



# Government Gazette Staatskoerant

REPUBLIC OF SOUTH AFRICA  
REPUBLIEK VAN SUID AFRIKA

Vol. 674

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**PART 1 OF 3**

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**No FUTURE QUERIES WILL BE HANDLED IN CONNECTION WITH THE ABOVE.**

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government  
printing

Department:  
Government Printing Works  
REPUBLIC OF SOUTH AFRICA

## HIGH ALERT: SCAM WARNING!!!

### TO ALL SUPPLIERS AND SERVICE PROVIDERS OF THE GOVERNMENT PRINTING WORKS

It has come to the attention of the *GOVERNMENT PRINTING WORKS* that there are certain unscrupulous companies and individuals who are defrauding unsuspecting businesses disguised as representatives of the *Government Printing Works (GPW)*.

The scam involves the fraudsters using the letterhead of *GPW* to send out fake tender bids to companies and requests to supply equipment and goods.

Although the contact person's name on the letter may be of an existing official, the contact details on the letter are not the same as the *Government Printing Works*. When searching on the Internet for the address of the company that has sent the fake tender document, the address does not exist.

The banking details are in a private name and not company name. Government will never ask you to deposit any funds for any business transaction. *GPW* has alerted the relevant law enforcement authorities to investigate this scam to protect legitimate businesses as well as the name of the organisation.

Example of e-mails these fraudsters are using:

[PROCUREMENT@GPW-GOV.ORG](mailto:PROCUREMENT@GPW-GOV.ORG)

Should you suspect that you are a victim of a scam, you must urgently contact the police and inform the *GPW*.

*GPW* has an official email with the domain as [@gpw.gov.za](mailto:@gpw.gov.za)

Government e-mails DO NOT have org in their e-mail addresses. All of these fraudsters also use the same or very similar telephone numbers. Although such number with an area code 012 looks like a landline, it is not fixed to any property.

*GPW* will never send you an e-mail asking you to supply equipment and goods without a purchase/order number. *GPW* does not procure goods for another level of Government. The organisation will not be liable for actions that result in companies or individuals being resultant victims of such a scam.

*Government Printing Works* gives businesses the opportunity to supply goods and services through RFQ / Tendering process. In order to be eligible to bid to provide goods and services, suppliers must be registered on the National Treasury's Central Supplier Database (CSD). To be registered, they must meet all current legislative requirements (e.g. have a valid tax clearance certificate and be in good standing with the South African Revenue Services - SARS).

The tender process is managed through the Supply Chain Management (SCM) system of the department. SCM is highly regulated to minimise the risk of fraud, and to meet objectives which include value for money, open and effective competition, equitability, accountability, fair dealing, transparency and an ethical approach. Relevant legislation, regulations, policies, guidelines and instructions can be found on the tender's website.

## Fake Tenders

National Treasury's CSD has launched the Government Order Scam campaign to combat fraudulent requests for quotes (RFQs). Such fraudulent requests have resulted in innocent companies losing money. We work hard at preventing and fighting fraud, but criminal activity is always a risk.

### How tender scams work

There are many types of tender scams. Here are some of the more frequent scenarios:

Fraudsters use what appears to be government department stationery with fictitious logos and contact details to send a fake RFQ to a company to invite it to urgently supply goods. Shortly after the company has submitted its quote, it receives notification that it has won the tender. The company delivers the goods to someone who poses as an official or at a fake site. The Department has no idea of this transaction made in its name. The company is then never paid and suffers a loss.

OR

Fraudsters use what appears to be government department stationery with fictitious logos and contact details to send a fake RFQ to Company A to invite it to urgently supply goods. Typically, the tender specification is so unique that only Company B (a fictitious company created by the fraudster) can supply the goods in question.

Shortly after Company A has submitted its quote it receives notification that it has won the tender. Company A orders the goods and pays a deposit to the fictitious Company B. Once Company B receives the money, it disappears. Company A's money is stolen in the process.

Protect yourself from being scammed

- If you are registered on the supplier databases and you receive a request to tender or quote that seems to be from a government department, contact the department to confirm that the request is legitimate. Do not use the contact details on the tender document as these might be fraudulent.
- Compare tender details with those that appear in the Tender Bulletin, available online at [www.gpwonline.co.za](http://www.gpwonline.co.za)
- Make sure you familiarise yourself with how government procures goods and services. Visit the tender website for more information on how to tender.
- If you are uncomfortable about the request received, consider visiting the government department and/or the place of delivery and/or the service provider from whom you will be sourcing the goods.
- In the unlikely event that you are asked for a deposit to make a bid, contact the SCM unit of the department in question to ask whether this is in fact correct.

Any incidents of corruption, fraud, theft and misuse of government property in the *Government Printing Works* can be reported to:

Supply Chain Management: Ms. Anna Marie Du Toit, Tel. (012) 748 6292.  
Email: [Annamarie.DuToit@gpw.gov.za](mailto:Annamarie.DuToit@gpw.gov.za)

Marketing and Stakeholder Relations: Ms Bonakele Mbhele, at Tel. (012) 748 6193.  
Email: [Bonakele.Mbhele@gpw.gov.za](mailto:Bonakele.Mbhele@gpw.gov.za)

Security Services: Mr Daniel Legoabe, at tel. (012) 748 6176.  
Email: [Daniel.Legoabe@gpw.gov.za](mailto:Daniel.Legoabe@gpw.gov.za)

# Closing times for **ORDINARY WEEKLY** **2021** **GOVERNMENT GAZETTE**

The closing time is **15:00** sharp on the following days:

- **24 December 2020**, Thursday for the issue of Thursday **31 December 2020**
- **31 December 2020**, Thursday for the issue of Friday **08 January 2021**
- **08 January**, Friday for the issue of Friday **15 January 2021**
- **15 January**, Friday for the issue of Friday **22 January 2021**
- **22 January**, Friday for the issue of Friday **29 January 2021**
- **29 January**, Friday for the issue of Friday **05 February 2021**
- **05 February**, Friday for the issue of Friday **12 February 2021**
- **12 February**, Friday for the issue of Friday **19 February 2021**
- **19 February**, Friday for the issue of Friday **26 February 2021**
- **26 February**, Friday for the issue of Friday **05 March 2021**
- **05 March**, Friday for the issue of Friday **12 March 2021**
- **12 March**, Friday for the issue of Friday **19 March 2021**
- **18 March**, Thursday for the issue of Friday **26 March 2021**
- **25 March**, Thursday for the issue of Thursday **01 April 2021**
- **31 March**, Wednesday for the issue of Friday **09 April 2021**
- **09 April**, Friday for the issue of Friday **16 April 2021**
- **16 April**, Friday for the issue of Friday **23 April 2021**
- **22 April**, Thursday for the issue of Friday **30 April 2021**
- **30 April**, Friday for the issue of Friday **07 May 2021**
- **07 May**, Friday for the issue of Friday **14 May 2021**
- **14 May**, Friday for the issue of Friday **21 May 2021**
- **21 May**, Friday for the issue of Friday **28 May 2021**
- **28 May**, Friday for the issue of Friday **04 June 2021**
- **04 June**, Friday for the issue of Friday **11 June 2021**
- **10 June**, Thursday for the issue of Friday **18 June 2021**
- **18 June**, Friday for the issue of Friday **25 June 2021**
- **25 June**, Friday for the issue of Friday **02 July 2021**
- **02 July**, Friday for the issue of Friday **09 July 2021**
- **09 July**, Friday for the issue of Friday **16 July 2021**
- **16 July**, Friday for the issue of Friday **23 July 2021**
- **23 July**, Friday for the issue of Friday **30 July 2021**
- **30 July**, Friday for the issue of Friday **06 August 2021**
- **05 August**, Thursday for the issue of Friday **13 August 2021**
- **13 August**, Friday for the issue of Friday **20 August 2021**
- **20 August**, Friday for the issue of Friday **27 August 2021**
- **27 August**, Friday for the issue of Friday **03 September 2021**
- **03 September**, Friday for the issue of Friday **10 September 2021**
- **10 September**, Friday for the issue of Friday **17 September 2021**
- **16 September**, Thursday for the issue of Thursday **23 September 2021**
- **23 September**, Thursday for the issue of Friday **01 October 2021**
- **01 October**, Friday for the issue of Friday **08 October 2021**
- **08 October**, Friday for the issue of Friday **15 October 2021**
- **15 October**, Friday for the issue of Friday **22 October 2021**
- **22 October**, Friday for the issue of Friday **29 October 2021**
- **29 October**, Friday for the issue of Friday **05 November 2021**
- **05 November**, Friday for the issue of Friday **12 November 2021**
- **12 November**, Friday for the issue of Friday **19 November 2021**
- **19 November**, Friday for the issue of Friday **26 November 2021**
- **26 November**, Friday for the issue of Friday **03 December 2021**
- **03 December**, Friday for the issue of Friday **10 December 2021**
- **09 December**, Thursday for the issue of Friday **17 December 2021**
- **17 December**, Friday for the issue of Friday **24 December 2021**
- **23 December**, Thursday for the issue of Friday **31 December 2021**

# LIST OF TARIFF RATES FOR PUBLICATION OF NOTICES

**COMMENCEMENT: 1 APRIL 2018**

## NATIONAL AND PROVINCIAL

Notice sizes for National, Provincial & Tender gazettes 1/4, 2/4, 3/4, 4/4 per page. Notices submitted will be charged at R1008.80 per full page, pro-rated based on the above categories.

Pricing for National, Provincial - Variable Priced Notices		
Notice Type	Page Space	New Price (R)
Ordinary National, Provincial	1/4 - Quarter Page	252.20
Ordinary National, Provincial	2/4 - Half Page	504.40
Ordinary National, Provincial	3/4 - Three Quarter Page	756.60
Ordinary National, Provincial	4/4 - Full Page	1008.80

## EXTRA-ORDINARY

All Extra-ordinary National and Provincial gazette notices are non-standard notices and attract a variable price based on the number of pages submitted.

The pricing structure for National and Provincial notices which are submitted as **Extra ordinary submissions** will be charged at **R3026.32** per page.

## GOVERNMENT PRINTING WORKS - BUSINESS RULES

The **Government Printing Works (GPW)** has established rules for submitting notices in line with its electronic notice processing system, which requires the use of electronic *Adobe Forms*. Please ensure that you adhere to these guidelines when completing and submitting your notice submission.

### CLOSING TIMES FOR ACCEPTANCE OF NOTICES

1. The *Government Gazette* and *Government Tender Bulletin* are weekly publications that are published on Fridays and the closing time for the acceptance of notices is strictly applied according to the scheduled time for each gazette.
2. Please refer to the Submission Notice Deadline schedule in the table below. This schedule is also published online on the Government Printing works website [www.gpwonline.co.za](http://www.gpwonline.co.za)

All re-submissions will be subject to the standard cut-off times.

**All notices received after the closing time will be rejected.**

Government Gazette Type	Publication Frequency	Publication Date	Submission Deadline	Cancellations Deadline
National Gazette	Weekly	Friday	Friday 15h00 for next Friday	Tuesday, 15h00 - 3 working days prior to publication
Regulation Gazette	Weekly	Friday	Friday 15h00 for next Friday	Tuesday, 15h00 - 3 working days prior to publication
Petrol Price Gazette	Monthly	Tuesday before 1st Wednesday of the month	One day before publication	1 working day prior to publication
Road Carrier Permits	Weekly	Friday	Thursday 15h00 for next Friday	3 working days prior to publication
Unclaimed Monies (Justice, Labour or Lawyers)	January / September 2 per year	Last Friday	One week before publication	3 working days prior to publication
Parliament (Acts, White Paper, Green Paper)	As required	Any day of the week	None	3 working days prior to publication
Manuals	Bi- Monthly	2nd and last Thursday of the month	One week before publication	3 working days prior to publication
State of Budget (National Treasury)	Monthly	30th or last Friday of the month	One week before publication	3 working days prior to publication
<i>Extraordinary Gazettes</i>	As required	Any day of the week	<i>Before 10h00 on publication date</i>	<i>Before 10h00 on publication date</i>
Legal Gazettes A, B and C	Weekly	Friday	One week before publication	Tuesday, 15h00 - 3 working days prior to publication
Tender Bulletin	Weekly	Friday	Friday 15h00 for next Friday	Tuesday, 15h00 - 3 working days prior to publication
Gauteng	Weekly	Wednesday	Two weeks before publication	3 days <b>after</b> submission deadline
Eastern Cape	Weekly	Monday	One week before publication	3 working days prior to publication
Northern Cape	Weekly	Monday	One week before publication	3 working days prior to publication
North West	Weekly	Tuesday	One week before publication	3 working days prior to publication
KwaZulu-Natal	Weekly	Thursday	One week before publication	3 working days prior to publication
Limpopo	Weekly	Friday	One week before publication	3 working days prior to publication
Mpumalanga	Weekly	Friday	One week before publication	3 working days prior to publication



## GOVERNMENT PRINTING WORKS - BUSINESS RULES

Government Gazette Type	Publication Frequency	Publication Date	Submission Deadline	Cancellations Deadline
Gauteng Liquor License Gazette	Monthly	Wednesday before the First Friday of the month	Two weeks before publication	3 working days <b>after</b> submission deadline
Northern Cape Liquor License Gazette	Monthly	First Friday of the month	Two weeks before publication	3 working days <b>after</b> submission deadline
National Liquor License Gazette	Monthly	First Friday of the month	Two weeks before publication	3 working days <b>after</b> submission deadline
Mpumalanga Liquor License Gazette	Bi-Monthly	Second & Fourth Friday	One week before publication	3 working days prior to publication

### EXTRAORDINARY GAZETTES

3. *Extraordinary Gazettes* can have only one publication date. If multiple publications of an *Extraordinary Gazette* are required, a separate Z95/Z95Prov *Adobe* Forms for each publication date must be submitted.

### NOTICE SUBMISSION PROCESS

4. Download the latest *Adobe* form, for the relevant notice to be placed, from the **Government Printing Works** website [www.gpwonline.co.za](http://www.gpwonline.co.za).
5. The *Adobe* form needs to be completed electronically using *Adobe Acrobat / Acrobat Reader*. Only electronically completed *Adobe* forms will be accepted. No printed, handwritten and/or scanned *Adobe* forms will be accepted.
6. The completed electronic *Adobe* form has to be submitted via email to [submit.egazette@gpw.gov.za](mailto:submit.egazette@gpw.gov.za). The form needs to be submitted in its original electronic *Adobe* format to enable the system to extract the completed information from the form for placement in the publication.
7. Every notice submitted **must** be accompanied by an official **GPW** quotation. This must be obtained from the *eGazette* Contact Centre.
8. Each notice submission should be sent as a single email. The email **must** contain **all documentation relating to a particular notice submission**.
  - 8.1. Each of the following documents must be attached to the email as a separate attachment:
    - 8.1.1. An electronically completed *Adobe* form, specific to the type of notice that is to be placed.
      - 8.1.1.1. For National *Government Gazette* or *Provincial Gazette* notices, the notices must be accompanied by an electronic Z95 or Z95Prov *Adobe* form
      - 8.1.1.2. The notice content (body copy) **MUST** be a separate attachment.
    - 8.1.2. A copy of the official **Government Printing Works** quotation you received for your notice. (*Please see Quotation section below for further details*)
    - 8.1.3. A valid and legible Proof of Payment / Purchase Order: **Government Printing Works** account customer must include a copy of their Purchase Order. **Non-Government Printing Works** account customer needs to submit the proof of payment for the notice
    - 8.1.4. Where separate notice content is applicable (Z95, Z95 Prov and TForm 3, it should **also** be attached as a separate attachment. (*Please see the Copy Section below, for the specifications*).
    - 8.1.5. Any additional notice information if applicable.

## GOVERNMENT PRINTING WORKS - BUSINESS RULES

9. The electronic *Adobe* form will be taken as the primary source for the notice information to be published. Instructions that are on the email body or covering letter that contradicts the notice form content will not be considered. The information submitted on the electronic *Adobe* form will be published as-is.
10. To avoid duplicated publication of the same notice and double billing, Please submit your notice **ONLY ONCE**.
11. Notices brought to **GPW** by “walk-in” customers on electronic media can only be submitted in *Adobe* electronic form format. All “walk-in” customers with notices that are not on electronic *Adobe* forms will be routed to the Contact Centre where they will be assisted to complete the forms in the required format.
12. Should a customer submit a bulk submission of hard copy notices delivered by a messenger on behalf of any organisation e.g. newspaper publisher, the messenger will be referred back to the sender as the submission does not adhere to the submission rules.

### QUOTATIONS

13. Quotations are valid until the next tariff change.
  - 13.1. **Take note:** **GPW**'s annual tariff increase takes place on **1 April** therefore any quotations issued, accepted and submitted for publication up to **31 March** will keep the old tariff. For notices to be published from 1 April, a quotation must be obtained from **GPW** with the new tariffs. Where a tariff increase is implemented during the year, **GPW** endeavours to provide customers with 30 days' notice of such changes.
14. Each quotation has a unique number.
15. Form Content notices must be emailed to the *eGazette* Contact Centre for a quotation.
  - 15.1. The *Adobe* form supplied is uploaded by the Contact Centre Agent and the system automatically calculates the cost of your notice based on the layout/format of the content supplied.
  - 15.2. It is critical that these *Adobe* Forms are completed correctly and adhere to the guidelines as stipulated by **GPW**.
16. **APPLICABLE ONLY TO GPW ACCOUNT HOLDERS:**
  - 16.1. **GPW** Account Customers must provide a valid **GPW** account number to obtain a quotation.
  - 16.2. Accounts for **GPW** account customers **must** be active with sufficient credit to transact with **GPW** to submit notices.
    - 16.2.1. If you are unsure about or need to resolve the status of your account, please contact the **GPW** Finance Department prior to submitting your notices. (If the account status is not resolved prior to submission of your notice, the notice will be failed during the process).
17. **APPLICABLE ONLY TO CASH CUSTOMERS:**
  - 17.1. Cash customers doing **bulk payments** must use a **single email address** in order to use the **same proof of payment** for submitting multiple notices.
18. The responsibility lies with you, the customer, to ensure that the payment made for your notice(s) to be published is sufficient to cover the cost of the notice(s).
19. Each quotation will be associated with one proof of payment / purchase order / cash receipt.
  - 19.1. This means that **the quotation number can only be used once to make a payment.**

**GOVERNMENT PRINTING WORKS - BUSINESS RULES****COPY (SEPARATE NOTICE CONTENT DOCUMENT)**

20. Where the copy is part of a separate attachment document for Z95, Z95Prov and TForm03
- 20.1. Copy of notices must be supplied in a separate document and may not constitute part of any covering letter, purchase order, proof of payment or other attached documents.
- The content document should contain only one notice. (You may include the different translations of the same notice in the same document).
- 20.2. The notice should be set on an A4 page, with margins and fonts set as follows:
- Page size = A4 Portrait with page margins: Top = 40mm, LH/RH = 16mm, Bottom = 40mm;  
Use font size: Arial or Helvetica 10pt with 11pt line spacing;
- Page size = A4 Landscape with page margins: Top = 16mm, LH/RH = 40mm, Bottom = 16mm;  
Use font size: Arial or Helvetica 10pt with 11pt line spacing;

**CANCELLATIONS**

21. Cancellation of notice submissions are accepted by **GPW** according to the deadlines stated in the table above in point 2. Non-compliance to these deadlines will result in your request being failed. Please pay special attention to the different deadlines for each gazette. Please note that any notices cancelled after the cancellation deadline will be published and charged at full cost.
22. Requests for cancellation must be sent by the original sender of the notice and must be accompanied by the relevant notice reference number (N-) in the email body.

**AMENDMENTS TO NOTICES**

23. With effect from 01 October 2015, **GPW** will not longer accept amendments to notices. The cancellation process will need to be followed according to the deadline and a new notice submitted thereafter for the next available publication date.

**REJECTIONS**

24. All notices not meeting the submission rules will be rejected to the customer to be corrected and resubmitted. Assistance will be available through the Contact Centre should help be required when completing the forms. (012-748 6200 or email [info.egazette@gpw.gov.za](mailto:info.egazette@gpw.gov.za)). Reasons for rejections include the following:
- 24.1. Incorrectly completed forms and notices submitted in the wrong format, will be rejected.
- 24.2. Any notice submissions not on the correct *Adobe* electronic form, will be rejected.
- 24.3. Any notice submissions not accompanied by the proof of payment / purchase order will be rejected and the notice will not be processed.
- 24.4. Any submissions or re-submissions that miss the submission cut-off times will be rejected to the customer. The Notice needs to be re-submitted with a new publication date.

