrangement and the basis for determining the amount of the payment; and

(iii) an estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, the acquirer shall disclose that fact.

(g) For acquired or received receivables:

(i) the fair value of the receivables;

(ii) the gross contractual amounts receivable; and

(iii) the best estimate at the acquisition date of the contractual cash flows not expected to be collected.

The disclosures should be provided by major class of receivable, such as loans, direct finance leases and any other class of receivables.

(h) The amounts recognised as of the acquisition date for each major class of assets acquired or received, liabilities assumed and non-controlling interests.

(i) For each contingent liability recognised in accordance with paragraph .65, the information required in paragraph .99 of GRAP 19. If a contingent liability is not recognised because its fair value cannot be measured reliably, the acquirer shall disclose:

(i) the information required by paragraph .101 of GRAP 19; and

(ii) the reasons why the liability cannot be measured reliably.

(j) Additional contingent liabilities and contingent assets assumed or acquired or received in the transfer of functions.

(k) For transactions that are recognised separately from the acquisition or receipt of assets, assumption of liabilities and the acquisition or receipt of any non-controlling interests in the transfer of functions in accordance with paragraph .99:

(i) a description of each transaction;

(ii) how the acquirer accounted for each transaction;

(iii) the amounts recognised for each transaction and the line item in the financial statements in which each amount is recognised; and

(iv) if the transaction is the effective settlement of a pre-existing relationship, the method used to determine the settlement amount.

(l) The disclosure of separately recognised transactions required by (j) shall include the amount of acquisition-related costs and, separately, the amount of those costs recognised as an expense and the line item or items in the statement of financial performance in which those expenses are recognised. The amount of any issue costs not recognised as an expense and how they were recognised should also be disclosed.

(m) For each transfer of function in which the acquirer holds less than 100 per cent of the residual interests in the acquiree at the acquisition date:

(i) the amount of the non-controlling interest in the acquiree recognised at the acquisition date and the measurement basis for that amount; and

(ii) for each non-controlling interest in an acquiree measured at fair value, the valuation technique(s) and significant inputs used to measure that value.

(n) In a transfer of functions achieved in stages:

(i) the acquisition-date fair value of the residual interest in the acquiree held by the acquirer immediately before the acquisition date; and

(ii) the amount of any gain or loss recognised as a result of remeasuring to fair value the residual interest in the acquiree held by the acquirer before the transfer of functions (see paragraph .92) and the line item in the consolidated statement of financial performance in which that gain or loss is

recognised.

(o) The following information:

(i) the amounts of revenue and expense, and the surplus or deficit of the acquiree since the acquisition date included in the consolidated statement of financial performance for the reporting period; and

(ii) the revenue and expense, and the surplus or deficit of the acquirer for the current reporting period as though the acquisition date for all transfer of functions that occurred during the year had been as of the beginning of the annual reporting period.

If disclosure of any of the information required by this subparagraph is impracticable, the acquirer should disclose that fact and explain why the disclosure is impracticable. This Standard uses the term "impracticable" with the same meaning as in GRAP 3.

.119 The acquirer shall disclose the difference between the assets acquired or received, liabilities assumed, any non-controlling interests and the consideration transferred (if any), as a separate line item in the statement of financial performance.

.120 For individually immaterial transfer of functions occurring during the reporting period that are material collectively, the acquirer shall disclose in aggregate the information required by paragraphs .118(e) to (o).

.121 If the acquisition date of a transfer of functions is after the end of the reporting period but before the financial statements are authorised for issue, the acquirer should disclose the information required by paragraph .118 unless the initial accounting for the transfer of functions is incomplete at the time the financial statements are authorised for issue. In that situation, the acquirer should describe which disclosures could not be made and the reasons why they cannot be made.

.122 The acquirer meets the needs of the users of its financial statements for information about the acquiree prior to the transfer of functions by making the disclosures in paragraph .118(o).

.123 The acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognised in the current reporting period that relate to transfer of functions that occurred in the period or previous reporting periods.

.124 To meet the objective in paragraph .123, the acquirer shall disclose the following information for each material transfer of functions or in the aggregate for individually immaterial transfer of functions that are material collectively:

(a) If the initial accounting for a transfer of functions is incomplete (see paragraph .93) for particular assets, liabilities, non-controlling interests or items of consideration and the amounts recognised in the financial

statements for the transfer of functions thus have been determined only provisionally:

(i) the reasons why the initial accounting for the transfer of functions is incomplete;

(ii) the assets, liabilities, residual interest or items of ~~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 .97.

