National Public Entities CFO Forum

20 November 2024

ACCOUNTING STANDARDS BOARD

Disclaimer

The views and opinions expressed in this presentation are those of the individual. Official positions of the ASB on accounting matters are determined only after extensive due process and deliberation.

GRAP 104 Financial Instruments (revised 2019)

Are you ready for GRAP 104 (revised)?

Ready for GRAP 104?

Effective date: 1 April 2025

- GRAP 104 fit
  - Understand the new requirements
  - Familiar with how the changes will affect your entity
- Understand where and how to obtain information to apply the revised Standard
- Processes and systems changes
- Gather historical data for retrospective application

Key changes

- Why the change?
  - Changes in IFRS 9 and IPSAS 41 - to address shortcomings in the classification and measurement of financial instruments that were highlighted during the financial crisis.
- Most significant changes:
  - Scope - financial guarantee contracts and some loan commitments now in scope. Previously GRAP 19.
  - Classification - same number of categories, classification principles substantially changed.
  - Subsequent measurement – impairment model

Scope

- Financial guarantee contracts and loan commitments now in GRAP 104, not GRAP 19.

Financial guarantee contracts

- Financial guarantees versus other guarantees.
- Initial measurement at fair value - usually equal to consideration received.
- Subsequently at higher of fair value less amortisation and ECL.

Scope

Loan commitments

- Not all loan commitments fall in the scope of GRAP 104.
- Initial measurement at fair value - usually equal to consideration received.
- Subsequently at higher of fair value less amortisation and ECL.
- Measurement of *commitments to provide concessionary loans* includes the value of any social benefit provided.

Classification

Classification of financial assets

	Old GRAP 104	New GRAP 104
Amortised cost	Non-derivative Fixed or determinable payments Not held for trading or designated at fair value	Management model – hold to collect cash flows Solely payments of principal and interest
Fair value	Derivatives, held for trading, designated at fair value	Management model – hold + sell, sell Do not meet SPPI

Impairment

Change in impairment model

Financial assets at amortised cost

Old GRAP 104	New GRAP 104
Incurred loss model Focusses on historical data Does not allow for timely action	Expected credit loss model Past, current and future data More timely decision making

New model

- Two step approach ➡ 1) Determine the period over which credit losses calculated and 2) Determine ECL.
- Probability weighted

<table>
<tr><th colspan="4">Impairment</th></tr>
<tr><th>Financial performance</th><th colspan="3">Financial position</th></tr>
<tr><td rowspan="3">Impairment gain or loss = amount of expected credit losses (ECL) to adjust the loss allowance [based on either lifetime or 12 month losses] at reporting date.

ECL: weighted average of credit losses with the respective risks of a default occurring as the weights.</td><td colspan="3">Loss allowance</td></tr>
<tr><td rowspan="2">Step 1: Period over which losses calculated</td><td>Significant change in credit risk
- 12 month or
- Lifetime
[Indicators]</td><td>Lifetime for receivables and lease receivables</td></tr>
<tr><td>• Significant change in credit risk = risk of default occurring.
• Assess change in default between reporting date and initial recognition.
• Default not later than 90 days past due.
• Significant change in credit risk if 30 days past due.
• Individual or collective basis.
• Group based on common risk characteristics.
• Use reasonable and supportable information without undue cost and effort.</td><td>No significant change for instruments with low credit risk.</td></tr>
</table>

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<tr><td rowspan="2">Step 2: Calculate expected credit losses</td><td>Credit loss is PV of difference between cash flows (CF) due under contract vs amount an entity expects to receive.</td><td>Include collateral, unless not used.</td></tr>
<tr><td>• Probability weighted estimate of credit losses over 12 months or lifetime.
• Consider what CF an entity expects to receive, and when they will be received.
• Discounted using EIR or CAEIR.
• Use reasonable and supportable information, available without undue cost or effort → past events, current conditions and forecasts of future economic conditions.
• Consider economic conditions of borrower, general economic conditions, and current & forecast conditions.
• Internal / external data or peer group.</td><td>Provision matrix for receivables</td></tr>
</table>

Transitional provisions

What are they?

- Provide direction to preparers to implement the new GRAP requirements.
- Explain how the requirements should be applied on initial adoption (1 April 2025 or earlier if chosen).

Where to find it?

- Approved and not yet effective ➡ GRAP 104
  ➡ Final transitional provisions for GRAP 104
- Will be incorporated in the relevant Directives when effective.
- It is the same in all the Directives, i.e. requirements are the same for all types of entities.

Transitional provisions

General provisions

General provisions

Retrospective application per GRAP 3 with some relief

- Apply retrospectively - as if that policy had always been applied.
- **Not required to restate prior period.** Adjust opening balance of net assets of current period.

Retrospective application vs Retrospective restatement

General provisions

- Do not apply to financial instruments (FI) that have already been derecognised at the date of adoption.
- May early adopt – adopt entire Standard. Piecemeal adoption not permitted.
- Date of **initial adoption** = date when entity first applies the requirements.

Transitional provisions

Specific provisions

Classification and measurement

- On the date of initial adoption, entity assesses whether financial assets are held within a management model whose objective is to hold the assets in order to collect contractual cash flows.
- Based on the facts and circumstances that exist at that date of initial adoption.
- Resulting classification applied retrospectively irrespective of the entity's management model in prior reporting periods.

Classification and measurement

- At the date of initial adoption, entity may designate a financial asset as measured at fair value through surplus or deficit (FVSD).
- Designation based on the facts and circumstances that exist at that date of initial adoption.
- Classification applied retrospectively.

Impairment

- Apply retrospectively - entities measure impairment losses using expected credit losses (ECL) at the date of adoption.
- Not required to restate comparative information. Recognise adjustments to carrying amount in the opening accumulated surplus or deficit.

Impairment

- At the date of initial adoption, entity uses *reasonable and supportable information that is available without undue cost or effort* to determine the credit risk at the date that the FI was initially recognised and compare that to the credit risk at the date of initial adoption.
- If there would be undue cost and effort to determine whether there has been a significant increase in credit risk, entity recognises a loss allowance at an amount equal to a lifetime ECL at each reporting date until that financial instrument is derecognised.

Disclosure

- Quantitative disclosure in a table format
  - Previous classification, current classification and carrying amounts for both classifications
  - FI previously measured at FVSD, now reclassified to amortised cost distinguishing between those that the Standard requires an entity to reclassify and those that an entity elects to reclassify.
- Reconcile previous measurement categories and asset classes with new categories and asset classes.
- Reconcile ending impairment allowances to opening loss allowances.

Disclosure

- Additional disclosures for FI classification out of FVSD to amortised cost
  - Fair values;
  - Effective interest rate on adoption date; and
  - Interest recognised.
- Qualitative disclosures:
  - Classification criteria applied to those financial assets whose classification changed; and
  - Reasons designation or de-designation of FI measured at FVSD at initial adoption.

Resources on GRAP 104

Resources

- Fact Sheets: GRAP 104 revised
- FAQs: FAQs on revised GRAP 104
- Supporting Adoption of Standards – Presentations: GRAP 104 support
- GRAP 104 Reference Group

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Stay informed

Stay informed

- All information can be accessed on our website www.asb.co.za.
- FAQs
- Follow the ASB on LinkedIn, Facebook, Twitter, YouTube
- Subscribe to our Newsletter via our website.
- Translations of the Standards.

Stay informed

- GRAP Updates (for public entities) on YouTube

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