**GOVERNMENT PRINTING WORKS - BUSINESS RULES****APPROVAL OF NOTICES**

25. Any notices other than legal notices are subject to the approval of the Government Printer, who may refuse acceptance or further publication of any notice.
26. No amendments will be accepted in respect to separate notice content that was sent with a Z95 or Z95Prov notice submissions. The copy of notice in layout format (previously known as proof-out) is only provided where requested, for Advertiser to see the notice in final Gazette layout. Should they find that the information submitted was incorrect, they should request for a notice cancellation and resubmit the corrected notice, subject to standard submission deadlines. The cancellation is also subject to the stages in the publishing process, i.e. If cancellation is received when production (printing process) has commenced, then the notice cannot be cancelled.

**GOVERNMENT PRINTER INDEMNIFIED AGAINST LIABILITY**

27. The Government Printer will assume no liability in respect of—
  - 27.1. any delay in the publication of a notice or publication of such notice on any date other than that stipulated by the advertiser;
  - 27.2. erroneous classification of a notice, or the placement of such notice in any section or under any heading other than the section or heading stipulated by the advertiser;
  - 27.3. any editing, revision, omission, typographical errors or errors resulting from faint or indistinct copy.

**LIABILITY OF ADVERTISER**

28. Advertisers will be held liable for any compensation and costs arising from any action which may be instituted against the Government Printer in consequence of the publication of any notice.

**CUSTOMER INQUIRIES**

Many of our customers request immediate feedback/confirmation of notice placement in the gazette from our Contact Centre once they have submitted their notice – While **GPW** deems it one of their highest priorities and responsibilities to provide customers with this requested feedback and the best service at all times, we are only able to do so once we have started processing your notice submission.

**GPW** has a 2-working day turnaround time for processing notices received according to the business rules and deadline submissions.

Please keep this in mind when making inquiries about your notice submission at the Contact Centre.

29. Requests for information, quotations and inquiries must be sent to the Contact Centre **ONLY**.
30. Requests for Quotations (RFQs) should be received by the Contact Centre at least **2 working days** before the submission deadline for that specific publication.

## GOVERNMENT PRINTING WORKS - BUSINESS RULES

### PAYMENT OF COST

31. The Request for Quotation for placement of the notice should be sent to the Gazette Contact Centre as indicated above, prior to submission of notice for advertising.
32. Payment should then be made, or Purchase Order prepared based on the received quotation, prior to the submission of the notice for advertising as these documents i.e. proof of payment or Purchase order will be required as part of the notice submission, as indicated earlier.
33. Every proof of payment must have a valid **GPW** quotation number as a reference on the proof of payment document.
34. Where there is any doubt about the cost of publication of a notice, and in the case of copy, an enquiry, accompanied by the relevant copy, should be addressed to the Gazette Contact Centre, **Government Printing Works**, Private Bag X85, Pretoria, 0001 email: [info.egazette@gpw.gov.za](mailto:info.egazette@gpw.gov.za) before publication.
35. Overpayment resulting from miscalculation on the part of the advertiser of the cost of publication of a notice will not be refunded, unless the advertiser furnishes adequate reasons why such miscalculation occurred. In the event of underpayments, the difference will be recovered from the advertiser, and future notice(s) will not be published until such time as the full cost of such publication has been duly paid in cash or electronic funds transfer into the **Government Printing Works** banking account.
36. In the event of a notice being cancelled, a refund will be made only if no cost regarding the placing of the notice has been incurred by the **Government Printing Works**.
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## GOVERNMENT NOTICES • GOEWERMENTSKENNISGEWINGS

### DEPARTMENT OF AGRICULTURE, LAND REFORM AND RURAL DEVELOPMENT

NO. 714

13 August 2021

#### (LABOUR TENANTS) ACT, 1996 (ACT NO. 3 OF 1996)

Notice is hereby given, in terms of Section 17 (2) (c) of the Land Reform (Labour Tenants) Act, 1996 (Act No 3 of 1996) ("the LTA"), that an Application for acquisition of land was lodged with the Director General of the Department of Land Affairs by the Applicants, and in respect of the Property set out in the Schedule.

Any party who may have an interest in the above-mentioned Application is hereby invited to make written representations to the Director General, within 30 days from the publication of this Notice. The representations must be forwarded to:

The Director General: Department of Rural Development and Land Reform c/oDeputy Director: Tenure Systems Implementation Ehlanzeni District Office 4th Floor, Home Affairs Building23 Corner Henshall & Brander Street Nelspruit 1200

#### SCHEDULE

##### Applicants:

No.	Name and Surname	Identity Number
1.	NKABINDE GRACE NOMVULA	631213 0439 089

##### Property:

No.	Property Description	Locality (District)	Current Title Deed No	Current Owner	Bonds and Restrictive Conditions (Interdicts)
1.	PORTION 41 OF AVONTUUR FARM 725, REGISTRATION DIVISION J.T, MPUMALANGA PROVINCE,.	ALBERT LUTHULI LOCAL MUNICIPALITY	T11254/2016	LETS GO PROP TRUST	

*J.E. Motocung*  
 For DIRECTOR-GENERAL: DEPARTMENT OF RURAL DEVELOPMENT AND LAND REFORM  
 SIGNED BY: *J.E. Motocung*  
 DEPUTY DIRECTOR: TENURE SYSTEMS IMPLEMENTATION / LABOUR TENANTS  
 DULY AUTHORISED

## DEPARTMENT OF AGRICULTURE, LAND REFORM AND RURAL DEVELOPMENT

NO. 715

13 August 2021

**LAND REFORM (LABOUR TENANTS) ACT, 1996 (ACT NO. 3 OF 1996)**

Notice is hereby given, in terms of Section 17 (2) (c) of the Land Reform (Labour Tenants) Act, 1996 (Act No 3 of 1996) ("the LTA"), that an Application for acquisition of land was lodged with the Director General of the Department of Land Affairs by the Applicants, and in respect of the Property set out in the Schedule.

Any party who may have an interest in the above-mentioned Application is hereby invited to make written representations to the Director General, within 30 days from the publication of this Notice. The representations must be forwarded to:

The Director General  
c/o Deputy Director: Tenure Reform Implementation  
Department of Agriculture, Land Reform & Rural Development

**Private Bag X9081, Ermelo, 2350; or 23 Taute Street, Ermelo**

File Reference: ET6/5/SH 12722 L

**SCHEDULE****Applicants:**

No.	Name and Surname	Identity Number
1.	Nkosi Themba Samuel	5811125693080
2.	Nkosi Voti Thuli	6105235437085

**Property:**

No.	Property Description	Locality (District)	Current Title Deed No	Current Owner	Bonds and Restrictive Conditions (Interdicts)
	PORTION 9 OF TWEEFONTEIN 249 IS	Gert Sibande	T33861/1985	E P J JACOBSZ TRUST	N/A

  
For DIRECTOR-GENERAL: DEPARTMENT OF RURAL DEVELOPMENT AND LAND REFORM

SIGNED BY: S. Thoke  
DEPUTY DIRECTOR: TENURE REFORM IMPLEMENTATION / LABOUR TENANTS  
DULY AUTHORISED

## DEPARTMENT OF AGRICULTURE, LAND REFORM AND RURAL DEVELOPMENT

NO. 716

13 August 2021

## LAND REFORM (LABOUR TENANTS) ACT, 1996 (ACT NO. 3 OF 1996)

Notice is hereby given, in terms of Section 17 (2) (c) of the Land Reform (Labour Tenants) Act, 1996 (Act No 3 of 1996) ("the LTA"), that an Application for acquisition of land was lodged with the Director General of the Department of Land Affairs by the Applicants, and in respect of the Property set out in the Schedule.

Any party who may have an interest in the above-mentioned Application is hereby invited to make written representations to the Director General, within 30 days from the publication of this Notice. The representations must be forwarded to:

The Director General  
c/o Deputy Director: Tenure Systems Implementation  
Department of Agriculture, Land Reform & Rural Development

**Private Bag X9081, Ermelo, 2350; or 23 Taute Street, Ermelo**

File Reference: ET6/5/SH L

## SCHEDULE

## Applicants:

No.	Name and Surname	Identity Number
1.	Kubheka Sguda Simon	4408235356087

## Property:

No.	Property Description	Locality (District)	Current Title Deed No	Current Owner	Bonds and Restrictive Conditions (Interdicts)
	Portion 3 of Uitgezocht 436 IS	Gert Sibande	T12773/2008	Cornelius & Catharina Jansen Van Rensburg	N/A

  
For DIRECTOR-GENERAL: DEPARTMENT OF RURAL DEVELOPMENT AND LAND REFORM

SIGNED BY: 

DEPUTY DIRECTOR: TENURE REFORM IMPLEMENTATION / LABOUR TENANTS  
DULY AUTHORISED



## DEPARTMENT OF AGRICULTURE, LAND REFORM AND RURAL DEVELOPMENT

NO. 717

13 August 2021

**LAND REFORM (LABOUR TENANTS) ACT, 1996 (ACT NO. 3 OF 1996)**

Notice is hereby given, in terms of Section 17 (2) (c) of the Land Reform (Labour Tenants) Act, 1996 (Act No 3 of 1996) ("the LTA"), that an Application for acquisition of land was lodged with the Director General of the Department of Land Affairs by the Applicants, and in respect of the Property set out in the Schedule.

Any party who may have an interest in the above-mentioned Application is hereby invited to make written representations to the Director General, within 30 days from the publication of this Notice. The representations must be forwarded to:

The Director General  
c/o Deputy Director: Tenure Systems Implementation  
Department of Rural Development and Land Reform  
23 Corner Henshall and Brander Street  
Home Affairs Building 4<sup>th</sup> floor  
Nelspruit  
1200

**SCHEDULE****Applicants:**

No.	Name and Surname	Identity Number
01	MABUZA JOZINI SAMUEL	770303 5329 087

**Property:**

No.	Property Description	Locality (District)	Current Title Deed No	Current Owner	Bonds and Restrictive Conditions (Interdicts)
01	PORTION 1 OF THE FARM MOOIFONTEIN 292 JT	MBOMBELA	T13509/2018	POPLAR CREEK PTY LTD	NONE

*J. E. Motaung.*

For DIRECTOR-GENERAL: DEPARTMENT OF RURAL DEVELOPMENT AND LAND REFORM

SIGNED BY: 

DEPUTY DIRECTOR: TENURE SYSTEMS IMPLEMENTATION / LABOUR TENANTS  
DULY AUTHORISED

## DEPARTMENT OF AGRICULTURE, LAND REFORM AND RURAL DEVELOPMENT

NO. 718

13 August 2021

**LAND REFORM (LABOUR TENANTS) ACT, 1996 (ACT NO. 3 OF 1996)**

Notice is hereby given, in terms of Section 17 (2) (c) of the Land Reform (Labour Tenants) Act, 1996 (Act No 3 of 1996) ("the LTA"), that an Application for acquisition of land was lodged with the Director General of the Department of Land Affairs by the Applicants, and in respect of the Property set out in the Schedule.

Any party who may have an interest in the above-mentioned Application is hereby invited to make written representations to the Director General, within 30 days from the publication of this Notice. The representations must be forwarded to:

The Director General  
c/o Deputy Director: Tenure Reform Implementation  
Department of Agriculture, Land Reform & Rural Development

**Private Bag X9081, Ermelo, 2350; or 23 Taute Street, Ermelo**

File Reference: ET6/5/SH L

**SCHEDULE****Applicants:**

No.	Name and Surname	Identity Number
1.	Mahlangu Benzani Solomon	6307095755081

**Property:**

No.	Property Description	Locality (District)	Current Title Deed No	Current Owner	Bonds and Restrictive Conditions (Interdicts)
	PORTION 0 OF WAG-'N-BIETJIE 553 IS	Gert Sibande	T11130/2009	TJALA VUNA AGRIBUSINESS CPA	N/A

  
For **DIRECTOR-GENERAL: DEPARTMENT OF RURAL DEVELOPMENT AND LAND REFORM**

SIGNED BY:   
DEPUTY DIRECTOR: TENURE REFORM IMPLEMENTATION / LABOUR TENANTS  
DULY AUTHORISED

## DEPARTMENT OF AGRICULTURE, LAND REFORM AND RURAL DEVELOPMENT

NO. 719

13 August 2021

## GENERAL NOTICE IN TERMS OF RESTITUTION OF LAND RIGHTS ACT, 1994 [ACT 22 OF 1994] AS AMENDED

Notice is hereby given in terms of Section 11(1) of the Restitution of the Land Rights Act 1994 [Act 22 of 1994], as amended, that a land claim for Restitution of Land Rights has been lodged by Mr. Jack Johan Mahlangu ID no. 601216 5924 084 on behalf of Mahlangu Family on the following property mentioned hereunder situated under Albert Luthuli Local Municipality, Gert Sibande District, Mpumalanga Province: KRP 1190

## DISCRIPTION OF PROPERTY

## VAALBANK 212 IS

Description of property	Owner of Property	Title Deed Number	Extent of Property	Bonds	Bond Holder	Other Endorsements
The Remaining Extent of the Farm 212 IS	Siyathuthuka Communal Prop Assoc	T95053/2003	447.4059 ha	None	None	K1111/1950RM K2834/1975RM K3190/1997RM in favour of Collieries Ltd K3378/1996RM in favour of Ingwe Coal Corp Ltd VA8102/2002 in favour of Moolman Johannes Zacharias

**GENERAL NOTICE IN TERMS OF RESTITUTION OF LAND RIGHTS ACT, 1994 [ACT 22 OF 1994] AS AMENDED**

Notice is hereby given in terms of Section 11(1) of the Restitution of the Land Rights Act 1994 [Act 22 of 1994], as amended, that a land claim for **Restitution of Land Rights** has been lodged by **Mr. Jack Johan Mahlangu ID no. 601216 5924 084** on behalf of **Mahlangu Family** on the following property mentioned hereunder situated under **Albert Luthuli Local Municipality, Gert Sibande District, Mpumalanga Province: KRP 1190**

The Regional Land Claims Commissioner, Mpumalanga Province will investigate all the claims in terms of the provisions of the Act, any party interested in the above mentioned property is hereby invited to submit within **30 [thirty days]** from the date of publication of this notice to submit any comments, or further information to:

**Commissioner for Restitution of Land Rights**

**Private Bag X11330**

**Nelspruit**

**1200**

**Or 30 Samora Machel Drive**

**Nelspruit**

**1200**

**Tel No: 013 756 6000**

**Fax No: 013 752 3859**



**CHECKED BY: MRS RENALL SINGH  
RESTITUTION ADVISOR**

**DATE: 17/11/2020**



**MR L H MAPHUTHA  
THE REGIONAL LAND CLAIMS COMMISSIONER  
MPUMALANGA PROVINCE**

**DATE: 2020/11/30**

## DEPARTMENT OF FORESTRY, FISHERIES AND THE ENVIRONMENT

NO. 720

13 August 2021

**NATIONAL ENVIRONMENTAL MANAGEMENT: INTEGRATED COASTAL  
MANAGEMENT ACT, 2008 (ACT NO. 24 OF 2008)****DRAFT COASTAL MANAGEMENT LINE FOR GARDEN ROUTE NATIONAL  
PARK IN TERMS OF SECTION 25(1) READ WITH SECTION 25(5)(a)**

I, Barbara Dallas Creecy, Minister of Forestry, Fisheries and the Environment, hereby publish the Draft Coastal Management Line for the Garden Route National Park in terms of section 25(1), read with section 25(5), of the National Environmental Management: Integrated Coastal Management Act, 2008 (Act No. 24 of 2008) as set out in the Schedule hereto, for public comment.

Any person who wishes to submit representations or comments in connection with the Draft Coastal Management Line for the Garden Route National Park is invited to do so within 30 calendar days of the date of publication of this notice in the *Gazette*. Comments received after this time may not be considered. All representations and comments must be submitted in writing to the following addresses:

By post to: Department of Forestry, Fisheries and the Environment  
**Attention:** Ms N Jukuda (Branch: Oceans and Coasts)  
Private Bag X4390  
**CAPE TOWN**  
8002

By hand at: 2 East Pier Building, East Pier Road, Victoria & Alfred Waterfront,  
Cape Town

By email: [GRNP-CML@environment.gov.za](mailto:GRNP-CML@environment.gov.za)



**BARBARA DALLAS CREECY**  
**MINISTER OF FORESTRY, FISHERIES AND THE ENVIRONMENT**

**SCHEDULE****Table of contents**

- 1. Definitions**
- 2. Purpose and declaration**
- 3. Applicable Area**
- 4. Developmental Risk Management Measures**
- 5. Methods Applied**
- 6. Description of the Garden Route National Park's Coastal Management Line**
- 7. Implementation and Review**
- 8. Data Accessibility**

## 1. DEFINITIONS

A word or expression defined in the National Environmental Management: Integrated Coastal Management Act, 2008 (Act No. 24 of 2008) has the same meaning in this document, and—

**“CML”** and **“CMLs”** means a coastal management line and coastal management lines, respectively, declared in terms of section 25(1) of the Act;

**“competent authority”** has the meaning assigned to it in section 1 of the National Environmental Management Act;

**“dynamic coastal processes”** means all natural processes continually reshaping the shoreline and the near shore seabed and includes—

- a) wind action;
- b) wave action;
- c) ocean currents;
- d) tidal action;
- e) littoral active movement;
- f) river flows; and
- g) erosion and accretion events;

**“Garden Route National Park”** and **“GRNP”** refers to all properties which comprise the Garden Route National Park initially declared as such in Government Notice No. 248 in *Government Gazette* 31981 dated 6 March 2009 including all other properties formerly added to the national park in terms of the Protected Areas Act;

**“Garden Route National Park Management Plan”** refers to the management plan for the Garden Route National Park and World Heritage Site in terms of sections 39, 40 and 41 of the National Environmental Management: Protected Areas Act, 2003 (Act No. 57 of 2003) and chapter 4 of the World Heritage Convention Act, 1999 (Act No. 49 of 1999);

**“SANParks”** means South African National Parks governed in terms of the Protected Areas Act; and

**“the Act”** means the National Environmental Management: Integrated Coastal Management Act, 2008 (Act No. 24 of 2008).

## 2. PURPOSE AND DECLARATION

- 2.1. The Act provides for the declaration of CMLs in terms of section 25.
- 2.2 Section 25(1), read with section 25(5) of the Act, empowers the Minister to declare a CML—
- (a) to protect coastal public property, private property and public safety;
  - (b) to protect the coastal protection zone;
  - (c) to preserve the aesthetic values of the coastal zone; or
  - (d) for any other reason consistent with the objectives of the Act.
- 2.3 Section 25(5) of the Act obliges the Minister, after consultation with the relevant MEC, to exercise the powers and perform the functions in section 25 if such power relates to any part of an area that—
- (a) is a national protected area as defined in the Protected Areas Act;
  - (b) straddles a coastal boundary between two provinces; or
  - (c) extends up to, or straddles, the borders of the Republic.
- 2.4 The objectives for declaring the GRNP CML are to—
- (a) minimise the human and environmental conflicts that occur in the coastal areas of the GRNP;
  - (b) provide measures to control and manage development to avoid coastal risks and vulnerability emanating from coastal processes that could impact on property, human life, social dynamics and economic opportunities; and
  - (c) provide additional mechanisms for preserving coastal spaces that have social importance such as cultural and heritage sites as identified in the Garden Route National Park Management Plan.
- 2.5 The Minister is, in terms of section 25(5) of the Act, empowered to declare the CML within the boundaries of the GRNP since the park is a national protected area in terms of the Protected Areas Act.
- 2.6 A single, interrupted CML is hereby adopted in terms of section 25(1)(b), (c) and (d) read with section 25(5) of the Act within the boundaries of the GRNP to—
- (a) to manage risks from the effects of climate change, dynamic coastal processes and rising sea levels;
  - (b) protect and enhance public access to coastal public property, discourage inappropriate development in sensitive coastal areas to ensure public safety and sustainable development, and the ecological functioning (which includes dune dynamics and hydrodynamics in estuaries, wetlands, lakes, lagoons and swamps);



- (c) protect and preserve features of social, cultural and heritage significance; and
- (d) preserve the aesthetics or 'sense of place' including the visual integrity of the coast.

### 3. APPLICABLE AREA

The CML is applicable within the boundaries of the GRNP and will be managed and implemented principally by SANParks on behalf of the Minister.

### 4. DEVELOPMENTAL RISK MANAGEMENT MEASURES

The following risk management measures are applicable to a **NEW INFRASTRUCTURE** development within the GRNP.