(b) For each reporting period after the acquisition date until the entity collects, sells or otherwise loses the right to a contingent consideration asset, or until the entity settles a contingent consideration liability or the liability is cancelled or expires:

(i) any changes in the recognised amounts, including any differences arising upon settlement;

(ii) any changes in the range of outcomes (undiscounted) and the reasons for those changes; and

(iii) the valuation techniques and key model inputs used to measure contingent consideration.

(c) For contingent liabilities recognised in a transfer of functions, the acquirer shall disclose the information required by paragraphs .107 and .108 of GRAP 19 for each class of provision.

(d) The amount and an explanation of any gain or loss recognised in the current reporting period that both:

(i) relates to the identifiable assets acquired or received, ~~or~~ liabilities assumed and any non-controlling interests in a transfer of functions that was effected in the current or previous reporting period; and

(ii) is of such a size, nature or incidence that disclosure is relevant to understanding the acquirer's financial statements.

(e) If amounts of tax due are forgiven as a result of the terms of the transfer of functions (see paragraphs .67 and .68).

.125 If the specific disclosures required by this and other Standards of GRAP do not meet the objectives set out in paragraphs .118 and .124, the acquirer shall disclose whatever additional information is necessary to meet those objectives.

Transitional provisions

Initial adoption of the Standards of GRAP

.126 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 shall be read in conjunction with each applicable directive.

Effective date

Initial adoption of the Standards of GRAP

.127 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 (PFMA), as amended.

Withdrawal of the Standard of GRAP on *Transfer of Functions Between Entities Not Under Common Control* (2010)

.128 This Standard supersedes the Standard of GRAP on *Transfer of Functions Between Entities Not Under Common Control* issued in 2010.

Appendix A – Application guidance

This appendix is an integral part of this Standard.

***Optional test to identify concentration of fair value* (see paragraph .15)**

AG1. Paragraph .15 allows an entity to apply, or not apply an optional test (the concentration test). The concentration test is a simplified assessment to decide if an acquired or received set of activities and assets and/or liabilities is not a function. An entity may make such an election separately for each transaction or other event

AG2. The concentration test is met, i.e the activities, assets and/or liabilities is not a function, if substantially all of the fair value of the gross assets acquired or received is concentrated in a single identifiable asset or group of similar identifiable assets. For the concentration test:

(a) the fair value of the gross assets acquired or received should exclude cash and cash equivalents;

(b) the fair value of the gross assets acquired or received should include any consideration transferred (plus the fair value of any non-controlling interest and the fair value of any previously held interest) in excess of the fair value of net assets acquired or received. The fair value of the gross assets acquired or received may normally be determined as the total obtained by adding the fair value of the consideration transferred (plus the fair value of any non-controlling interest and the fair value of any previously held interest) to the fair value of the liabilities assumed, and then excluding the items identified in subparagraph (a). However, if the fair value of the gross assets acquired or received is more than that total, a more precise calculation may sometimes be needed;

(c) a single identifiable asset should include any asset or group of assets that would be recognised and measured as a single identifiable asset in a transfer of functions;

(d) if a tangible asset is attached to, and cannot be physically removed and used separately from, another tangible asset (or from an underlying asset subject to a lease, as defined in GRAP 13, without incurring significant cost, or significant diminution in utility or fair value to either asset (for example, land and buildings), those assets should be considered a single identifiable asset;

(e) when assessing whether assets are similar, an entity should consider the nature of each identifiable single asset and the risks associated with managing and creating outputs from the assets (that is, the risk characteristics); and

(f) the following should not be considered similar assets:

(i) a tangible asset and an intangible asset;

(ii) tangible assets in different classes (for example, inventory, infrastructure and vehicles) unless they are considered a single identifiable asset in accordance with the criterion in subparagraph (d);

(iii) intangible assets in different classes (for example, brand names, licences and intangible assets under development);

(iv) a financial asset and a non-financial asset;

(v) financial assets in different classes (for example, accounts receivable and investments in residual interests); and

(vi) assets that are within the same class of asset but have significantly different risk characteristics.

AG3. The requirements in paragraph AG2. do not modify the guidance on similar assets in GRAP 31, nor do they modify the meaning of the term "class" in the Standard of GRAP on *Property, Plant and Equipment*, GRAP 31 and GRAP 104.