- 4.1 A proponent of a new infrastructure development seaward of the CML must demonstrate that the following principles have been followed with the proposed development.
  - 4.1.1 The proponent sought to avoid development of the proposed infrastructure seaward of the CML but there are sound reasons why this cannot be achieved, which are articulated in the development proposal.
  - 4.1.2 The footprint of the proposed development area is only located seaward of the CML to the extent that this is necessary for the structural integrity, safety of the development and the aesthetic value of the development, which cannot be achieved by locating the development landward of the CML.
  - 4.1.3 That the impact of predicted hazards to the proposed development will be minimised by employing suitable design modifications, for example the use of stilts; and
  - 4.1.4 mitigate impacts on proposed development where development seaward of the CML is deemed necessary.
- 4.2 Where development of new infrastructure is proposed seaward of the CML in the GRNP, the following rules will apply.
  - 4.2.1 SANParks may approve of the development of infrastructure seaward of the CML—
    - (a) if the proposed infrastructure, by their nature, require them to be situated seaward of the CML
    - (b) if alternative development proposals were investigated and presented to the appropriate sections within SANParks as part of any development proposal and approval process;

- 4.2.2 In circumstances where no alternative locations are feasible or reasonable, such infrastructure must be located so as to minimise risk faced by the infrastructure from dynamic coastal processes and must be developed in such a way to minimise impacts on the environment, surrounding infrastructure and other users of the area.
- 4.2.3 Any new development must take into account shifting risks and the level of vulnerability such as the likelihood of shifting the coastal risk e.g. shifting risk downstream when retention walls are placed along estuaries, as well as the likelihood of liabilities.

The following risk management measures are applicable to **EXISTING INFRASTRUCTURE** developments.

- 4.3 Where maintenance of infrastructure is proposed in areas at risk to dynamic coastal process which may adversely affect the structural integrity of the infrastructure or the safety of those who occupy it, the following will apply.
  - 4.3.1 A feasibility study on the maintenance of infrastructure seaward of the CML must be completed within 10 years of publication of this CML and which must address—
    - (a) costs estimates associated with the infrastructure over a ten (10) year horizon if the infrastructure is to be retained as well as if the infrastructure is to be moved landwards of the CML; and
    - (b) the long term implications on the GRNP if such infrastructure is revenue-generating infrastructure.
  - 4.3.2 Should the maintenance of existing infrastructure be considered unfeasible or uneconomical by SANParks or the competent authority, SANParks must develop a plan for moving such infrastructure landwards of the CML or for the removal of such infrastructure, including timeframes for the moving of that infrastructure.
  - 4.3.3 Should the maintenance of existing infrastructure be considered feasible or economical, SANParks must—
    - (a) prepare a plan, within ten years of publication of this CML, which is aligned with the GNRP Management Plan, to provide for the modification of the structure to reduce any adverse impacts from coastal processes;
    - (b) develop a strategy within 10 years of publication of this CML which addresses the movement of infrastructure which is at risk of being adverse impacted by coastal processes to locations landward of the CML.

## 5. METHODS APPLIED

5.1 The following hierarchy of methods were considered when deciding the appropriate location of declaring the GRNP CML:

- (a) use of the best scientific information available such as modelled risk scenarios to inform the position of the line, taking into account dynamic coastal processes and flooding;
- (b) use of nationally recognised data and information as proxies such as the 5m contour line where accurate flood information for an estuary is not known;
- (c) where reliable data is available to e.g. allow for differentiating between the risks associated with floodplains versus gorges along estuaries, modifying the line accordingly; and
- (d) use of historic records for the GRNP, including data and local knowledge on areas known to be highly vulnerable and at risk of, or protected from, dynamic coastal processes to inform and modify the position of the CML if required.

5.2 The following proxies were used when developing the GRNP CML:

- (a) the 10m contour line was used by SANParks to show areas at potential risk along the rocky Tsitsikamma coastline as modelled risk scenarios were unavailable;
- (b) the 10m contour line was modified at the Storm River Rest Camp based on local knowledge of where areas that are at - or protected from - risk are located due to the nature or orientation of coastline; and
- (c) where differing approaches were used for adjacent sections of coast, such as at estuary mouths where a 10m contour proxy was used along the coast and a 5m contour proxy was used along the estuary, a joining line was applied.

## 6. DESCRIPTION OF THE GARDEN ROUTE NATIONAL PARK'S COASTAL MANAGEMENT LINE

6.1 The CML declared in GRNP is set out in **Annexure 1** which lists its descriptions. In addition to coordinates, Annexure 1 also contains a description of where the start and end-point of the CML is running within the GRNP's boundaries.

6.2 The descriptions in Annexure 1 is to be read together with the maps in **Annexure 2** which show where the line is located.

## 7. IMPLEMENTATION AND REVIEW

- 7.1 The CML is only declared within the GRNP's boundary.
- 7.2 The management authority responsible for the implementation of CML in the GRNP is SANParks;
- 7.3 The CML established in the GRNP may be reviewed in line with the GRNP Management Plan's process if or when necessary, but the review period may not exceed 10 years.

## 8. DATA ACCESSIBILITY

- 10.1 The maps can also be viewed on the following link:
  - a) DEA Coastal viewer: <https://mapservice.environment.gov.za/Cml/>
  - b) SANParks website: <https://www.sanparks.org.za/>
- 10.2 The hard copy maps can also be viewed at the following public institutions:
  - a) George Local Municipality - Physical Address: 71 York Street, **George**, 6530
  - b) Knysna Local Municipality - Physical Address: 5 Clyde Street, **Knysna**, 6570
  - c) Bitou Local Municipality - Physical Address: 1 Sewell Street, **Plettenberg Bay**, 6600
  - d) KouKamma Local Municipality - Physical Address: 5 Keet Street, **Kareedouw**, 6400
  - e) George Public Library – Physical Address: Caledon Street, **George**, 6529
  - f) Sedgefield Public Library – Physical Address: 12 Flamingo Street, **Sedgefield**, 6573
  - g) Hornlee Public Library – Physical Address: Vigilance Street, **Hornlee**, 6571
  - h) Plettenberg Bay Public Library – Physical Address: Shop 29, Mervills Shopping Centre, Sewell Street, **Plettenberg Bay**
- 10.3 The hard copy maps can also be viewed at the following SANParks facilities:
  - a) Ebb & Flow, Wilderness – Physical Address: Ebb & Flow Drive, Wilderness, 6560
  - b) Thesens Island Office, Knysna – Physical Address: Long Street, Thesens Island, Knysna, 6571
  - c) Storms River Village Office, Storms River village – Physical Address: Darnell Street, Stormsriver, 6308
  - d) Koukamma Satellite Office, Nompumelelo – Physical Address: Community Hall, Nompumelelo

**Annexure 1 – List of Maps depicting the GRNP CML (Zone Maps)**

CML descriptions are from west to east and north to south. CML descriptions are provided from the starting point to the end point of each disjointed section of the CML on the Zone Maps for each individual grid. Areas where CML is not presented on the map and the risk area is expected to exceed the boundaries of the GRNP, the relevant Provincial MEC mandated with the responsibility will declare such CMLs. Where the CML lies on unalienated state land and the property immediately landward of such unalienated state land is owned or managed by SANParks, the property boundary of the SANParks property will be listed in the description instead of unalienated state land to aid in identifying the CML.

<b>Zones ( map illustration)</b>	<b>Map No.</b>	<b>Location on map (Area or Municipality)</b>	<b>GRNP CML descriptions</b>
Zone A	1a	Wilderness, George Local Municipality, Garden Route District Municipality	i – CML starts on the boundary of Erf No. 1271 and Waterside road south of the north-eastern corner of Erf No. 1262, follows a curvilinear line along the 5m contour line around the estuary and ends on the boundary of remainder of Erf No. 1278 and Waterside road, situated approximately 0.64 km west of the junction of Waterside road and Hoekwil Road
	1b	Wilderness, George Local Municipality, Garden Route District Municipality	<p>i – CML starts on the boundary of remainder of Erf No. 1278 and Waterside road, situated approximately 0.42 km west of the junction of Waterside road and Hoekwil Road, follows a curvilinear line along the 5m contour line around the estuary and ends on the boundary of remainder of Erf No. 1278 and Waterside road, situated approximately 0.25 km west of the junction of Waterside road and Hoekwil Road</p> <p>ii – CML starts on the boundary of remainder of Erf No. 1278 and Waterside road, situated approximately 0.12 km west of the junction of Waterside road and Hoekwil Road, follows a curvilinear line along the 5m contour line around the estuary and ends on the boundary of remainder of Erf No. 1278 and Waterside road, situated approximately 0.10 km west of the junction of Waterside road and Hoekwil Road</p> <p>iii – CML starts on the boundary of remainder of Erf No. 1278 and Waterside road, situated approximately 0.05 km west of the junction of Waterside road and Hoekwil Road, follows a curvilinear line along the 5m contour line around the estuary and</p>

<p>ends on the boundary of remainder of Erf No. 1278 and Waterside road, at the junction of Waterside road and Hoekwil Road</p>	<p>iv – CML starts on the western boundary of portion 131 of Farm No. 192 and bo-Langvlei Road, follows a curvilinear line along the 5m contour line around the estuary and ends on the boundary between portion 131 of Farm No. 192 and remainder of portion 33 of Farm No. 192, approximately 0.07km south of Bo-Langvlei Road</p>	<p>v - CML starts on the boundary between portion 64 of Farm No. 192 and portion 4 of Farm No. 192 approximately 0.47km east of the junction of Bo-Langvlei Road and Hoekwil Road, follows a curvilinear line along the 5m contour line around the estuary and ends on the boundary between portion 64 of Farm No. 192 and portion 4 of Farm No. 192 approximately 0.93km east of the junction of Bo-Langvlei Road and Hoekwil Road</p>	<p>vi - CML starts on the south-western most point of the boundary between portion 64 of Farm No. 192 and portion 4 of Farm No. 192 approximately 0.95km east of the junction of Bo-Langvlei Road and Hoekwil Road, follows a curvilinear line along the 5m contour line around the estuary and ends on the boundary between portion 64 of Farm No. 192 and portion 67 of Farm No. 192 approximately 0.17km north-west of the junction of Bo-Langvlei Road and Die Vleie Road</p>	<p>vii - CML starts on the boundary of portion 64 of Farm No. 192 adjacent to and in line with the common boundary of portion 98 of Farm No. 192 and portion 99 of Farm No. 192, follows a curvilinear line along the 5m contour line around the estuary and ends on portion 64 of Farm No. 192, in line with the northern border of portion 302 of Farm No. 192</p>	<p>viii - CML starts on the boundary between portion 64 of Farm No. 192 and portion 65 of Farm No. 192 approximately 0.21km west of the junction of Bo-Langvlei Road and Die Vleie Road, follows a curvilinear line along the 5m contour line around the</p>

			<p>estuary and ends on the boundary between portion 64 of Farm No. 192 and portion 65 of Farm No. 192 approximately 0.15km west of the junction of Bo-Langvlei Road and Die Vieie Road</p> <p>ix - CML starts on the boundary between portion 64 of Farm No. 192 and Bo-Langvlei Road approximately 0.03km east of the junction of Bo-Langvlei Road and Die Vieie Road, follows a curvilinear line along the 5m contour line around the estuary and ends on the boundary between portion 64 of Farm No. 192 and Bo-Langvlei Road approximately 0.30km east of the junction of Bo-Langvlei Road and Die Vieie Road</p> <p>i – CML starts on portion 64 of Farm No. 192, in line with the northern border of portion 302 of Farm No. 192, follows a curvilinear line along the 5m contour line around the estuary and ends on border between portion 64 of Farm No. 192 and the north-eastern boundary of portion 115 of Farm No. 192, in line with the northern boundary of portion 113 of Farm No. 192</p> <p>ii – CML starts on the common boundary between portion 64 of Farm No. 192, portion 86 of Farm No. 192 and portion 85 of Farm No. 192, follows a curvilinear line along the 5m contour line around the estuary and ends on the common boundary between portion 64 of Farm No. 192, portion 210 of Farm No. 192 and portion 87 of Farm No. 192</p> <p>iii – CML starts on the boundary between portion 134 of Farm No. 192 and portion 8 of Farm No. 192 approximately 0.16km east of the south-western boundary of portion 8 of Farm No. 192, follows a curvilinear line along the 5m contour line around the estuary and ends on the common boundary between portion 134 of Farm No. 192, portion 210 of Farm No. 192 and portion 87 of Farm No. 192</p> <p>iv - CML starts on the boundary between portion 31 of Farm No. 189 and portion 8 of Farm No. 192, south of the southern boundary of portion 13 of Farm No. 189, follows a curvilinear line along the 5m contour line around the estuary and ends on</p>
1c	Wilderness, George Local Municipality, Garden Route District Municipality		

			<p>the boundary between portion 31 of Farm No. 189 and portion 3 of Farm No. 189, south of the southern boundary of portion 12 of Farm No. 189</p> <p>v – CML starts on the boundary between portion 11 of Farm No. 189 and portion 3 of Farm No. 189, immediately north of the southern common boundary of portion 11 of Farm No. 189, portion 3 of Farm No. 189 and portion 31 of Farm No. 189 and ends on the boundary between portion 11 of Farm No. 189, and portion 62 of Farm No. 189, at the south-western most point of portion 62 of Farm No. 189</p> <p>vi – CML starts on the boundary of portion 11 of Farm No. 189 and portion 142 of Farm No. 189 and ends on the boundary between portion 37 of Farm No. 189 and portion 17 of Farm No. 189, along the south-western border of portion 17 of Farm No. 189 approximately 0.41km south of the junction of Bo-Langvlei Road and Rondevlei Road</p>
2a	Wilderness, George Local Municipality, Garden Route District Municipality		<p>i – CML starts on the boundary between Erf No. 1096 and Erf No. 189, approximately 0.03km north of the western edge of the N2 bridge across the Touw / Wilderness Estuary, follows a curvilinear line along the 5m contour line around the estuary and ends on the boundary between Erf No. 1096 and Erf No. 189 in line with Erf No. 362</p> <p>ii – CML starts on the boundary between Erf No. 1096 and Erf No. 189 in line with Erf No. 533, follows a curvilinear line along the 5m contour line around the estuary and ends between Erf No. 1096 and Erf No. 494 in line with Erf No. 533, in line with the common boundary between Erven No.'s 369 and 370</p> <p>iii – CML starts on the boundary between Erf No. 1096 and Erf No. 494 in line with Erf No. 533, follows a curvilinear line along the 5m contour line around the estuary and ends on the common boundary between Erven No.'s 1096 and 424 and Waterside Road, in line with Erf No. 370</p> <p>iv – CML starts on the boundary of Erf No. 424 and Waterside Road south of Erf</p>



<p>No. 374, follows a curvilinear line along the 5m contour line around the estuary and ends on the boundary of Erf No. 424 and Waterside Road south of Erf No. 377</p>		
<p>v - CML starts on the boundary of Erf No. 422 and Waterside Road south of Erf No. 1129, follows a curvilinear line along the 5m contour line around the estuary and ends on the boundary of Erf No. 422 and Waterside Road south of Erf No. 1071</p>		
<p>vi – CML starts on the common border between Erf No. 422 and remainder Farm No. 158 and Waterside Road south of Erf No. 389, follows a curvilinear line along the 5m contour line around the estuary and ends on the boundary of remainder Farm No. 158 and Erf No. 523 near the south-westernmost point of Erf No. 523</p>		
<p>vii – CML starts on the border of remainder Farm No. 158 and remainder Erf No. 425 north of remainder Erf No. 2259, follows a curvilinear line along the 5m contour line around the estuary and ends on the border of remainder Farm No. 158 and Erf No. 490 west of the border between remainder Farm No. 158 and Erf No. 1017</p>		
<p>viii – CML starts on the boundary of Erven No.'s 1017 and 1118 along the eastern boundary of Erf No. 1118, follows a curvilinear line along the 5m contour line around the estuary and ends on boundary between Erven No.'s 1017 and 1019 along the north-western boundary of Erf No. 1019</p>		
<p>ix – CML starts on the common boundary between remainder Erf No. 1270 and Erf No. 2458, south of the common boundary of remainder Erven No.'s 1270 and 2581 and Erf No. 2458, follows a curvilinear line along the 5m contour line around the estuary and ends on the boundary between Erven No.'s 1282 and 1275, in line with the south-westernmost point of the boundary between Erf No. 1282 and remainder Erf No. 1281</p>		
<p>x - CML starts on the boundary of remainder Erven No.'s 1264 and 1270 south of Erf No. 1027, follows a curvilinear line along the 5m contour line around the estuary and ends on boundary between Erf No. 1268 and remainder Erf No. 1270 south of</p>		

<p>the common boundary of Erf No. 1268 and remainder Erven No.'s 1270 and 1264</p>	<p>xi – CML starts on the boundary between Erf no. 1271 and Dumbelton Road, approximately 0.11km east of the junction of Waterside Road and Dumbelton Road, follows a curvilinear line along the 5m contour line around the estuary and ends on the boundary between Erven No.'s 1271 and 1999, approximately 0.18km east of the junction of Waterside Road and Dumbelton Road</p>	<p>xii - CML starts on the boundary of Erf No. 1271 and Dumbelton Road east of Erf No. 1026, follows a curvilinear line along the 5m contour line around the estuary and ends on the boundary of Erf No. 1271 and Dumbelton Road east of Erf No. 1021</p>	<p>xiii - CML starts on the boundary of Erven No.'s 1268 and 1271 east of the common boundary between Erven No.'s 1268, 1994 and 1271, follows a curvilinear line along the 5m contour line around the estuary and ends on the boundary of Erven No.'s 1268 and 1271 east of the common boundary of Erf No. 1268 and remainder Erven No.'s 1270 and 1264</p>	<p>xiv – CML starts on the boundary of Erven No.'s 1271 and 1999, east of the common boundary between Erf No. 1030 and remainder Erf No. 1264, follows a curvilinear line along the 5m contour line around the estuary and ends on Erf No. 1271 approximately 0.29km south-west of the western point of the Waterside Road bridge over the Touw / Wilderness Estuary</p>	<p>xv - CML surrounds an "island" which falls outside the CML situated above the 5m contour line</p>	<p>xvi – CML starts on the boundary between Erven No.'s 1282 and 1275 west of Erf No. 1132 and ends on the boundary of Erf No. 1271 and Waterside road south of the north-eastern corner of Erf No. 1262</p>

		<p>xvii – CML starts on the boundary between Erven No.'s 1282 and 1275, along the eastern boundary of Erf No. 1275, follows a curvilinear line along the 5m contour line around the estuary and ends on Erf No. 1282, north of Erf No. 577</p> <p>i – CML starts on the boundary of Erf No. 1271 and Waterside road south of the north-eastern corner of Erf No. 1262, follows a curvilinear line along the 5m contour line around the estuary and ends on the boundary of Erven No.'s 939 and 1283 in line with the common boundary of Erven No.'s 570 and 80</p> <p>ii – CML starts on Erf No. 1282, north of Erf No. 577, follows a curvilinear line along the 100 year risk line along the coast and ends on the common boundary between unalienated state land and Erf No. 1462, south of Erf No. 1449</p> <p>iii – CML starts on the boundary of Erf No. 939 and Erf No. 1283, at the eastern border of Erf No. 939, follows a curvilinear line along the 5m contour line around the estuary and ends on the boundary of Erf No. 1283, adjacent to and in line with Erf No. 646</p> <p>iv – CML surrounds an "island" which falls outside the CML situated above the 5m contour line</p> <p>v - CML surrounds an "island" which falls outside the CML situated above the 5m contour line</p> <p>vi – CML starts on the boundary of Erf No. 963 adjacent to and in line with Erf No. 679, follows a curvilinear line along the 5m contour line around the estuary and ends on the boundary of Erf No. 963 adjacent to and in line with Erf No. 687</p> <p>vii - CML starts on the boundary of Erf No. 963 adjacent to and in line with Erf No. 2419, follows a curvilinear line along the 5m contour line around the estuary and ends on the boundary of Erf No. 963 adjacent to and in line with Erf No. 704</p>
2b	Wilderness, George Local Municipality, Garden Route District Municipality	