AG4. Applying the concentration test has the following consequences:

(a) if the concentration test is met, the set of activities and assets and/or liabilities is not a function and no further assessment is needed; or

(b) if the concentration test is not met, or if the entity elects not to apply the test, the entity should assess if a particular set of activities and assets and/or liabilities meets the definition of a function (see paragraph .16).

AG5. For the definition of a function to be met, paragraph .17 explains that, to be considered a function, an acquired or received set of activities and assets and/or liabilities must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Assessing if an acquired or received process is substantive (see paragraph .17)

AG6. Paragraphs AG7. to AG10. explain how to assess whether an acquired or received process is substantive if the transferred set of activities and assets and/or liabilities does not have outputs (paragraph AG8.) and if it does have outputs (paragraph AG10.).

AG7. An example of an acquired or received set of activities and assets and/or liabilities that does not have outputs at the acquisition date is an early-stage entity that has not started providing good and/or services. Moreover, if an acquired or received set of activities and assets and/or liabilities have future economic benefits or service potential at the acquisition date, it is considered to have outputs at that date, even if subsequently it will no longer has future economic benefits or service potential, for example because it will be integrated by the acquirer.

AG8. If a set of activities and assets and/or liabilities does not have outputs at the acquisition date, an acquired or received process (or group of processes) should be considered substantive only if:

(a) it is critical to the ability to develop or convert an acquired or received input or inputs into outputs; and

(b) the inputs acquired or received include both an organised workforce that has the necessary skills, knowledge or experience to perform that process (or group of processes) and other inputs that the organised workforce could develop or convert into outputs. An organised workforce is a workforce that understands and knows how to operate the process that is acquired or received as part of the transfer, to create the outputs. The outputs could include:

(i) intellectual property that could be used to develop a good or service;

(ii) other resources that could be developed to create outputs; or

(iii) rights to obtain access to necessary materials or rights that enable the creation of future outputs.

Examples of the inputs mentioned in subparagraphs (b)(ii) to (iii) include technology, and in-process research and development projects.

AG9. If a set of activities and assets and/or liabilities has outputs at the acquisition date, an acquired or received process (or group of processes) should be considered substantive if, when applied to an acquired or received input or inputs, it:

(a) is critical to the ability to continue producing outputs, and the inputs acquired or received include an organised workforce with the necessary skills, knowledge or experience to perform that process (or group of processes); or

(b) significantly contributes to the ability to continue producing outputs and;

(i) is considered unique or scarce; or

(ii) cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

AG10. The following additional discussion supports both paragraphs AG8. and AG9.:

(a) An acquired or received contract is an input and not a substantive process. Nevertheless, an acquired or received contract, for example a contract for outsourced asset management, may give access to an organised workforce. An entity should assess whether an organised workforce accessed through such a contract performs a substantive process that the entity controls, and thus has been acquired or received. Factors to be considered in making that assessment include the duration of the contract and its renewal terms.