<p>viii - CML starts on the boundary of Erf No. 963 adjacent to and in line with Erf No. 706, follows a curvilinear line along the 5m contour line around the estuary and ends on the boundary of Erf No. 963 adjacent to and in line with Erf No. 723</p>	<p>ix - CML starts on the boundary of Erf No. 963 adjacent to and in line with Erf No. 2624, follows a curvilinear line along the 5m contour line around the estuary and ends on the boundary of Erf No. 963 adjacent to and in line with Erf No. 725</p>	<p>x - CML starts on the boundary of remainder Erf No. 1297 and portion 64 of Farm No. 192 approximately 0.1km east of Erf No. 2625, follows a curvilinear line along the 5m contour line around the estuary and ends on the boundary of remainder Erf No. 1297 and portion 64 of Farm No. 192 approximately 0.62km east of Erf No. 2625</p>	<p>xi - CML surrounds an "island" which falls outside the CML situated above the 5m contour line</p>	<p>xii - CML surrounds an "island" which falls outside the CML situated above the 5m contour line</p>	<p>xiii - CML starts on the boundary between portion 64 of Farm No. 192 and portion 310 of Farm No. 192 approximately 0.75km north of the junction of Die Vleie Road and the N2 and ends on the boundary between portion 64 of Farm No. 192 and portion 65 of Farm No. 192 approximately 0.21km west of the junction of Bo-Langvlei Road and Die Vleie Road</p>	<p>xiv - CML starts on the boundary between portion 64 of Farm No. 192 and portion 306 of Farm No. 192 approximately 0.57km north of the junction of Die Vleie Road and the N2 and ends on the boundary between portion 64 of Farm No. 192 and portion 249 of Farm No. 192 approximately 0.43 km north of the junction of Die Vleie Road and the N2</p>

		<p>xv – CML starts on the boundary between portion 64 of Farm No. 192 and portion 249 of Farm No. 192 approximately 0.41 km north of the junction of Die Vleie Road and the N2 and ends on the boundary between portion 64 of Farm No. 192 and remainder Erf No. 1298 approximately 0.4 km east of the junction of Die Vleie Road and the N2</p>
	2c	<p>i – CML starts on the common boundary between unalienated state land and remainder Erven No.'s 1288 and 1370, follows a curvilinear line along the 100 year risk line along the coast and ends on the common boundary between unalienated state land and remainder Farm No. 191 approximately 0.12km east of the common boundary between unalienated state land, remainder Erf No. 1288 and remainder Farm No. 191</p> <p>ii – CML starts on border between portion 64 of Farm No. 192 and the north-eastern boundary of portion 115 of Farm No. 192, in line with the northern boundary of portion 113 of Farm No. 192, follows a curvilinear line along the 5m contour line around the estuary and ends on the border between portion 34 of Farm No. 189 and remainder portion 15 of Farm No. 189, approximately 1.65km south of the junction of Bo-Langvlei Road and Rondevlei Road</p>
Zone B	1b	<p>i – CML starts on the boundary between portion 23 of Farm No. 187 and portion 17 of Farm No. 186 near the northernmost tip of portion 23 of Farm No. 187, follows a curvilinear line along the 5m contour line around the estuary and ends on the boundary between portion 23 of Farm No. 187 and portion 17 of Farm No. 186 near the northernmost tip of portion 23 of Farm No. 187</p> <p>ii – CML starts on the boundary between portion 11 of Farm No. 187 and portion 17 of Farm No. 186 near the southernmost tip of the common boundary between the two properties, follows a curvilinear line along the 5m contour line around the estuary and ends on the boundary between portion 23 of Farm No. 187 and portion 36 of Farm No. 186 near the northern-eastern tip of portion 36 of Farm No. 186</p>

		<p>iii – CML starts on the boundary between portion 10 of Farm No. 187 and portion 37 of Farm No. 187, approximately 0.21km east of the eastern extent of portion 26 of Farm No. 187, follows a curvilinear line along the 5m contour line around the estuary and ends on the boundary between portions 10 and 36 of Farm No. 187 along the northern boundary of portion 36 of Farm No. 187</p>
2a	Wilderness, George Local Municipality, Garden Route District Municipality	<p>i – CML starts on the boundary between unalienated state land and remainder Farm No. 191 approximately 0.12km east of the common boundary between unalienated state land, remainder Erf No. 1288 and remainder Farm No. 191, follows a curvilinear line along the 100 year risk line along the coast, or the park boundary and ends along the coastline of unalienated state land situated south of the southern border of portion 14 of Farm No. 189</p>
2b	Wilderness, George Local Municipality, Garden Route District Municipality Sedgefield, Knysna Local Municipality, Garden Route District Municipality	<p>i – CML starts along the coastline of unalienated state land situated south of the southern border of portion 14 of Farm No. 189, follows a curvilinear line along the 100 year risk line along the coast and ends along the coastline of unalienated state land situated south of the southern boundary of remainder portion 1 of Farm No. 187</p>
2c	Sedgefield, Knysna Local Municipality, Garden Route District Municipality	<p>i – CML starts along the coastline of unalienated state land situated south of the southern boundary of remainder portion 1 of Farm No. 187, follows a curvilinear line along the 100 year risk line along the coast and ends on the boundary between unalienated state land and remainder Farm No. 185 along the western border of remainder Farm No. 185</p>
1a	Knysna Local Municipality, Garden Route District Municipality	<p>i – CML starts at the western bank of the Noetzie Estuary mouth along the border of remainder of Farm No. 394, east of Erf No. 20374, follows a curvilinear line along the 100 year risk line along the coast and 5m contour line around the estuary and ends on the eastern shore of the Noetzie Estuary, east of Erf No. 20330</p>
	Zone C	

	2a	<p>Krystna Local Municipality, Garden Route District Municipality</p> <p>Bitou Local Municipality, Garden Route District Municipality</p>	<p>i – CML starts on the eastern shore of the Noetzie Estuary, east of Erf No. 20330, follows a curvilinear line along the 100 year risk line along the coast and ends along the coastline of Farm No. 558, approximately 3.4 km east of the Noetzie Estuary mouth</p>
	2b	<p>Bitou Local Municipality, Garden Route District Municipality</p>	<p>i – CML starts along the coastline of Farm No. 558, approximately 3.4 km east of the Noetzie Estuary mouth, follows a curvilinear line along the 100 year risk line along the coast and ends along the coastline of Farm No. 558, approximately 7.1 km east of the Noetzie Estuary mouth</p>
	2c	<p>Bitou Local Municipality, Garden Route District Municipality</p>	<p>i – CML along the coastline of Farm No. 558, approximately 7.1 km east of the Noetzie Estuary mouth, follows a curvilinear line along the 100 year risk line along the coast and ends at the southernmost point where Farm No. 558 and remainder Farm No. 432 have a common boundary</p>
Zone D	1c	<p>Bitou Local Municipality, Garden Route District Municipality</p>	<p>i – CML starts along the coastline of Farm No. 241 approximately 0.7 km south-west of the Sout (Oos) Estuary mouth, follows a curvilinear line along the 100 year risk line along the coast and 5m contour line around the estuary and ends at the boundary between Farm No. 241, unalienated state land and Erf No. 444</p>
	2a	<p>Bitou Local Municipality, Garden Route District Municipality</p>	<p>i – CML starts along the coastline near the border between remainder of Farm No. 296 and portion 1 of Farm No. 299, follows a curvilinear line along the 100 year risk line along the coast and ends along the coastline near the border between portion 1 of Farm No. 299 and remainder of Farm No. 496</p> <p>ii – CML starts along the coastline at the border between remainder of Farm No. 496 and Farm No. 241, follows a curvilinear line along the 100 year risk line along the coast and ends along the coastline of Farm No. 241, approximately 0.4 km northeast of the border between remainder of Farm No. 496 and Farm No. 241</p>

	2b	Bitou Local Municipality, Garden Route District Municipality	i – CML starts along the coastline of Farm No. 241, approximately 0.4 km northeast of the border between remainder of Farm No. 496 and Farm No. 241, follows a curvilinear line along the 100 year risk line along the coast and ends along the coastline of Farm No. 241 approximately 1.9 km southwest of the Sout (Oos) Estuary mouth
	2c	Bitou Local Municipality, Garden Route District Municipality	i – CML starts along the coastline of Farm No. 241 approximately 1.9 km southwest of the South (Oos) Estuary mouth, follows a curvilinear line along the 100 year risk line along the coast and ends along the coastline of Farm No. 241 approximately 0.7 km south-west of the Sout (Oos) Estuary mouth
Zone E	1a	Nature's Valley, Bitou Local Municipality, Garden Route District Municipality	i – CML starts on Farm No. 241 at the Nature's Valley Rest Camp, follows a curvilinear line along the 5m contour line around the estuary and ends on Farm No. 250 near the eastern shore of the Groot (West) Estuary opposite the Nature's Valley Rest Camp
2a		Nature's Valley, Bitou Local Municipality, Garden Route District Municipality	i – CML starts on the boundary of Farm No. 241 north of Erf No. 455, follows a curvilinear line along the 5m contour line around the estuary and ends on Farm No. 241 at the Nature's Valley Rest Camp  ii – CML starts on Farm No. 250 near the eastern shore of the Groot (West) Estuary opposite the Nature's Valley Rest Camp, follows a curvilinear line along the 100 year risk line along the coast and 5m contour line around the estuary and ends near the southernmost point of the boundary between Farm No. 250 and Farm No. 287
			iii – CML starts near the southernmost point of the boundary between Farm No. 250 and Farm No. 287, follows a curvilinear line along the 10m contour line along the coast and ends approximately 0.85 km east of the south-easternmost point of Farm No. 287
	2b	Bitou Local Municipality, Garden Route District	i – CML starts approximately 0.85 km east of the south-easternmost point of Farm No. 287, follows a curvilinear line along the 10m contour line along the coast and



	Municipality	ends approximately 0.1 km southwest of the Klip River mouth on Farm No. 287
2c	Bitou Local Municipality, Garden Route District Municipality  Kou-Kamma Local Municipality, Sarah Baardman District Municipality	i – CML starts approximately 0.1 km southwest of the Klip River mouth on Farm No. 287, follows a curvilinear line along the 10m contour line along the coast, the 5m contour along the estuary and short straight lines joining the 5m and 10 contour lines at their closest points around the estuary mouth and ends approximately 0.3 km east of the Bloukrantz Estuary mouth on Farm No. 397
Zone F	1a	i – CML starts approximately 100m west of the Bloukrantz Estuary mouth on Farm No. 250, follows a curvilinear line along the 10m contour line along the coast, the 5m contour along the estuary and short straight lines joining the 5m and 10 contour lines at their closest points around the estuary mouth and ends approximately 2.9 km east of the Bloukrantz Estuary mouth on Farm No. 397
	1b	i – CML starts along the coastline on Farm No. 397 approximately 2.9 km east of the Bloukrantz Estuary mouth, follows a curvilinear line along the 10m contour line along the coast and ends along the coastline approximately 3 km east of the Bloukrantz River mouth on Farm No. 397
	2b	i – CML starts along the coastline approximately 3 km east of the Bloukrantz River mouth on Farm No. 397, follows a curvilinear line along the 10m contour line along the coast and ends along the coastline on Farm No. 397 approximately 2 km west of the Lottering Estuary mouth
	2c	i – CML starts along the coastline on Farm No. 397 approximately 2 km west of the Lottering Estuary mouth, follows a curvilinear line along the 10m contour line along the coast, the 5m contour along the estuary and short straight lines joining the 5m and 10 contour lines at their closest points around the estuary mouth and ends on along the coastline Farm No. 397 approximately 1 km east of the Lottering Estuary mouth

Zone G	1a	Kou-Kamma Local Municipality, Sarah Baardman District Municipality	<p>i – CML starts along the coastline on Farm No. 397 approximately 0.5 km east of the Lottering Estuary mouth, follows a curvilinear line along the 10m contour line along the coast, the 5m contour along the estuary and short straight lines joining the 5m and 10 contour lines at their closest points around the estuary mouth and ends on the boundary between unalienated state land and Farm No. 412 on the western side of the Elansbos Estuary</p>
			<p>ii – CML starts on the boundary between unalienated state land and Farm No. 412 on the eastern side of the Elansbos Estuary, follows a curvilinear line along the 10m contour line along the coast, the 5m contour along the estuary and short straight lines joining the 5m and 10 contour lines at their closest points around the estuary mouth and ends along the coastline on Farm No. 397 immediately east of the Elansbos Estuary mouth</p>
	2a	Kou-Kamma Local Municipality, Sarah Baardman District Municipality	<p>i – CML starts along the coastline on Farm No. 397 immediately east of the Elansbos Estuary mouth, follows a curvilinear line along the 10m contour line along the coast and ends along the coastline on Farm No. 397 approximately 0.8 km east of the Elansbos Estuary mouth</p>
	2b	Kou-Kamma Local Municipality, Sarah Baardman District Municipality	<p>i – CML starts along the coastline on Farm No. 397 approximately 0.8 km east of the Elansbos Estuary mouth, follows a curvilinear line along the 10m contour line along the coast and ends along the coastline on Farm No. 397, west of the southernmost section of the boundary between Farm No. 397 and Farm No. 429 (Kleinbos river mouth)</p>
	2c	Kou-Kamma Local Municipality, Sarah Baardman District Municipality	<p>i – CML starts along the coastline on Farm No. 397, west of the southernmost section of the boundary between Farm No. 397 and Farm No. 429 (Kleinbos river mouth), follows a curvilinear line along the 10m contour line along the coast and ends along the coastline on Farm No. 429 approximately 3.1 km east of the Kleinbos River mouth</p>
Zone H	1a	Kou-Kamma Local	<p>i – CML starts along the coastline on Farm No. 429 approximately 2.7 km east of</p>

	Municipality, Sarah Baardman District Municipality	the Kleinbos River mouth, follows a curvilinear line along the 10m contour line along the coast and ends along the coastline on Farm No. 429 approximately 2.6 km west of the Storms River mouth	
1b	Kou-Kamma Local Municipality, Sarah Baardman District Municipality	i – CML starts along the coastline on Farm No. 429 approximately 2.6 km west of the Storms River mouth, follows a curvilinear line along the 10m contour line along the coast, a curvilinear line based on historical records of flood risk in front of the Storms River Rest Camp, the 5m contour along the estuary and short straight lines joining the 5m and 10 contour lines at their closest points around the estuary mouth and ends along the coastline on Farm No. 431 approximately 0.7 km east of the Storms River mouth	
1c	Kou-Kamma Local Municipality, Sarah Baardman District Municipality	i – CML starts along the coastline on Farm No. 431 approximately 0.7 km east of the Storms River mouth, follows a curvilinear line along the 10m contour line along the coast and ends along the coastline on Farm No. 431 approximately 3.5 km east of the Storms River mouth	
Zone I	1a	Kou-Kamma Local Municipality, Sarah Baardman District Municipality	i – CML starts along the coastline on Farm No. 431 approximately 3 km east of the Storms River mouth, follows a curvilinear line along the 10m contour line along the coast and ends along the coastline on Farm No. 431 approximately 4.9 km east of the Storms River mouth, south of the southernmost point of the boundary between Farm No. 441 and Farm No. 442
	2a	Kou-Kamma Local Municipality, Sarah Baardman District Municipality	i – CML starts along the coastline on Farm No. 431 approximately 4.9 km east of the Storms River mouth, south of the southernmost point of the boundary between Farm No. 441 and Farm No. 442, follows a curvilinear line along the 10m contour line along the coast and ends along the coastline on Farm No. 431 approximately 6.1 km east of the Storms River mouth, south of Farm No. 443
	2b	Kou-Kamma Local Municipality, Sarah Baardman District Municipality	i – CML starts along the coastline on Farm No. 431 approximately 6.1 km east of the Storms River mouth, south of Farm No. 443, follows a curvilinear line along the 10m contour line along the coast and ends along the coastline on Farm No. 448

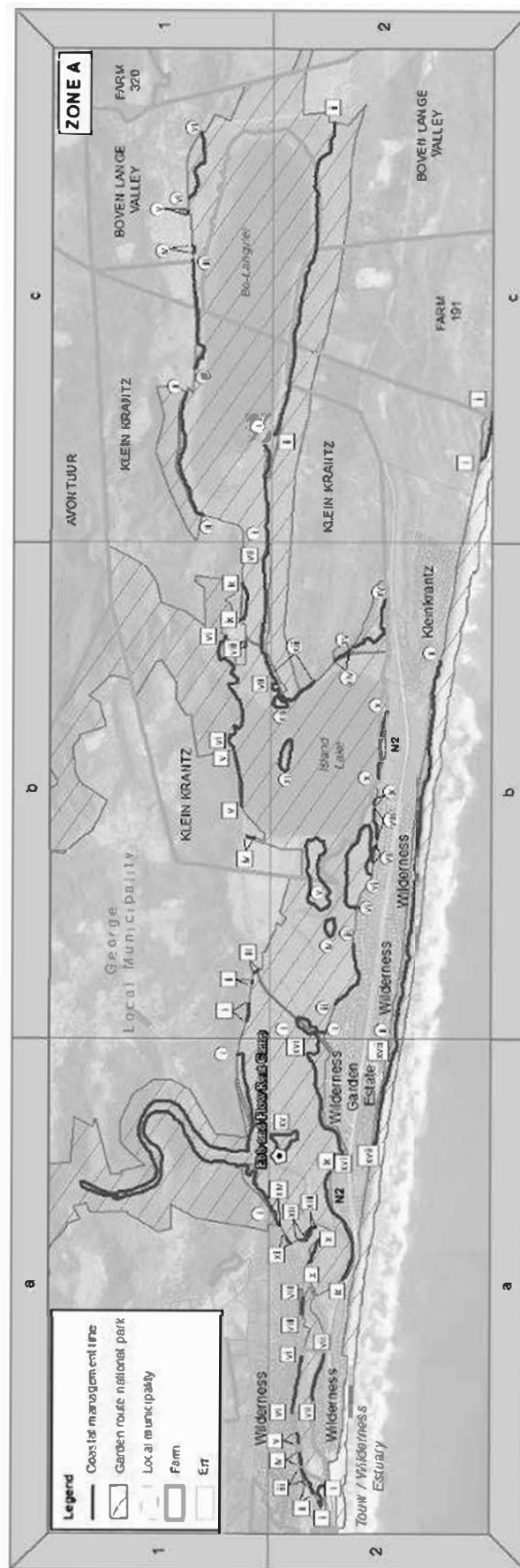
			approximately 9.3 km east of the Storms River mouth, south of Farm No. 449
2c	Kou-Kamma Local Municipality, Sarah Baardman District Municipality		i – CML starts along the coastline on Farm No. 448 approximately 9.3 km east of the Storms River mouth, south of Farm No. 449, follows a curvilinear line along the 10m contour line along the coast and ends along the coastline on Farm No. 523 approximately 4 km west of the Elands River mouth
Zone J		1a	i – CML starts along the coastline on Farm No. 523 approximately 4 km west of the Elands River mouth, follows a curvilinear line along the 10m contour line along the coast and ends along the coastline on Farm No. 523 approximately 0.8 km west of the Elands River mouth
		1b	i – CML starts along the coastline on Farm No. 523 approximately 0.8 km west of the Elands River mouth, follows a curvilinear line along the 10m contour line along the coast, or the park boundary if the 10m contour line extends beyond the park boundary and ends along the coastline within the Tsitsikamma section of the Garden Route National Park immediately south of portion 2 of Farm No. 569 (no Farm No.) approximately 2.3 km east of the Elands River mouth
2c	Kou-Kamma Local Municipality, Sarah Baardman District Municipality		i – CML starts along the coastline within the Tsitsikamma section of the Garden Route National Park immediately south of portion 2 of Farm No. 569 (no Farm No.) approximately 2.3 km east of the Elands River mouth, follows a curvilinear line along the 10m contour line along the coast and ends along the coastline within the Tsitsikamma section of the Garden Route National Park immediately south of portion 2 of Farm No. 569 (no Farm No.) approximately 5.2 km west of the Groot (Oos) River mouth, east of the south-eastern border point of Farm No. 571
Zone K		1a	i – CML starts along the coastline on Farm No. 571 approximately 5.2 km west of the Groot (Oos) River mouth, follows a curvilinear line along the 10m contour line along the coast and ends along the coastline within the Tsitsikamma section of the Garden Route National Park immediately south of portion 2 of Farm No. 569 (no Farm No.) approximately 2.8 km west of the Groot (Oos) River mouth, south of Farm No. 577