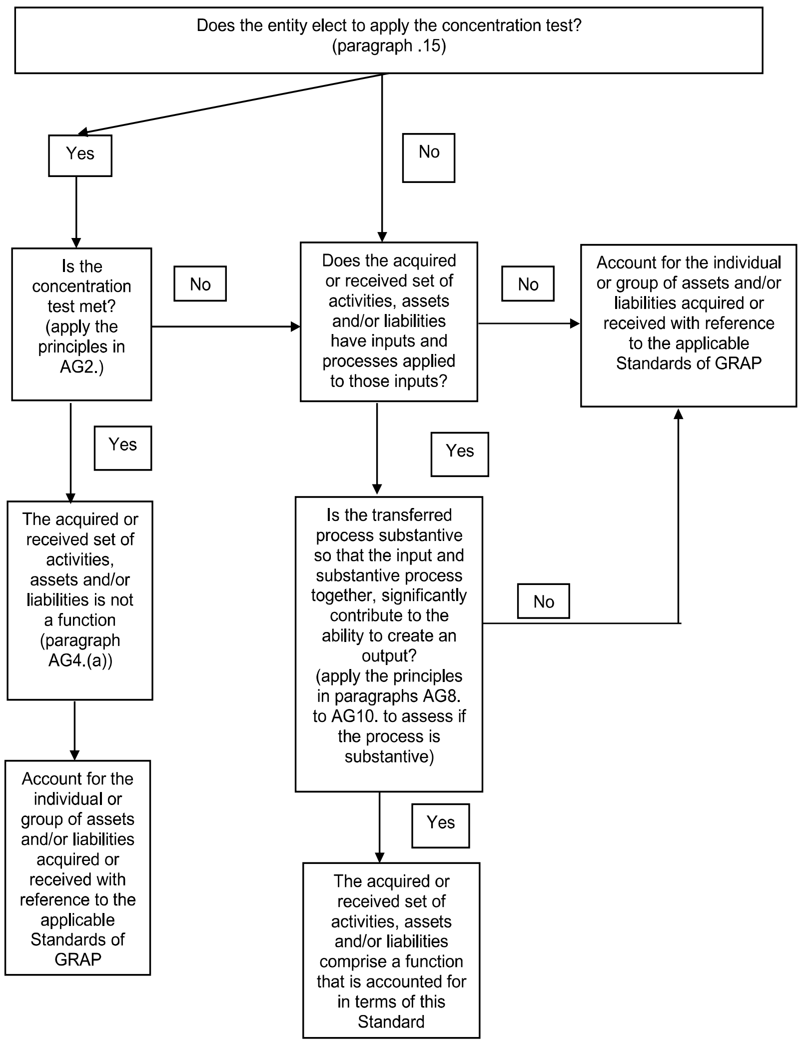
(b) Difficulties in replacing an acquired or received organised workforce may

indicate that the acquired or received organised workforce performs a process that is critical to the ability to create outputs.

(c) A process (or group of processes) is not critical if, for example, it is ancillary or minor within the context of all the processes required to create outputs.

AG11. The following diagram explains the steps and related accounting to be applied to assess if an acquired or received set of activities, assets and/or liabilities where an entity elects, or not, to apply the concentration test, is a function.

Is a set of activities, and assets and/or liabilities, where an entity elects, or not elect to apply the concentration test, a function?



Appendix B - 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.

B1. 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 106 ***Transfer of Functions Between Entities Not Under Common Control***

Transitional provisions

.91 ***The requirements ~~in~~of GRAP 106 (revised 2023) shall be applied prospectively to a transaction or event that involves a transfer of functions when the acquisition date is on or after the ~~initial~~ adoption of ~~the Standard~~ GRAP 106 (revised 2023). The transitional provisions should be read in conjunction with the requirements on the measurement period as included in GRAP 106 (revised 2023) paragraphs .~~71~~93 to .~~76~~98 ~~of this Standard~~.***

.92 [Deleted] ~~GRAP 105 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 transfer of functions where the acquisition date preceded the adoption of the Standard, should not be adjusted upon initial adoption of the Standard.~~

.93 [Deleted] ~~On the initial adoption of the Standard, the opening balance of any recognised goodwill, that arose from a transfer of functions where the acquisition date preceded the adoption of GRAP 106, should be recognised against accumulated surplus or deficit for the earliest period presented.~~

B2. DIRECTIVE 3 *Transitional Provisions for High Capacity Municipalities*

Amend and delete the following paragraphs in Directive 3:

GRAP 106 ***Transfer of Functions Between Entities Not Under Common Control***

Transitional provisions

.102 ***The requirements of~~in~~ GRAP 106 (revised 2023) shall be applied prospectively to a transaction or event that involves a transfer of functions when the acquisition date is on or after the ~~initial~~ adoption of ~~the Standard~~ GRAP 106***

(revised 2023). The transitional provisions should be read in conjunction with the requirements on the measurement period as included in GRAP 106 (revised 2023) paragraphs .~~71~~93 to .98~~76 of the Standard~~.

.103 [Deleted] ~~GRAP 106 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 transfer of functions where the acquisition date preceded the adoption of the Standard, should not be adjusted upon initial adoption of the Standard.~~

.104 [Deleted] ~~On the initial adoption of the Standard, the opening balance of any recognised goodwill, that arose from a transfer of functions where the acquisition date preceded the adoption of GRAP 106, should be recognised against accumulated surplus or deficit for the earliest period presented.~~

B3. DIRECTIVE 4 *Transitional Provisions for Medium and Low Capacity Municipalities and Trading Entities*

Amend and delete the following paragraphs in Directive 4:

GRAP 106 *Transfer of Functions Between Entities Not Under Common Control*

Transitional provisions

.129 The requirements of~~in~~ GRAP 106 (revised 2023) shall be applied prospectively to a transaction or event that involves a transfer of functions when the acquisition date is on or after the ~~initial~~ adoption of ~~the Standard~~ GRAP 106 (revised 2023). The transitional provisions should be read in conjunction with the requirements on the measurement period as included in GRAP 106 (revised 2023) paragraphs .~~71~~93 to .~~76~~98 ~~of the Standard~~.

.130 [Deleted] ~~GRAP 106 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 transfer of functions where the acquisition date preceded the adoption of the Standard, should not be adjusted upon initial adoption of the Standard.~~

.131 [Deleted] ~~On the initial adoption of the Standard, the opening balance of any recognised goodwill, that arose from a transfer of functions where the acquisition date preceded the adoption of GRAP 106, should be recognised against accumulated surplus or deficit for the earliest period presented.~~

B4. DIRECTIVE 8 *Transitional Provisions for Parliament and Provincial Legislatures*

Amend and delete the following paragraphs in Directive 8:

GRAP 106 *Transfer of Functions Between Entities Not Under Common Control*

Transitional provisions

.90 The requirements ~~in~~of GRAP 106 (revised 2023) shall be applied prospectively to a transaction or event that involves a transfer of functions when the acquisition date is on or after the ~~initial~~ adoption of ~~the Standard~~ GRAP 106 (revised 2023). The transitional provisions should be read in conjunction with the requirements on the measurement period as included in GRAP 106 (revised 2023) paragraphs .~~71~~93 to .~~76~~98 ~~of the Standard~~.

.91 [Deleted] ~~GRAP 106 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 transfer of functions where the acquisition date preceded the adoption of the Standard, should not be adjusted upon initial adoption of the Standard.~~

.92 [Deleted] ~~On the initial adoption of the Standard, the opening balance of any recognised goodwill, that arose from a transfer of functions where the acquisition date preceded the adoption of GRAP 106, should be recognised against accumulated surplus or deficit for the earliest period presented.~~

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));

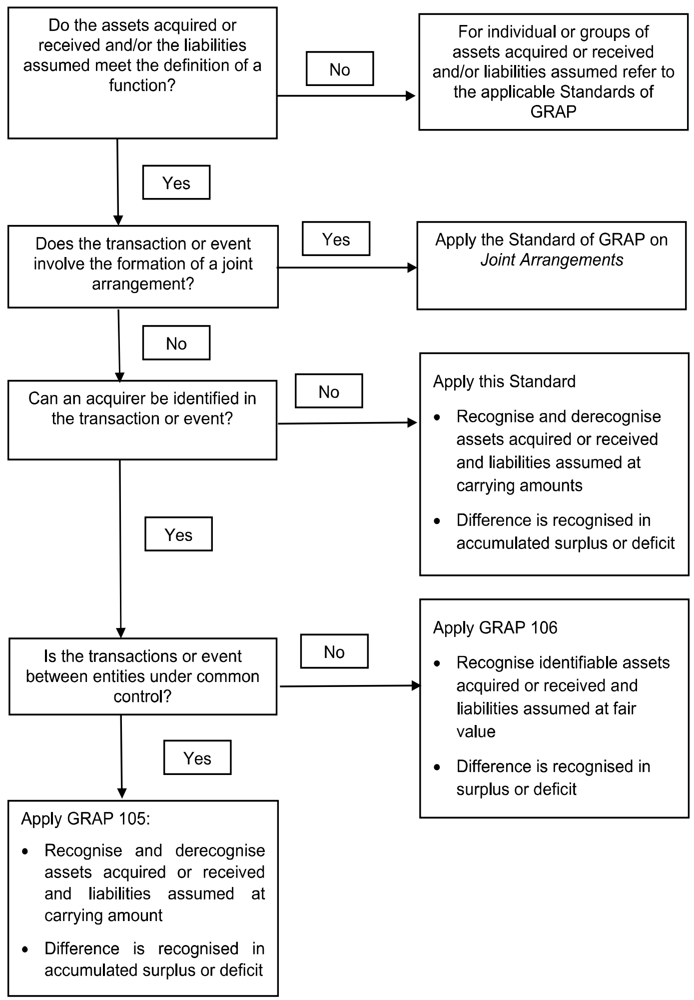
(b) a transfer of functions between entities not under common control (see the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106)); and

(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:



Definitions

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

A <u>binding arrangement</u> 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.