	1b	Kou-Kamma Local Municipality, Sarah Baardman District Municipality	<p>i – CML starts along the coastline within the Tsitsikamma section of the Garden Route National Park immediately south of portion 2 of Farm No. 569 (no Farm No.) approximately 2.8 km west of the Groot (Oos) Estuary mouth, south of Farm No. 577, follows a curvilinear line along the 10m contour line along the coast, the 5m contour along the estuary, or the park boundary if the 5m contour line extends beyond the park boundary and ends on Farm No. 582 along the western bank of the Groot (Oos) Estuary mouth</p>
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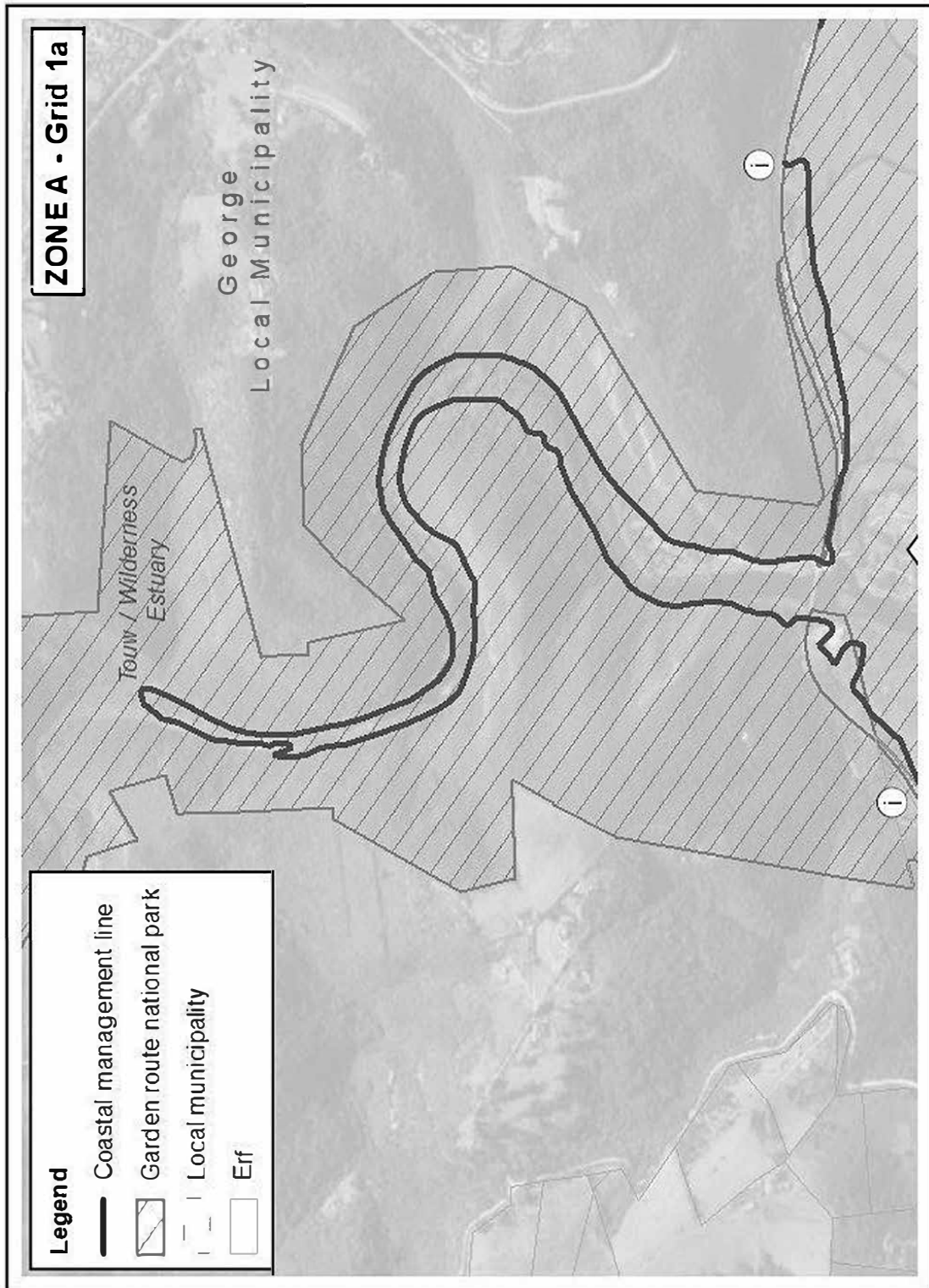
**Annexure 2 – Maps showing the Coastal Management Line and Park Boundary (Grid Maps)**

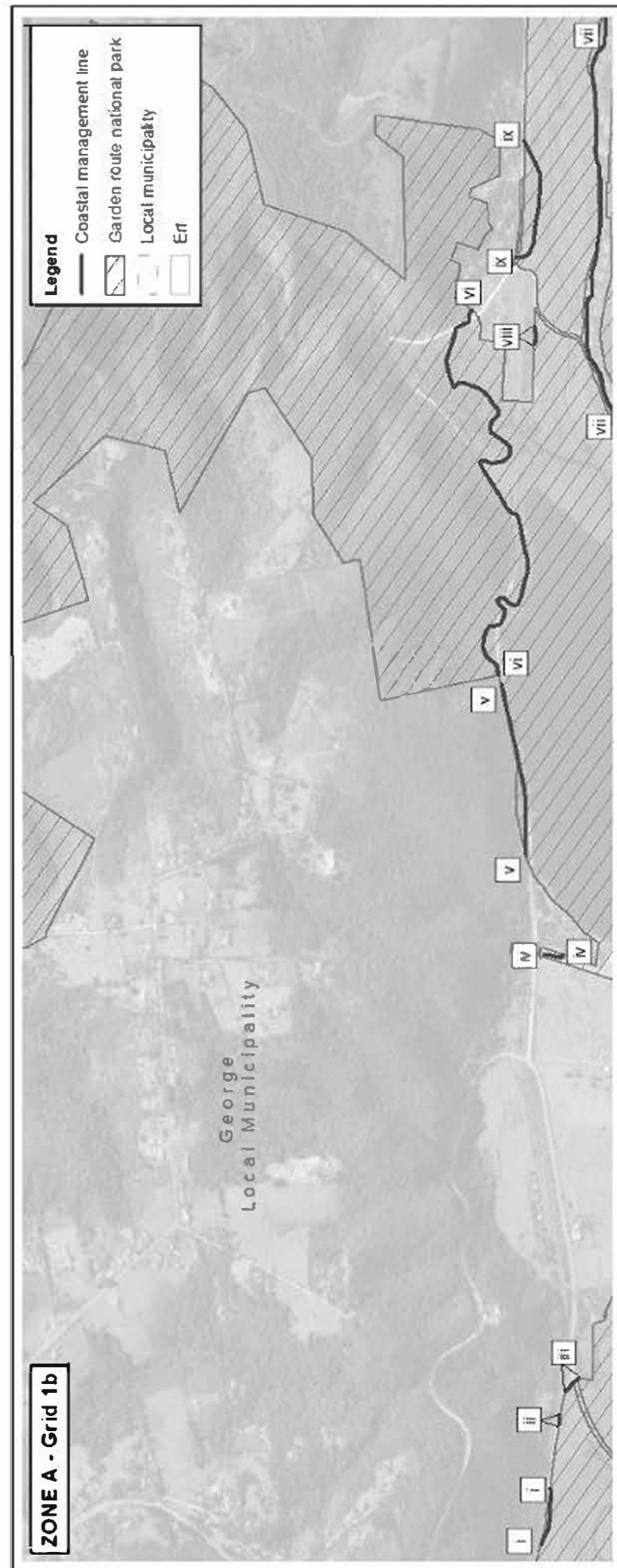
All the maps included below must be interpreted together with the C:ML descriptions in Annexure 1 above.