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

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

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

<u>Control:</u> 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 <u>merger</u> 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.

<u>Merger date</u> 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 <u>transfer of functions</u> 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.~~

MINISTER OF FINANCE
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2025 -06- 24 1 of 9
FILE No: M3/4/3/3/10
MINISTER OF FINANCE
1070/2025

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MEMORANDUM

TO	Minister of Finance, Mr Enoch Godongwana, MP
FROM	Accountant-General, Mr Shabeer Khan
DIVISION	Office of the Accountant-General
DATE	17 June 2025

APPROVAL OF REGULATIONS UNDER SECTION 91 OF PUBLIC FINANCE MANAGEMENT ACT, 1999

1. PURPOSE

To request the Minister, in terms of section 91(4) of the Public Finance Management Act, 1999 (Act No. 1 of 1999 – the Act), to make regulations prescribing the following amended Standards of Generally Recognised Accounting Practice (GRAP), in the *Gazette* (**Annexure A**):

a. GRAP 1 on *Presentation of Financial Statements*;

b. GRAP 103 on *Heritage Assets*;

c. GRAP 105 on *Transfers of Functions Between Entities Under Common Control*;

d. GRAP 106 on *Transfers of Functions Between Entities Not Under Common Control*; and

e. GRAP 107 on *Mergers*.

2. INTRODUCTION AND BACKGROUND

2.1 Section 91 of the Act provides as follows:

"(1) The Minister, after consulting the Auditor-General, may make regulations—

(a) ….;

(b) prescribing the standards set by the Board in terms of section 89; and

(c) …..

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEMORANDUM

SUBJECT: APPROVAL OF REGULATIONS UNDER SECTION 91 OF PUBLIC FINANCE MANAGEMNET ACT, 1999 PRACTICE

(2) *The Minister must consult the Board on the implementation date of a regulation made in terms of subsection (1)(b).*

(3) *Different regulations may be made in terms of subsection (1) (b) for different categories of institutions to which the standards set in terms of section 89 apply.*

(4) *Draft regulations prescribing standards in terms of subsection (1) (b) must be published for public comment in the national Government Gazette before their enactment.".*

2.2 The National Treasury, in accordance with section 91(4) of the PFMA and with approval from the Minister, published the draft regulations in the Gazette for public comment (**Annexure B**). The comment period closed on 31 October 2024.

2.3 In addition, the Minister requested comments from the Auditor-General and the Chairperson of the Accounting Standards Board (ASB) on the proposed regulation as required in terms of section 91(1)(b) and 91(2) of the PFMA.

3. COMMENTS RECEIVED ON THE PROPOSED REGLATIONS

Public comment received

3.1 A comment letter was received from the South Africa Chapter of the Association of Certified Fraud Examiners (ACFE SA), dated 22 November 2024 reflects a strong emphasis on enhancing financial transparency, fraud prevention, and forensic accountability within the public sector (**Annexure C**).

3.2 While the ACFE SA expressed overall support for the proposed amendments to the Standards of GRAP, their submission also highlights areas where additional measures, mainly related to fraud risk mitigation and forensic oversight could, in their view, further enhance the effectiveness of the standards.

3.3 The detailed recommendations submitted by ACFE SA, along with the corresponding views of the Office of the Accountant-General (OAG), are set out in the table below for ease of reference. While ACFE SA's recommendations are noted, it is important to highlight that the Standards of GRAP are designed to address the broader information needs of users of financial statements, with a focus on accountability, transparency, and sound financial reporting. As such, they do not primarily serve as instruments for fraud risk mitigation, which

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEMORANDUM

SUBJECT: APPROVAL OF REGULATIONS UNDER SECTION 91 OF PUBLIC FINANCE MANAGEMNET ACT, 1999 PRACTICE

is more appropriately addressed through internal controls, audit frameworks, and governance mechanisms external to the accounting standards themselves.

ACFE SA recommendation	OAG view on recommendation
GRAP 1 on Presentation of Financial Statements	
Include explicit guidelines on fraud-related disclosures, such as material misstatements and risk mitigation measures.	GRAP 1 promotes transparent and understandable presentation of financial statements. While it allows for disclosure of material risks and uncertainties, including those related to fraud where relevant, its primary objective is not to prescribe fraud-specific reporting. Broader fraud mitigation efforts are addressed through audit standards and governance frameworks
GRAP 103 on Heritage Assets	
Require periodic independent valuations and disclosure of safeguarding controls.	GRAP 103 requires entities to disclose the basis for valuing heritage assets and the nature of these assets. While safeguards and independent valuations support good governance, such operational controls fall outside the scope of the accounting standard. These aspects are better addressed through asset management policies of a reporting entity.
GRAP 105 on Transfers of Functions Under Common Control	
Require detailed reporting of transferred assets and liabilities, including fair value assessments.	GRAP 105 reflects the continuation of control and therefore prescribes the use of carrying amounts. Entities are encouraged to provide additional disclosures where useful, but detailed fair value reporting is not required. Fraud prevention objectives should be managed through appropriate due diligence and governance controls during the transfer process.
GRAP 106 on Transfers Not Under Common Control	
Require forensic reviews where there are significant valuation discrepancies.	While GRAP 106 requires fair value measurement and relevant disclosures, the commissioning of

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEMORANDUM

SUBJECT: APPROVAL OF REGULATIONS UNDER SECTION 91 OF PUBLIC FINANCE MANAGEMNET ACT, 1999 PRACTICE

ACFE SA recommendation	OAG view on recommendation
	forensic reviews falls outside the scope of financial reporting standards. This is a governance matter that should be managed through internal control systems and audit planning.
GRAP 107: Mergers	
Implement mandatory post-merger forensic audits.	GRAP 107 addresses the accounting treatment of mergers, including recognition and measurement principles. Forensic audits are operational tools governed by institutional risk management practices and should not be embedded in accounting standards.
Capacity Building	
Provide training on the updated GRAP standards, with attention to fraud-prone areas.	The OAG and the ASB are committed to supporting implementation of these amendments through guidance. The GRAP Knowledge Hub will serve as a central platform to provide accessible, user-friendly guidance on the amendments to the Standards of GRAP. While the focus of the standards remains on financial reporting, complementary governance and fraud risk considerations can be addressed through supplementary materials and coordinated stakeholder engagement.
Enhanced Disclosure Requirements	
Mandate disclosure of fraud risks, investigations, and mitigation efforts.	GRAP allows entities to disclose information necessary for users to understand financial performance and position. However, fraud-specific disclosures, in an entity's annual report, are more appropriately governed by legislation, internal control frameworks, and audit standards rather than accounting guidance.
Alignment with Forensic Objectives	

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEMORANDUM

SUBJECT: APPROVAL OF REGULATIONS UNDER SECTION 91 OF PUBLIC FINANCE MANAGEMNET ACT, 1999 PRACTICE

ACFE SA recommendation	OAG view on recommendation
Require the use of forensic auditors for high-risk transactions.	While the recommendation promotes robust governance, such operational matters fall outside the remit of accounting standards. Oversight bodies and audit committees are better placed to determine the appropriate use of forensic audit expertise based on risk.
Phased Implementation	
Introduce phased implementation timelines with support for smaller entities.	The effective date of the amended Standards of GRAP has been deliberately deferred to allow entities sufficient time to prepare for implementation. This approach provides a de facto phased implementation period, enabling public entities, especially those with capacity constraints, to familiarise themselves with the changes and access the necessary support, including guidance from the GRAP Knowledge Hub.

3.4 ACFE SA's submission will be shared with the Accounting Standards Board (ASB) for their consideration, given their role in developing and maintaining the Standards of GRAP. The Office of the Accountant-General will also engage with the ASB and other relevant stakeholders to assess whether any additional guidance or support materials are needed to address the practical considerations raised, particularly in areas where the concerns intersect with broader governance, risk management, and accountability frameworks.

3.5 No other public comments were received during and/or after the comment period.

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEMORANDUM

SUBJECT: APPROVAL OF REGULATIONS UNDER SECTION 91 OF PUBLIC FINANCE MANAGEMNET ACT, 1999 PRACTICE

Comments from stakeholders: ASB and AGSA

3.7 The ASB has confirmed that, in line with its Due Process Handbook, effective dates for new or amended Standards of GRAP are generally set to provide preparers with at least one full year to implement the required changes. While the ASB initially proposed an effective date of **1 April 2026**, it has, in its correspondence to the Minister dated 12 June 2025, recommended that the effective date be extended by one year to **1 April 2027**, due to delays in finalising the approval process (**Annexure D**).