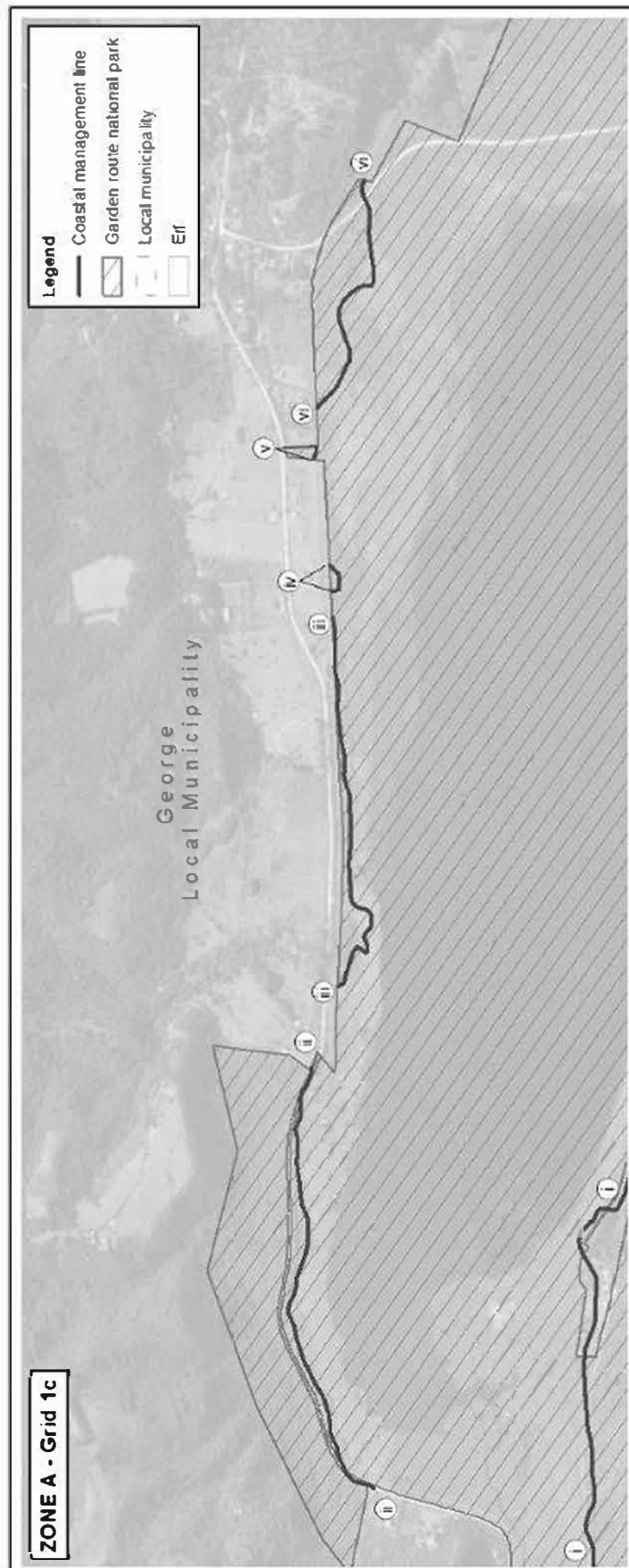


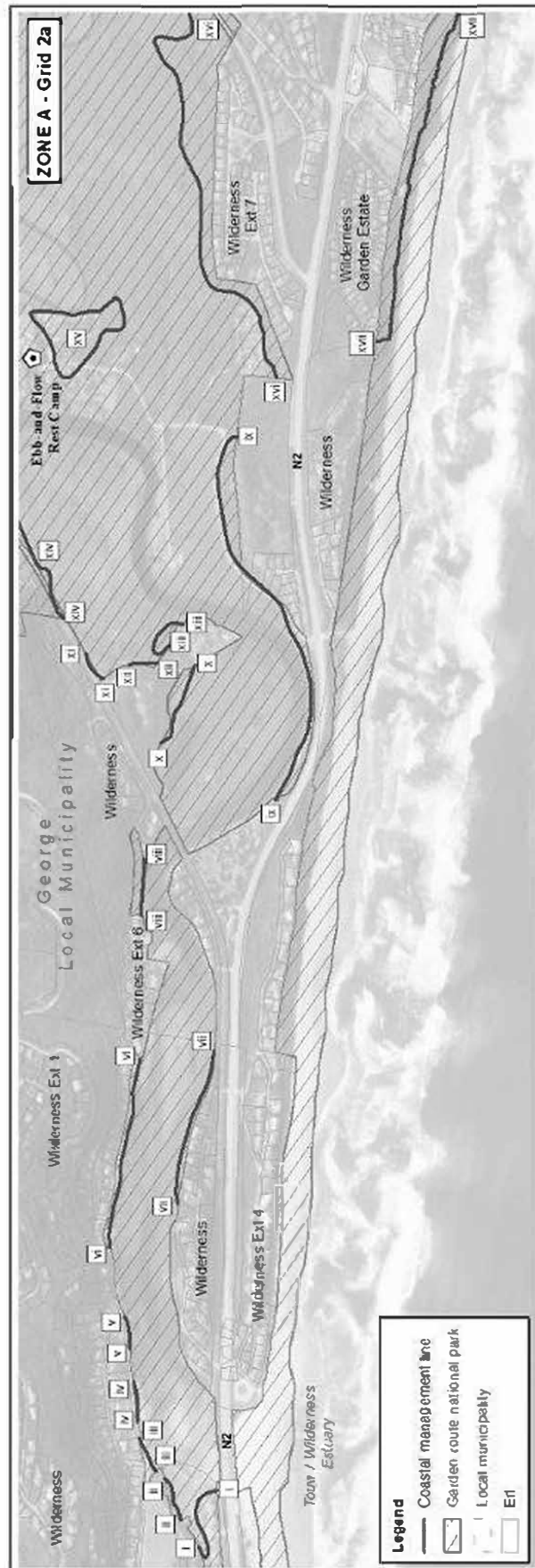


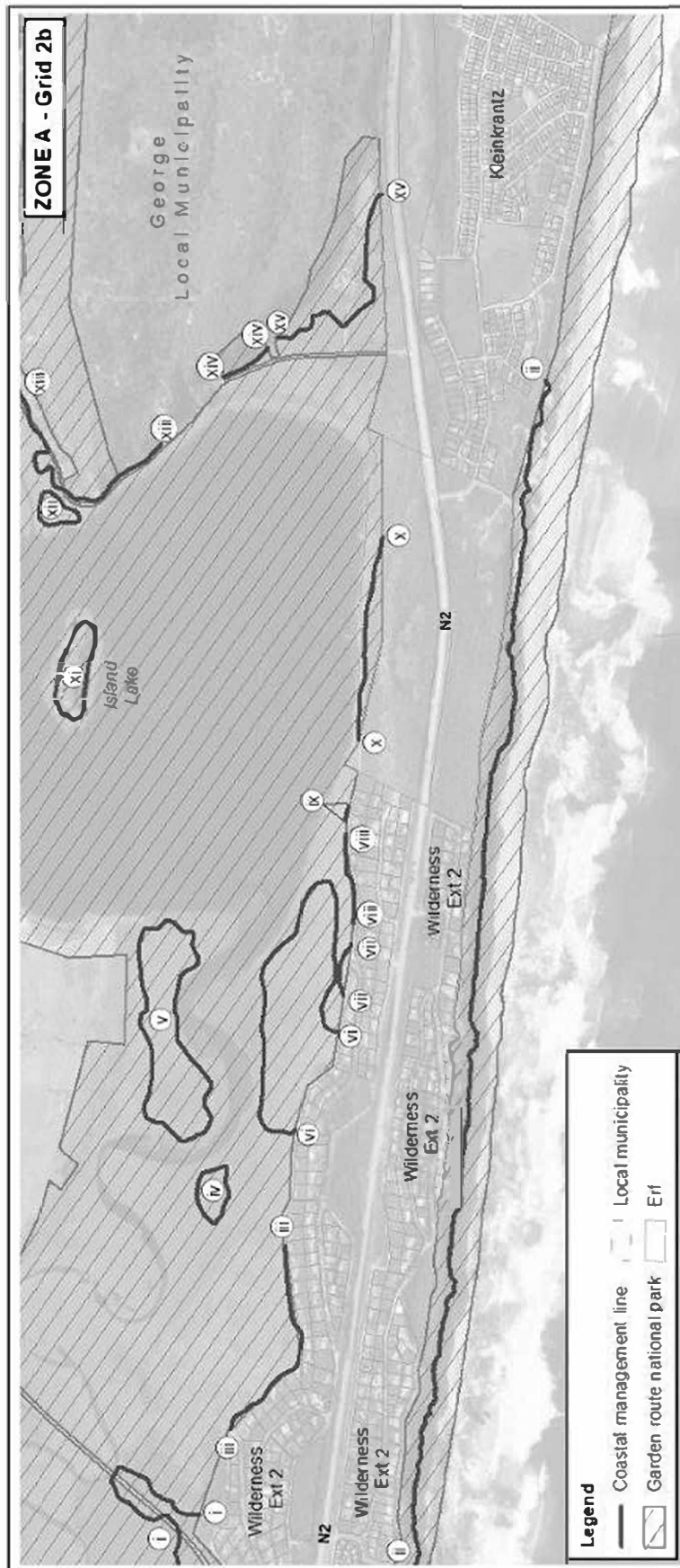


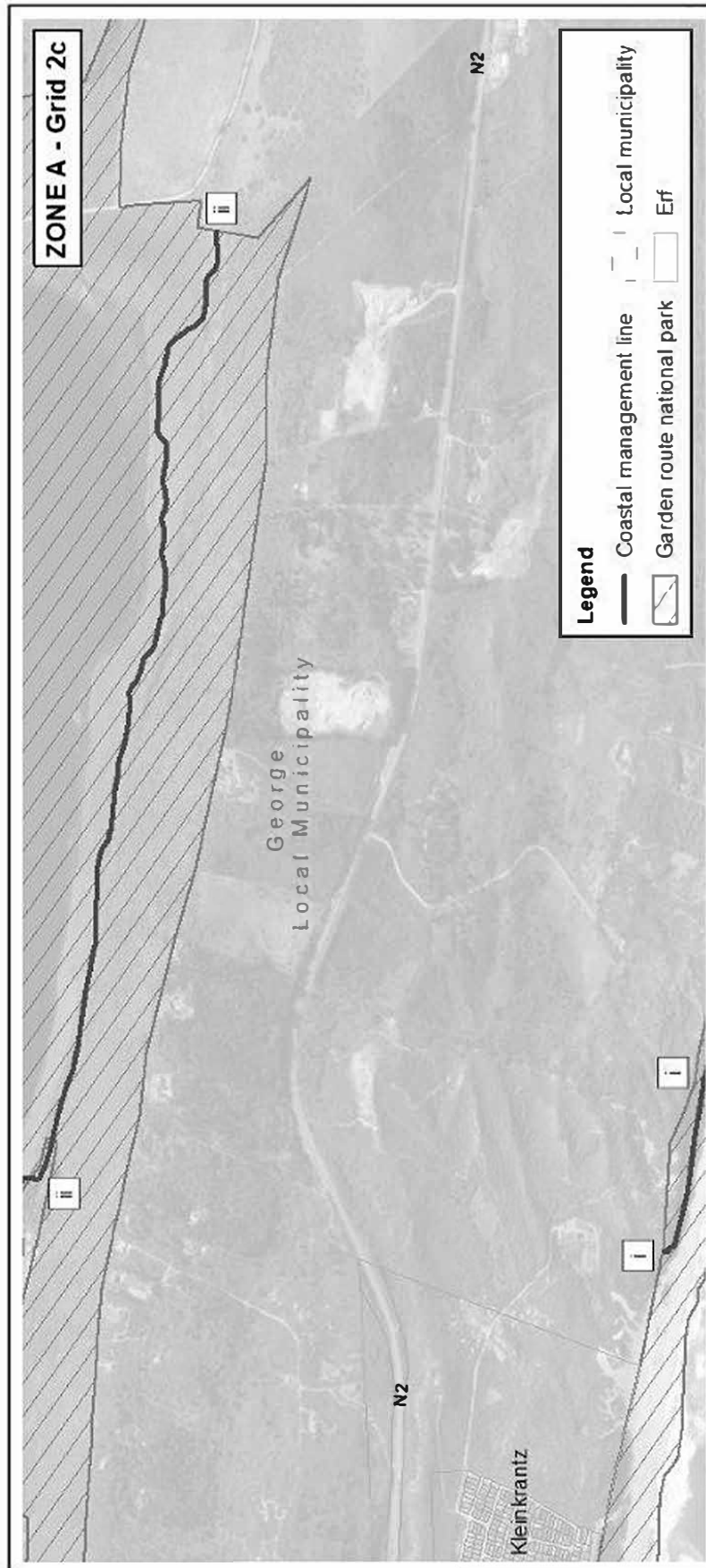


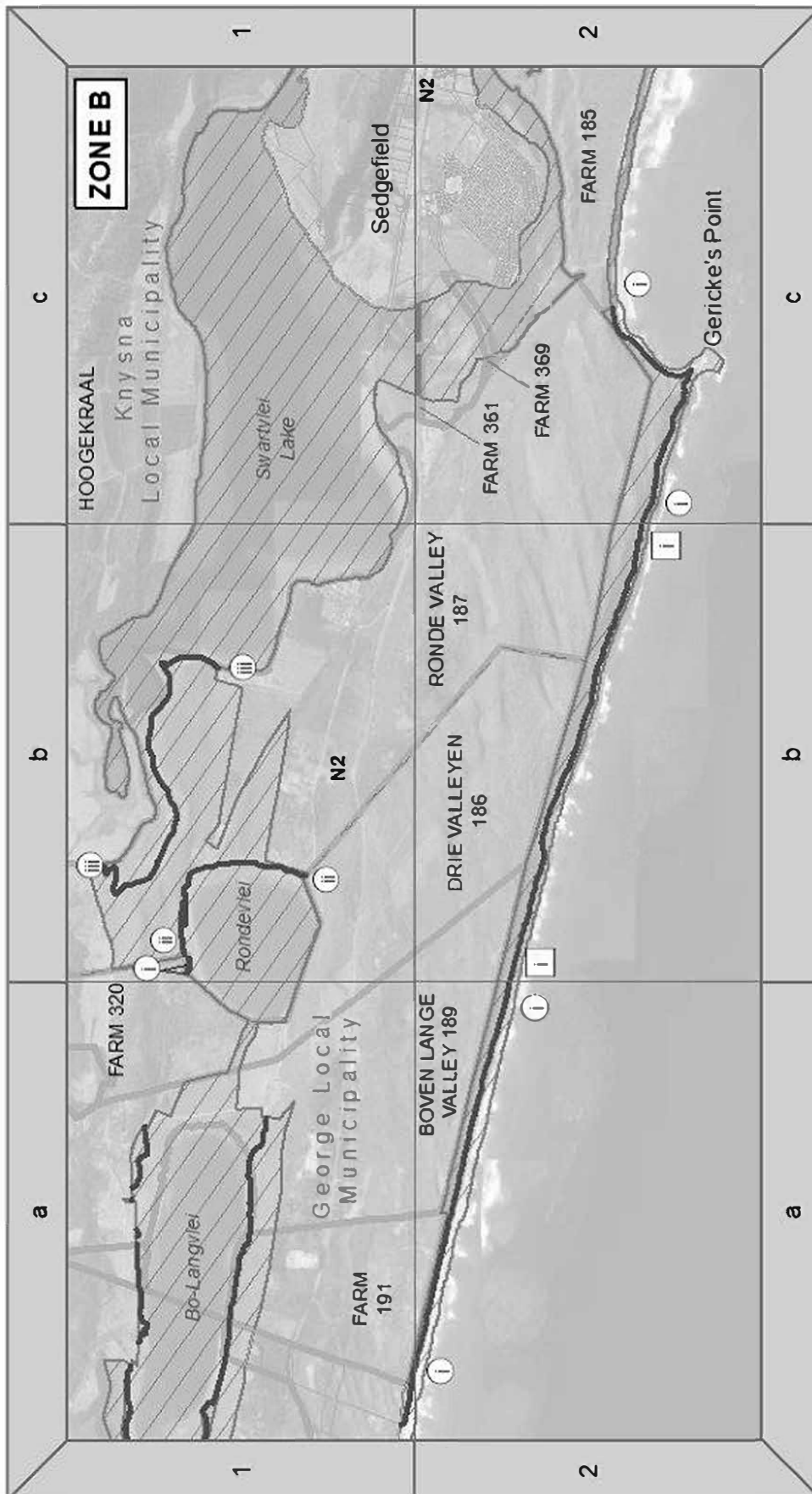


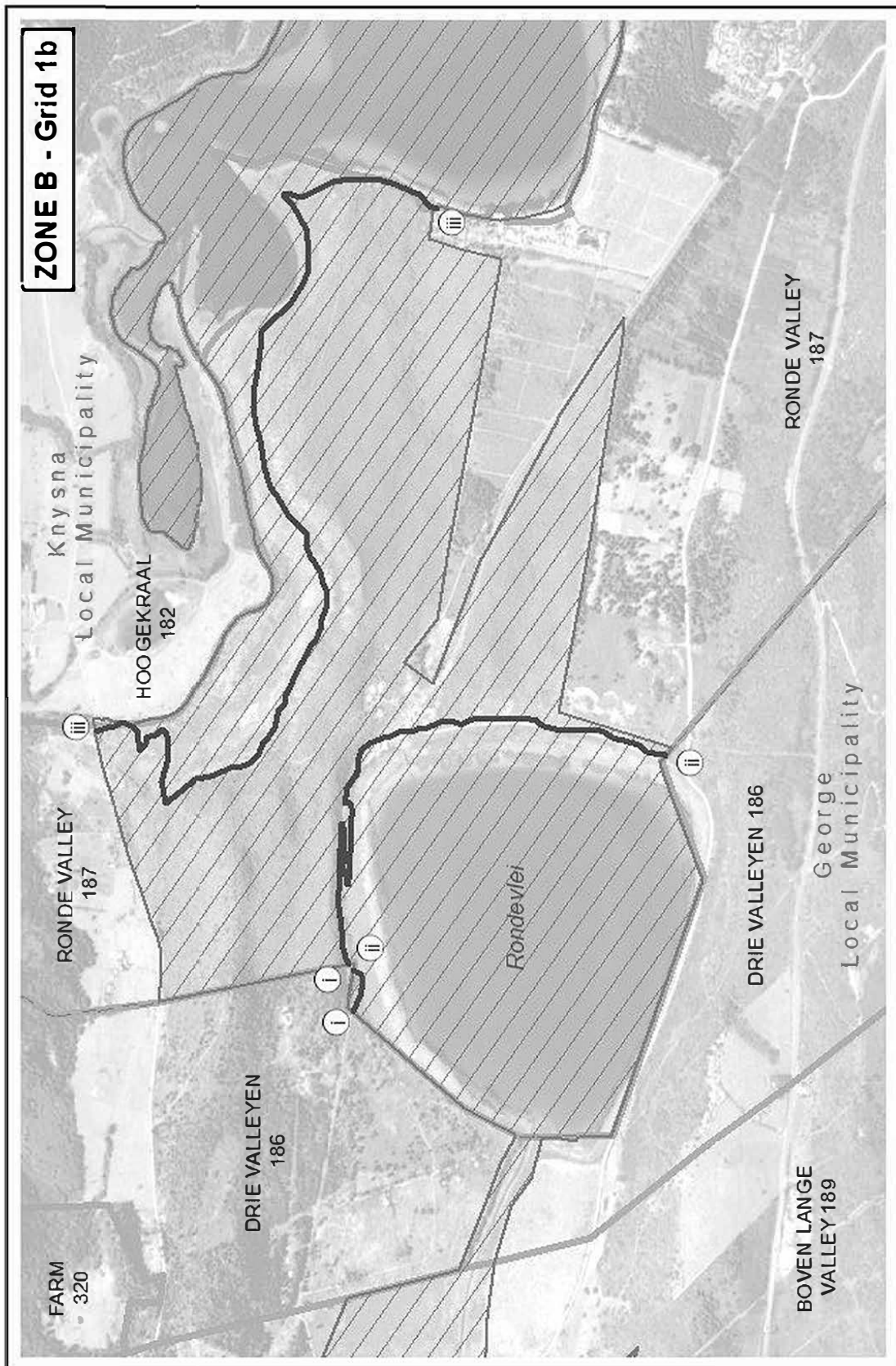




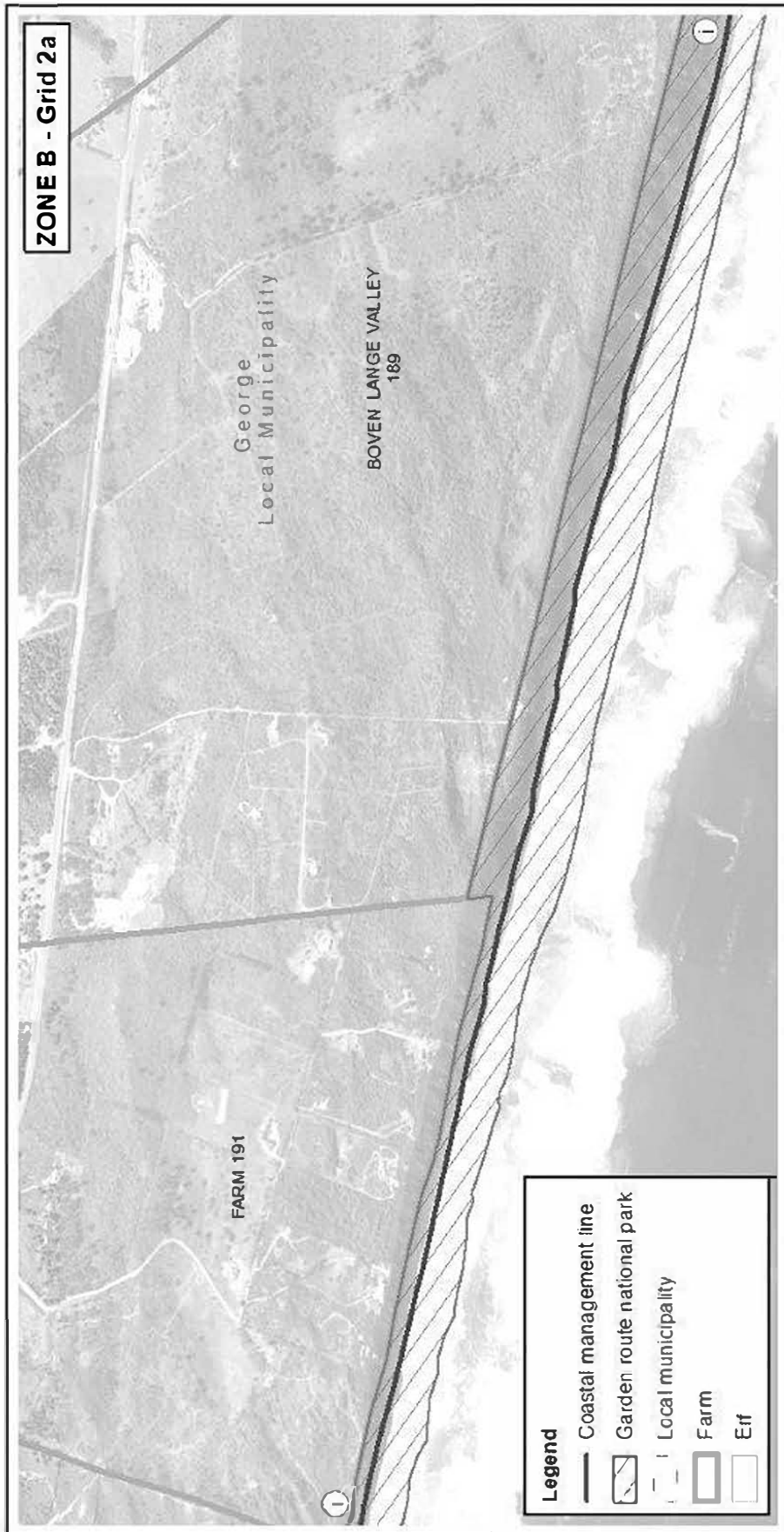


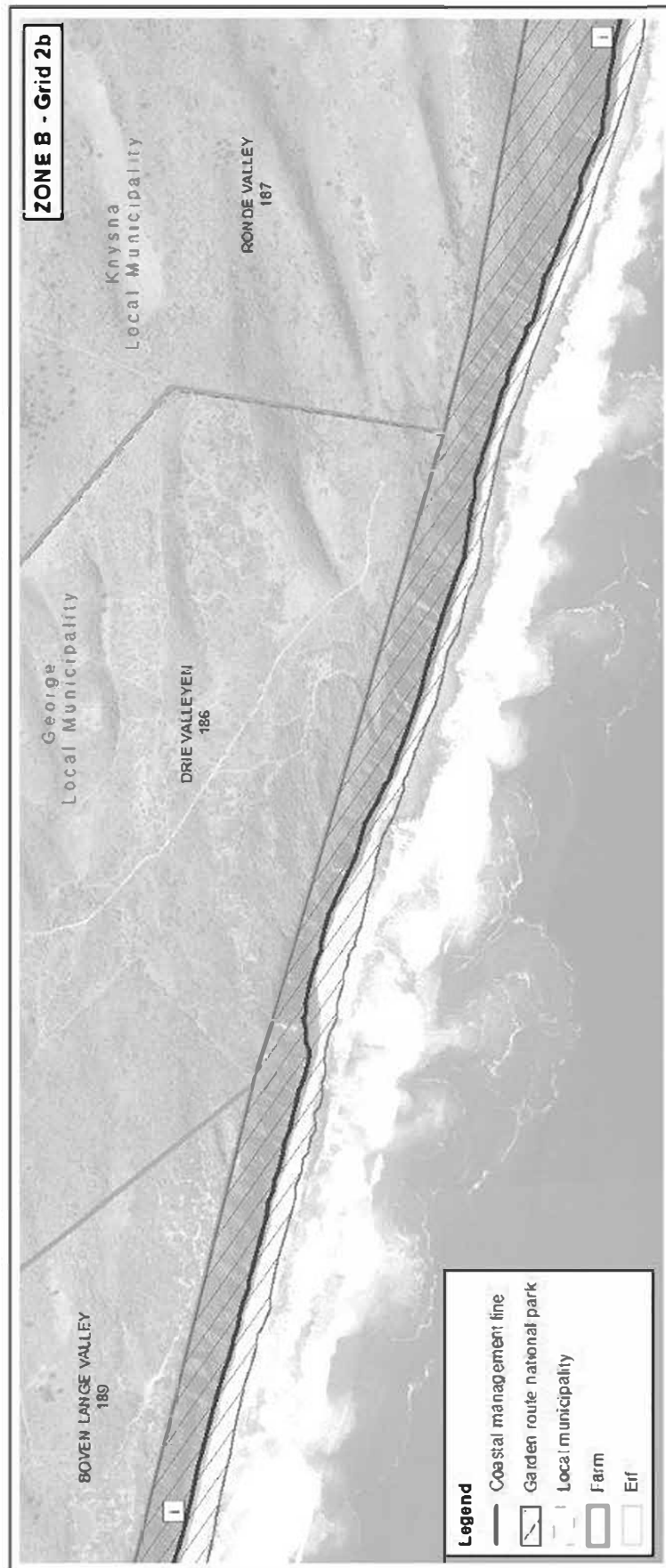