3.8 The Auditor-General of South Africa (AGSA) supports the proposed effective date of **1 April 2026** for the amendments to GRAP 105, GRAP 106, and GRAP 107 (**Annexure E**). The AGSA notes that:

3.8.1 The amendments incorporate relevant guidance from IPSAS 40 on Public Sector Combinations and updated definitions from IFRS 3 on Business Combinations, to improve consistency and clarity in application.

3.8.2 The changes do not alter the core principles of the standards but are expected to enhance understandability and ease of implementation.

3.8.3 While the effective date provides slightly less than the usual lead time, it remains sufficient given that these are amendments to existing standards, not entirely new standards.

3.9 The OAG takes note of the comments received from both the ASB and the Auditor-General regarding the proposed effective date for the amendments to the Standards of GRAP. While the AGSA supports the original effective date of **1 April 2026**, the ASB has subsequently recommended, via its letter dated 12 June 2025, that the effective date be deferred to **1 April 2027**. The OAG supports this recommendation, as it aligns with the ASB's own Due Process Handbook, which provides for a minimum of one year between approval and effective date to allow for adequate implementation. This approach will support a more orderly and well-prepared transition for preparers, auditors, and other stakeholders.

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEMORANDUM

SUBJECT: APPROVAL OF REGULATIONS UNDER SECTION 91 OF PUBLIC FINANCE MANAGEMNET ACT, 1999 PRACTICE

4. RECOMMENDATION

It is recommended that Minister-

a. notes the comments received on the proposed regulations and the responses; and

b. in terms of section 91(1)(b) and (c) of the Public Finance Management Act, 1999, makes the regulations prescribing the Standards of GRAP with the indicated implementation date of **1 April 2027** as set out in **Annexure A.**

Compiled by Lindy Bodewig, Chief Director: Technical Support Services

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEMORANDUM

SUBJECT: APPROVAL OF REGULATIONS UNDER SECTION 91 OF PUBLIC FINANCE MANAGEMNET ACT, 1999 PRACTICE

RECOMMENDED   NOT RECOMMENDED   RECOMMENDED WITH COMMENTS

Signature
Name and Surname:
Shabeer Khan
Title: Accountant-General
Date:

Or SignHub Signature

Signed by:SHABEER HAMID KHAN
Signed at:2025-06-19 14:20:49 +02:00
Reason:Witnessing SHABEER HAMID K

Shabeer Khan

RECOMMENDED   NOT RECOMMENDED   RECOMMENDED WITH COMMENTS

Signature
Name and Surname:
Empie van Schoor
Title: Acting Deputy Director-General: Office of the General Counsel
Date:

Or SignHub Signature

Signed by:Susanna Magdalena Krull
Signed at:2025-06-19 14:37:12 +02:00
Reason:Witnessing Susanna Magdalena

☒ RECOMMENDED   ☐ NOT RECOMMENDED   ☐ RECOMMENDED WITH COMMENTS

S. Khan

Signature
Name and Surname:
pp **Duncan Pieterse**
Title: Director-General (Acting)
Date: 24/6/2025

Or SignHub Signature

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEMORANDUM

SUBJECT: APPROVAL OF REGULATIONS UNDER SECTION 91 OF PUBLIC FINANCE MANAGEMNET ACT, 1999 PRACTICE

☒ **APPROVED** ☐ **NOT APPROVED** ☐ **COMMENTS**

Signature
Name and Surname:
Mr Enoch Godongwana, MP
Title: Minister of Finance
Date: 25/06/2025

Or SignHub Signature

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GOVERNMENT NOTICE

NATIONAL TREASURY

PUBLIC FINANCE MANAGEMENT ACT, 1999

REGULATIONS ON ACCOUNTING STANDARDS

The Minister of Finance, acting in terms of section 91(1)(b) and (c) of the Public Finance Management Act, 1999 (Act No. 1 of 1999), has made regulations prescribing the following standards of generally recognised accounting practice set out in the Schedule with an implementation date of 1 April 2027:

(a) GRAP 1 on Presentation of Financial Statements (Revised 2022);

(b) GRAP 103 on Heritage Assets (Revised 2022);

(c) GRAP 105 on Transfers of Functions Between Entities Under Common Control (Revised 2023);

(d) GRAP 106 on Transfers of Functions Between Entities Not Under Common Control (Revised 2023); and

(e) GRAP 107 on Mergers (Revised 2023);

SCHEDULE