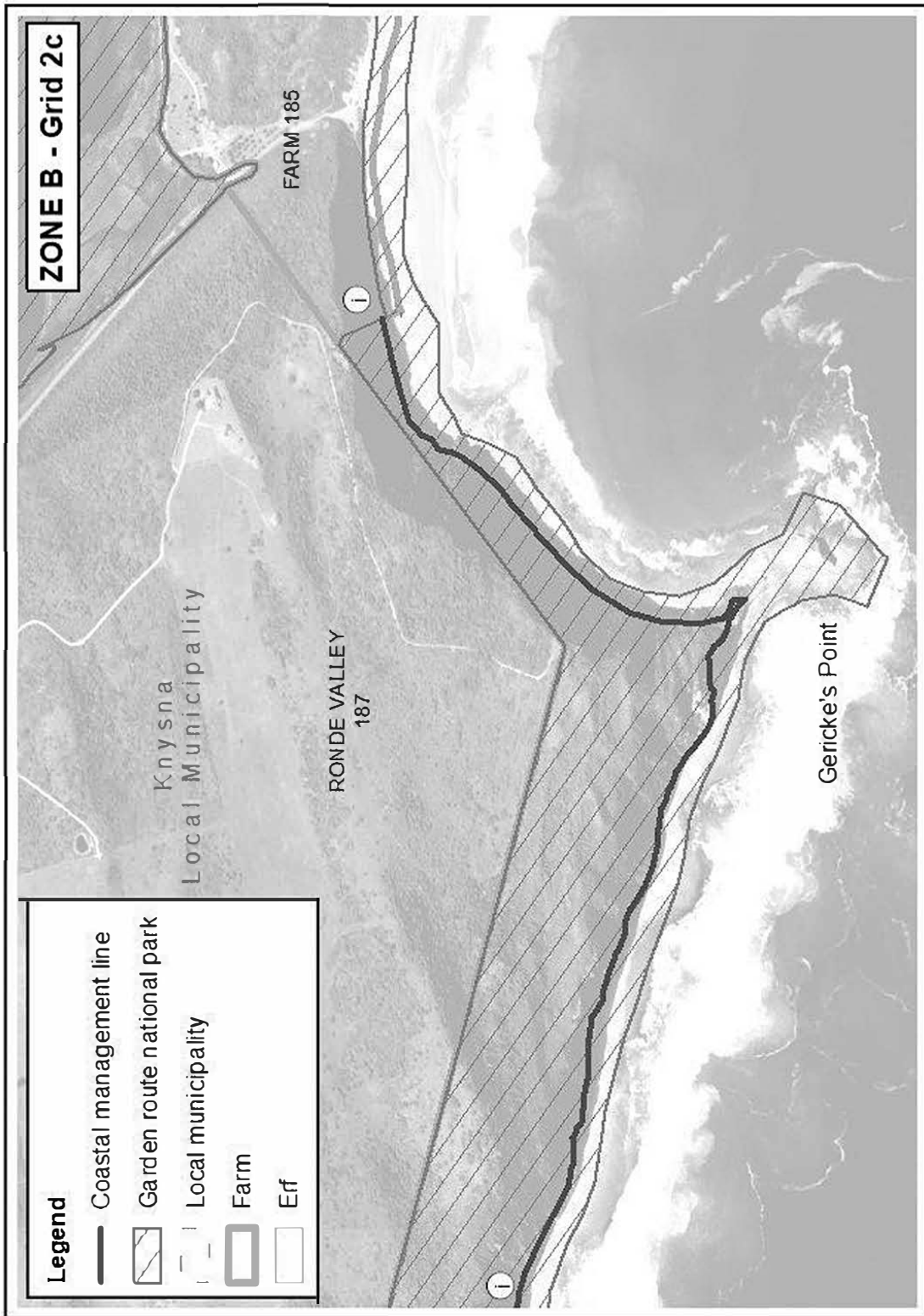


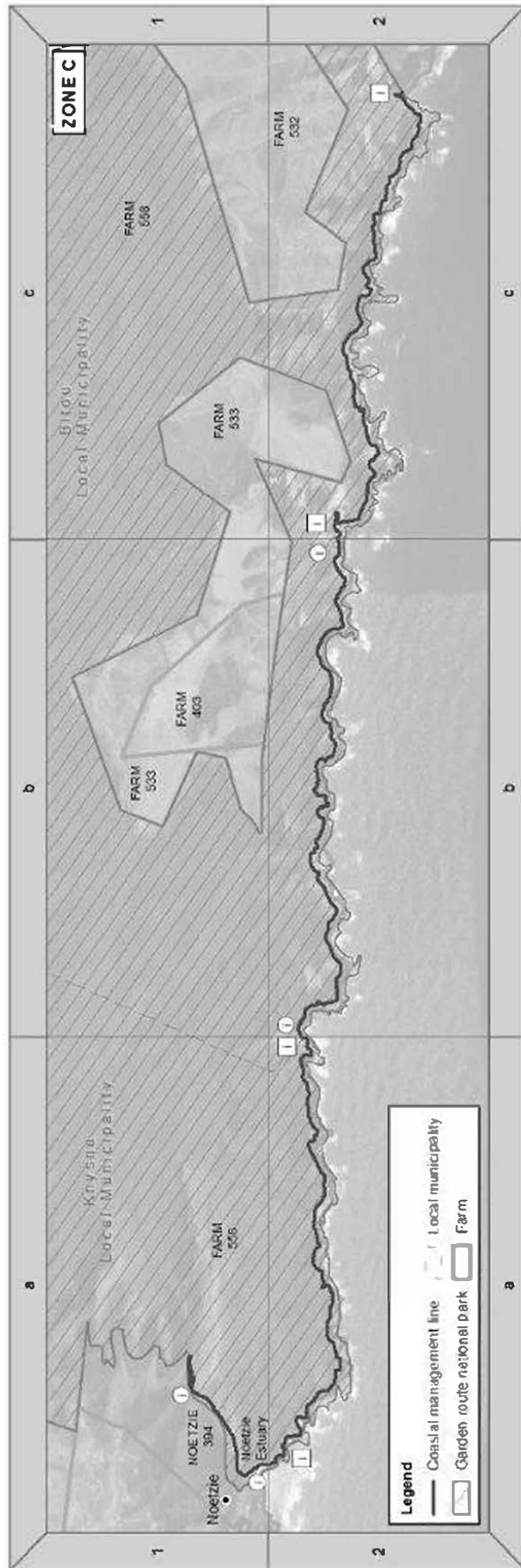


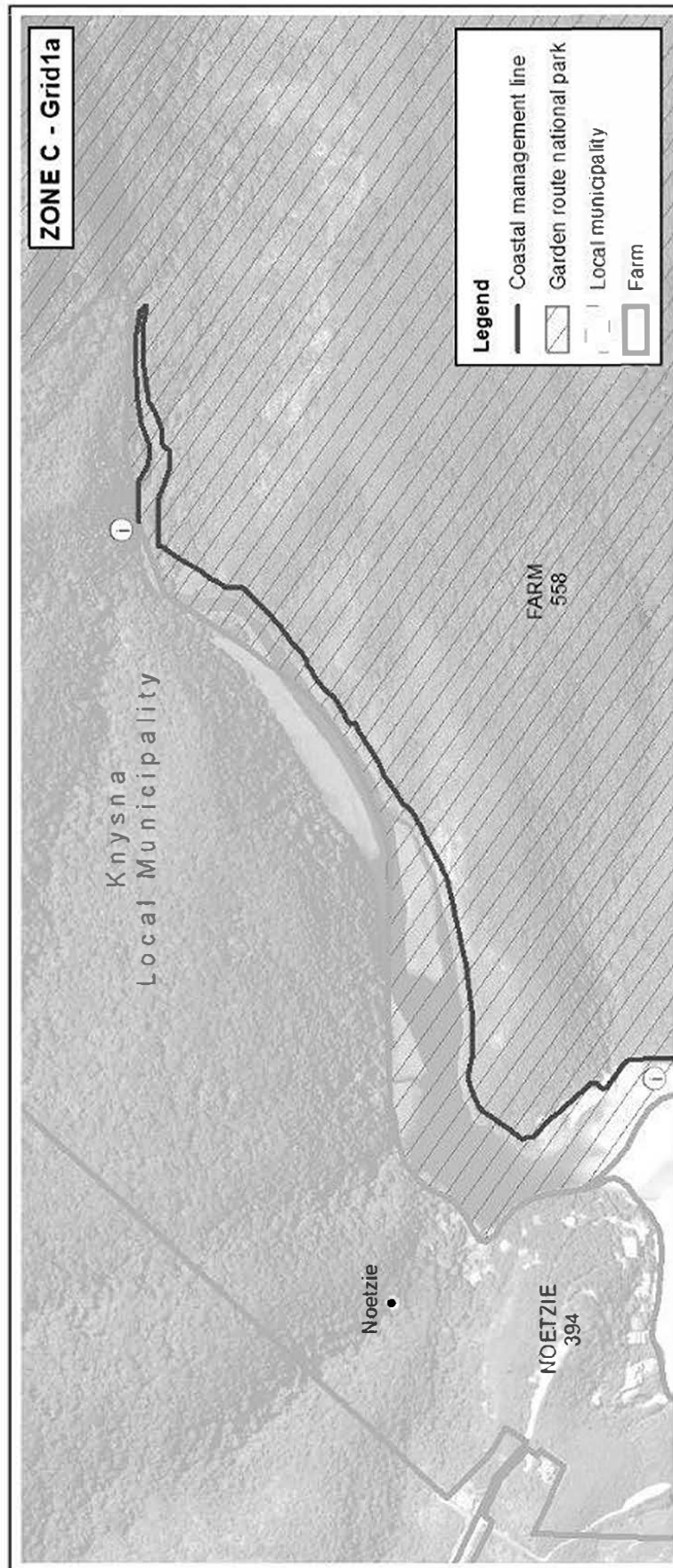


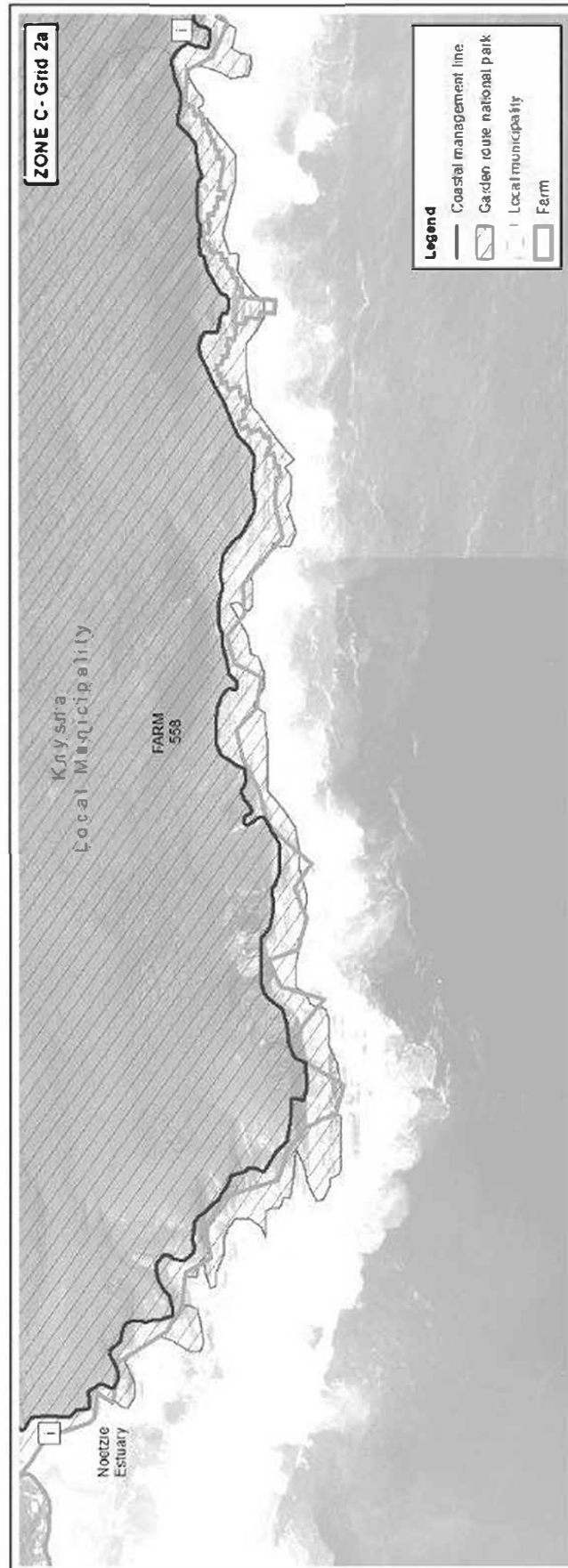


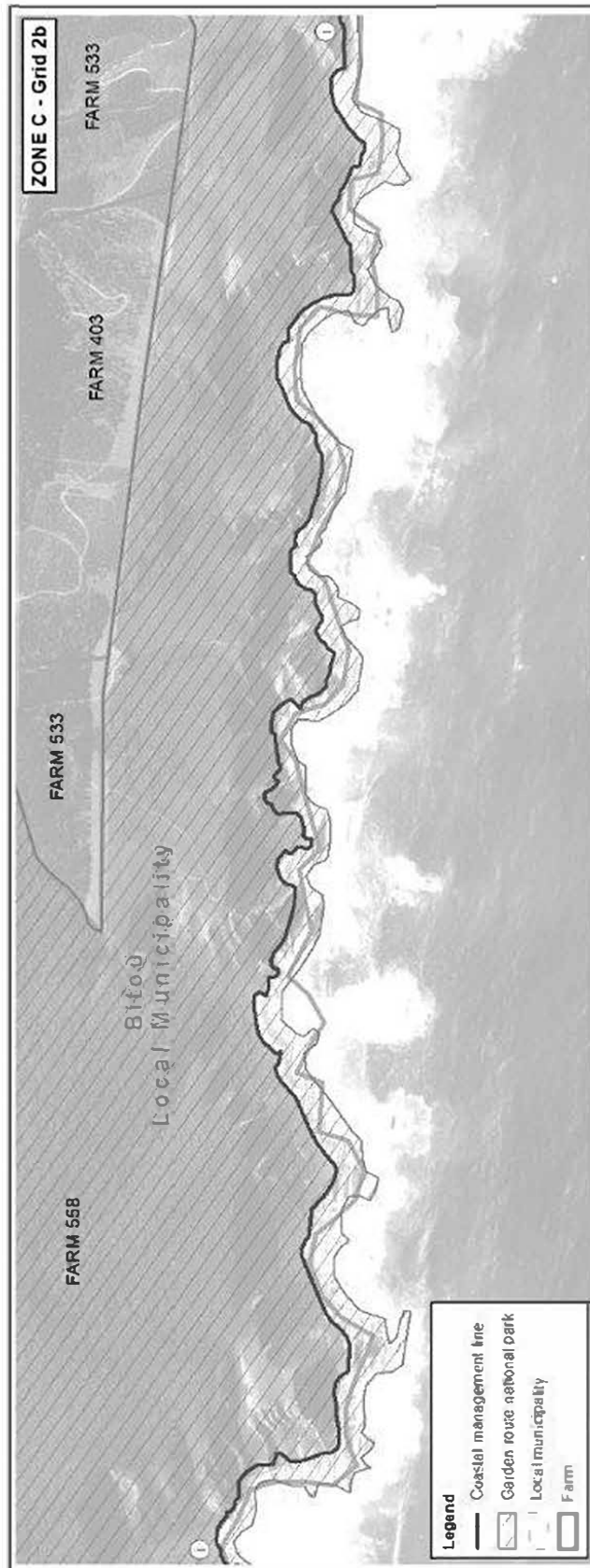


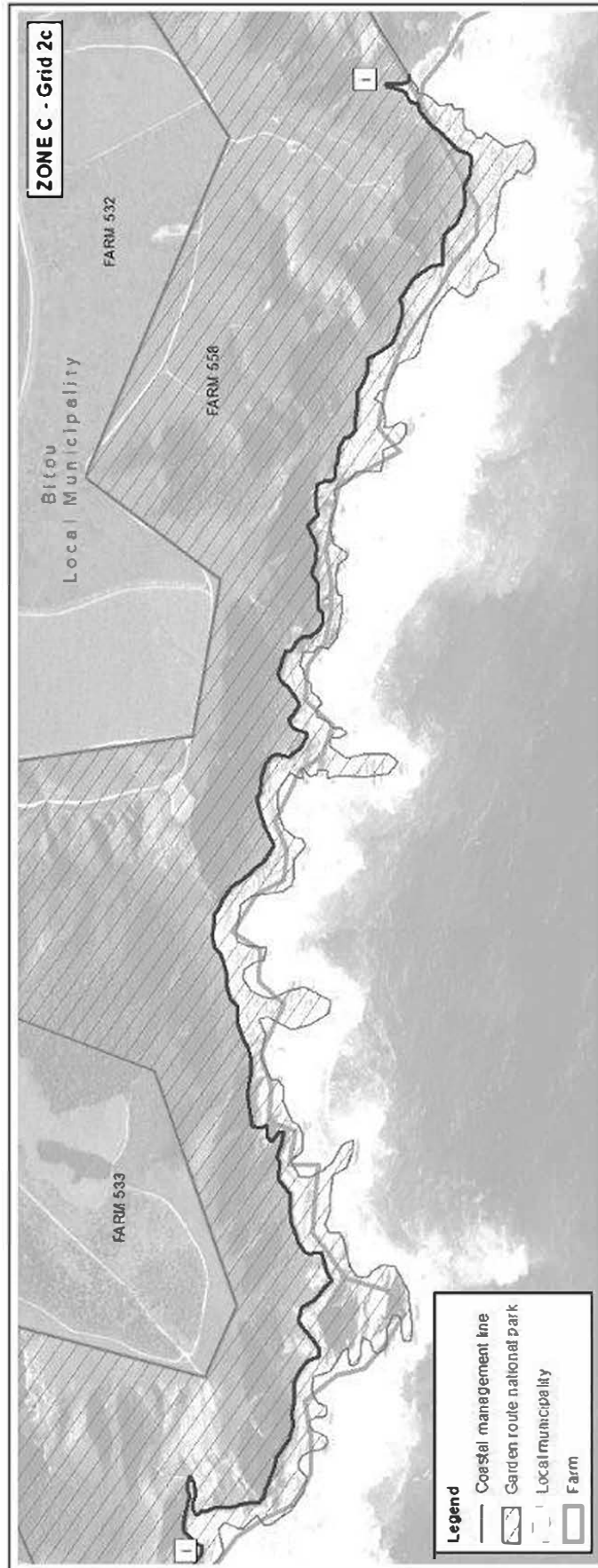




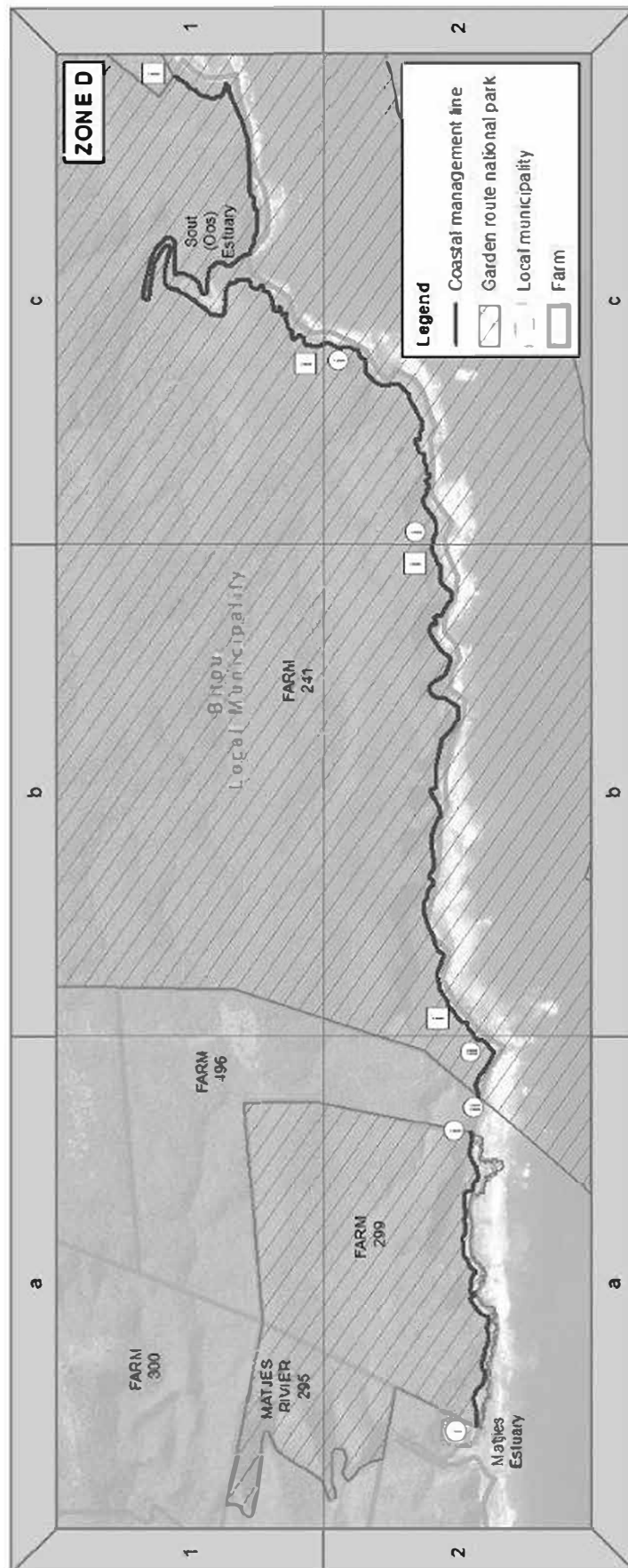


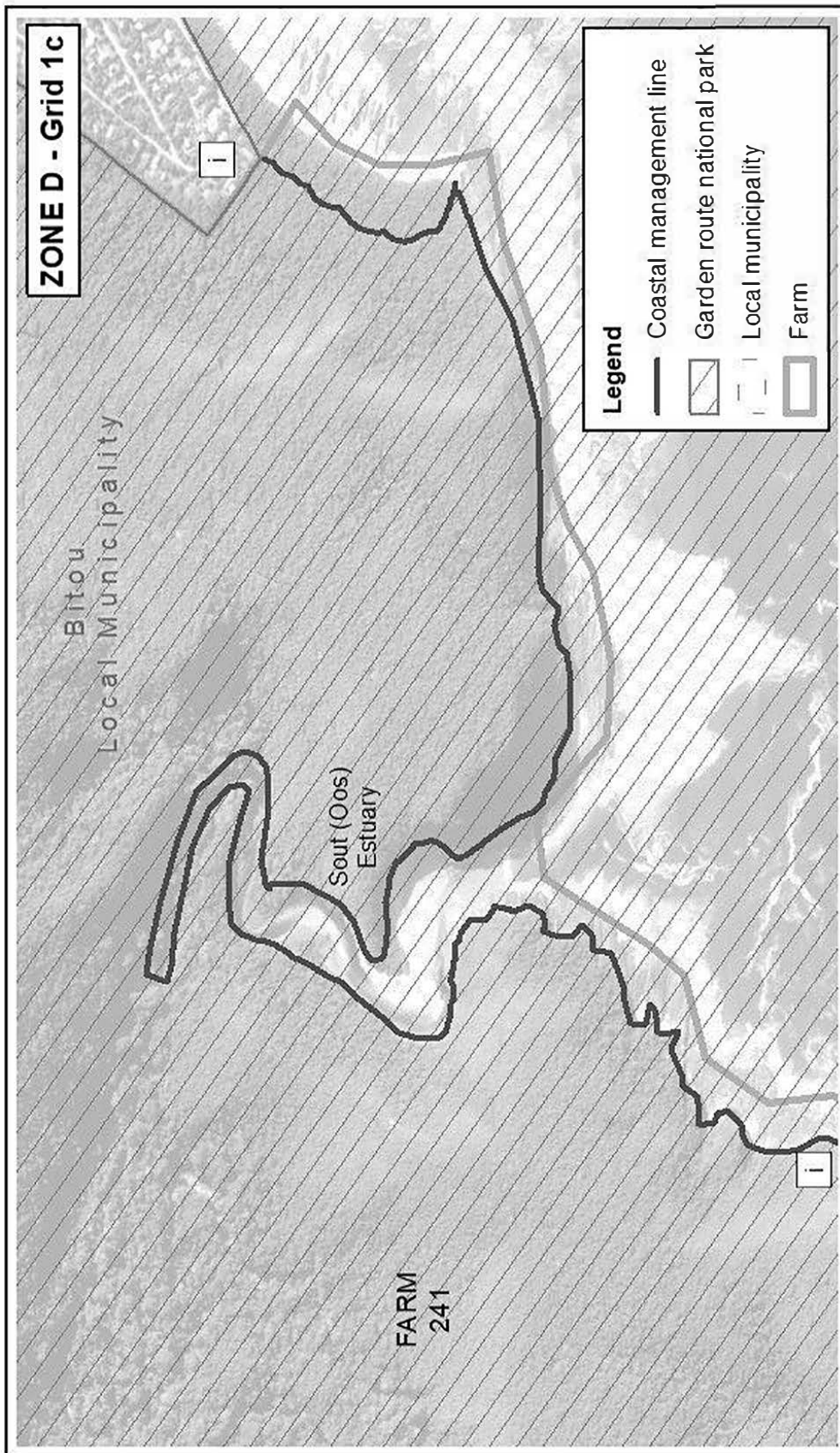


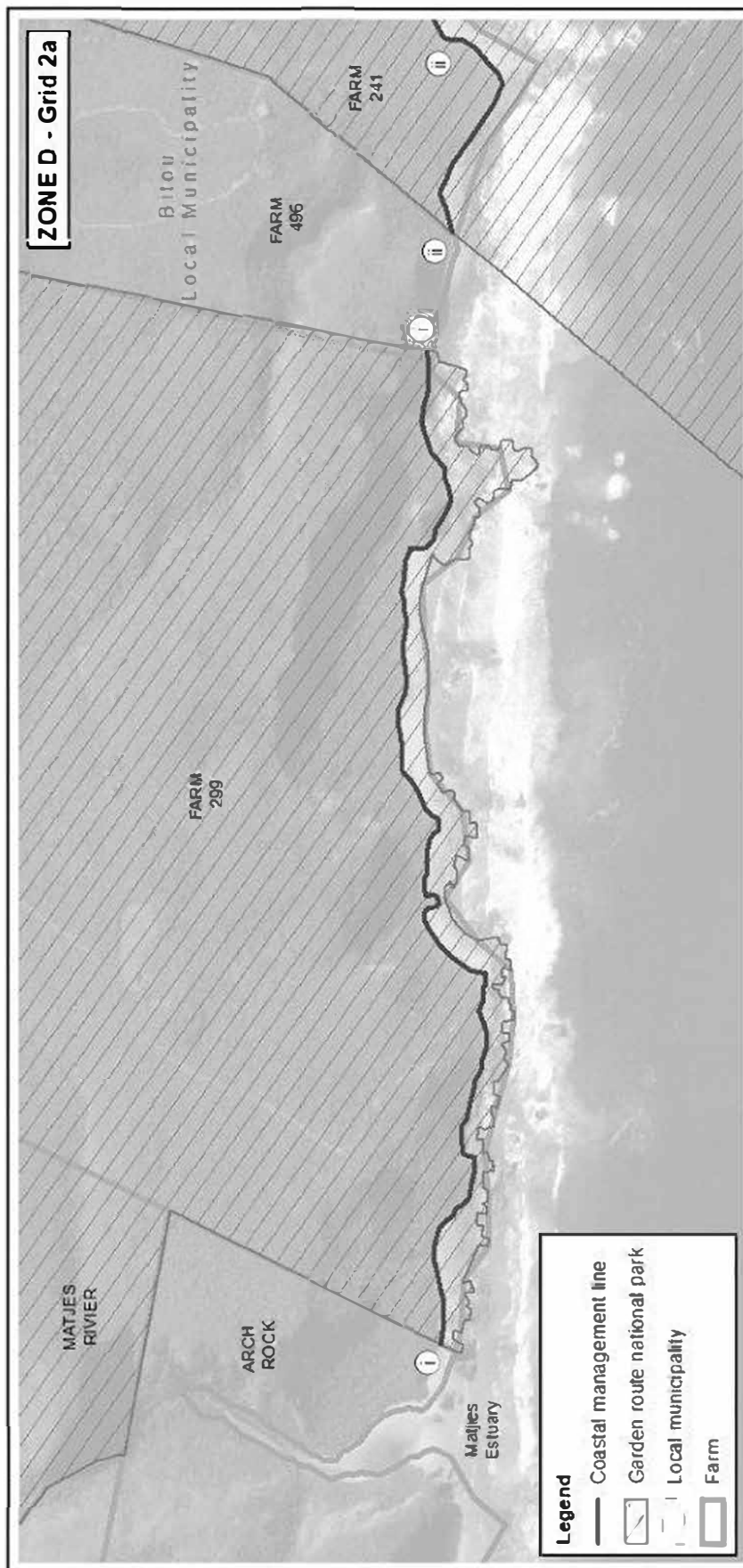


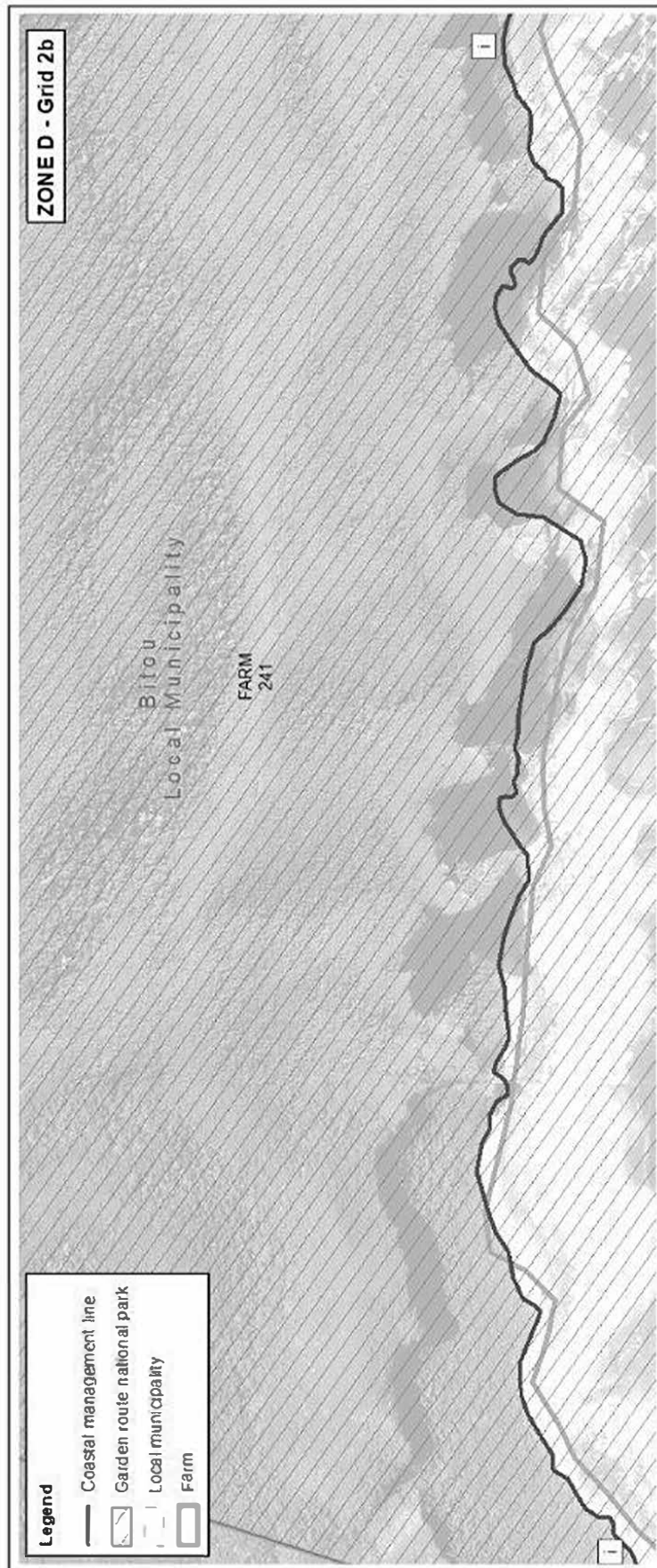


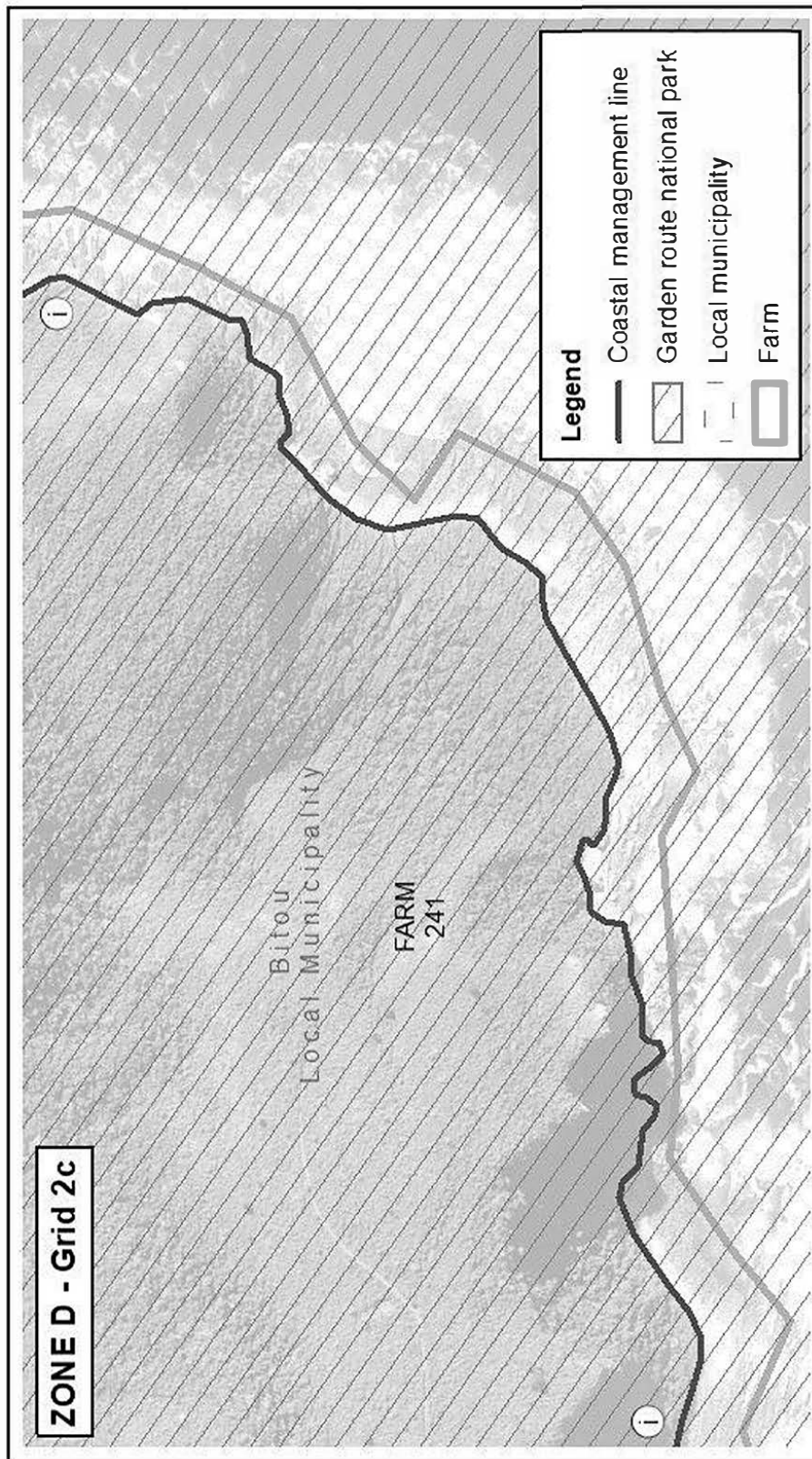


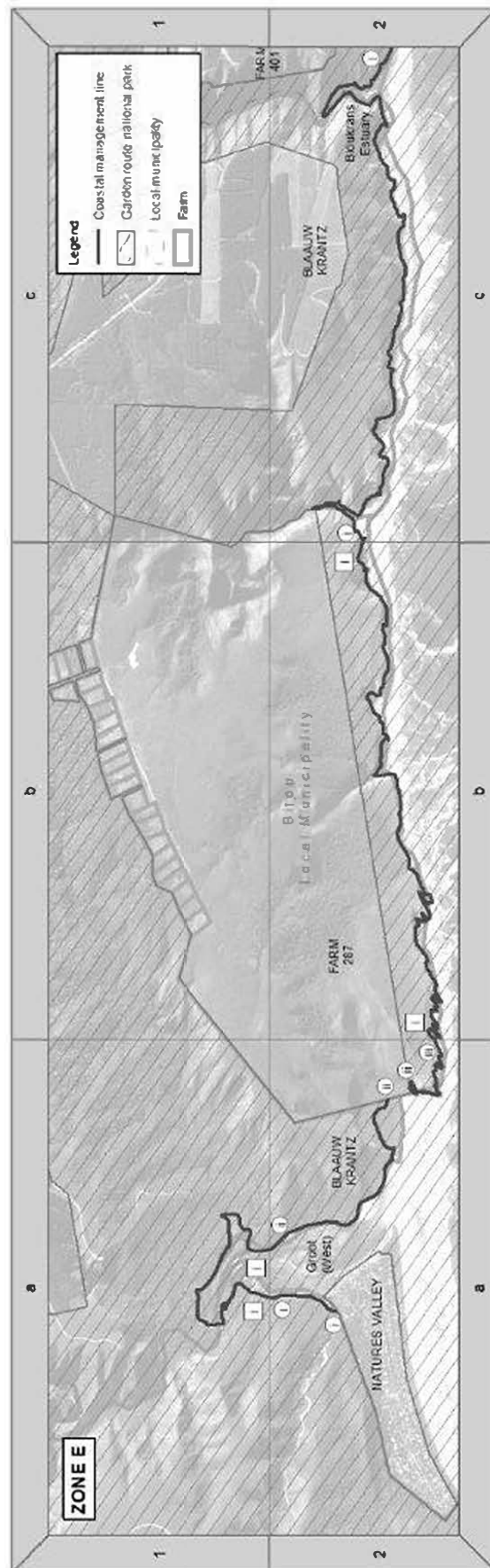




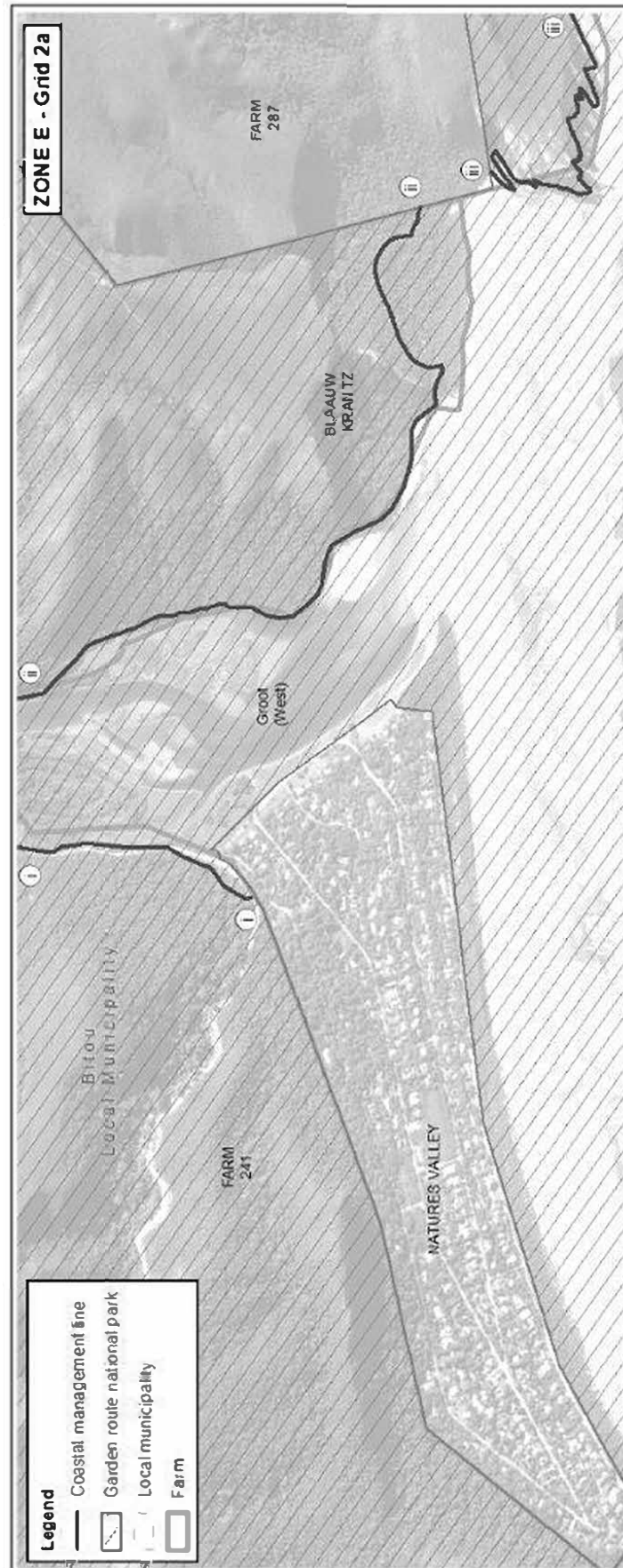




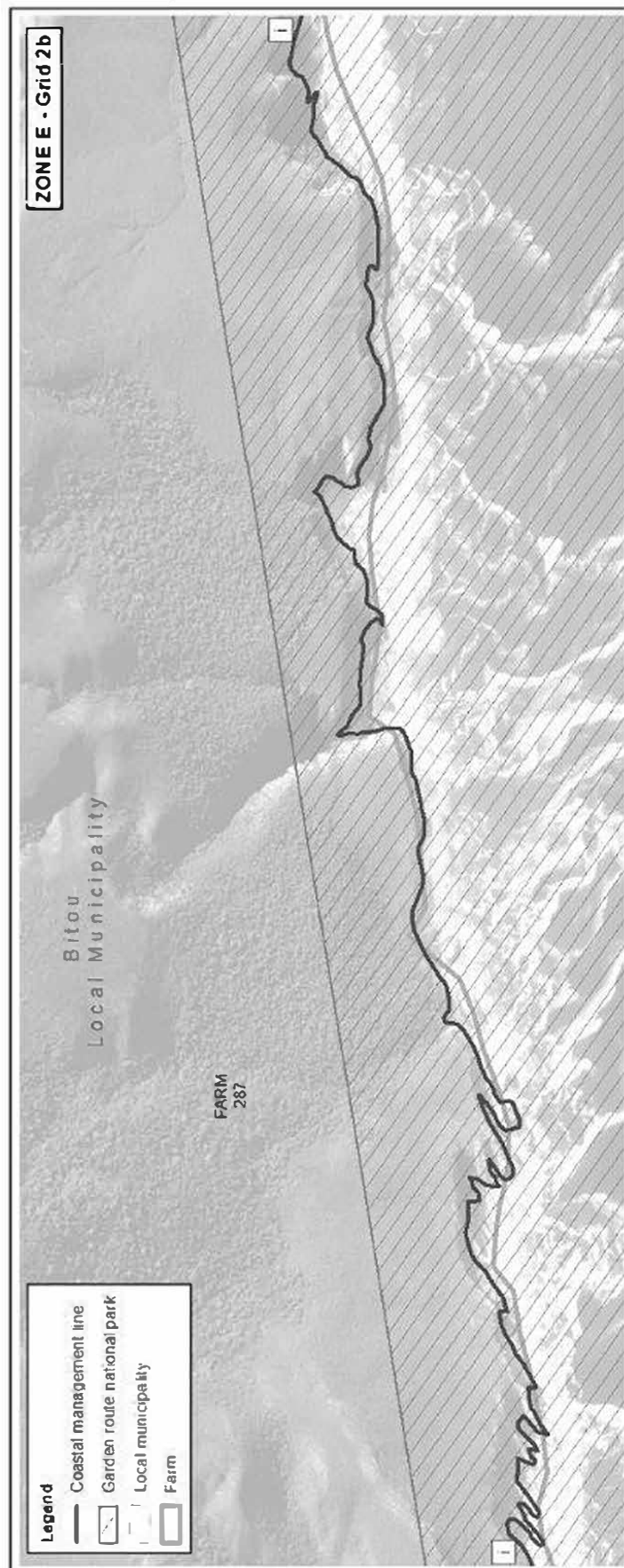


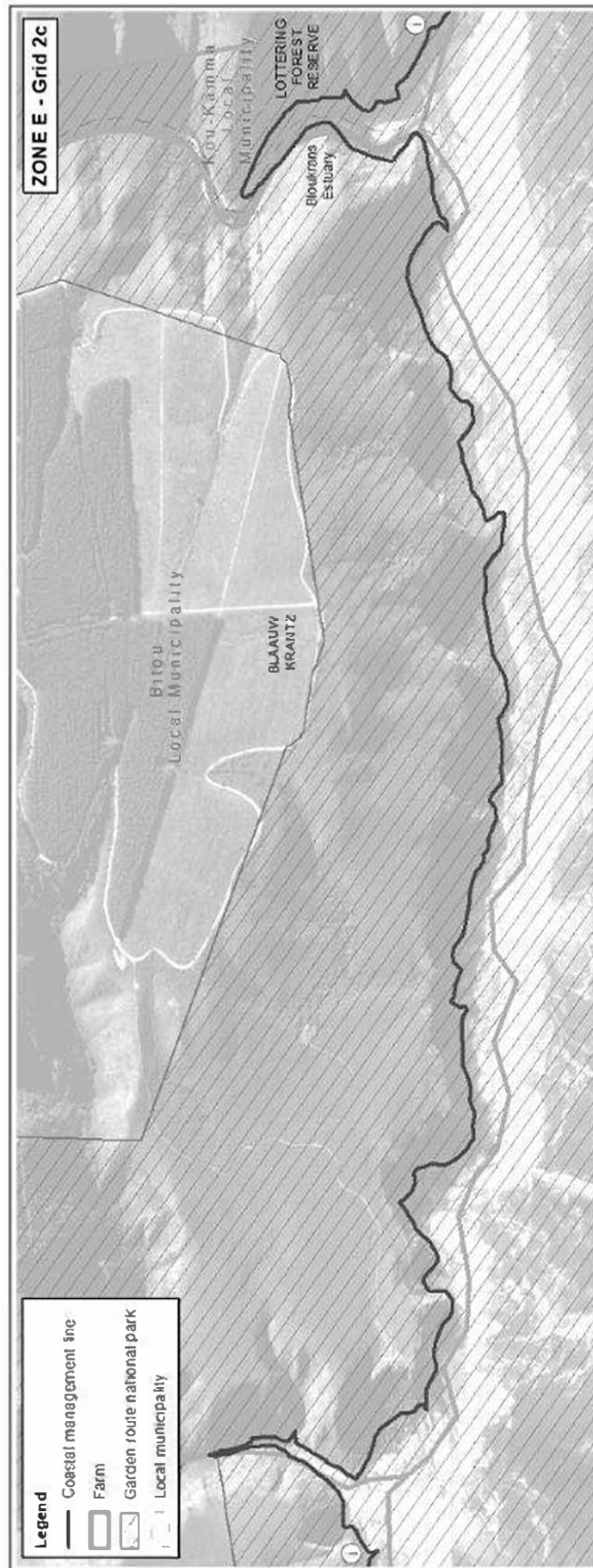


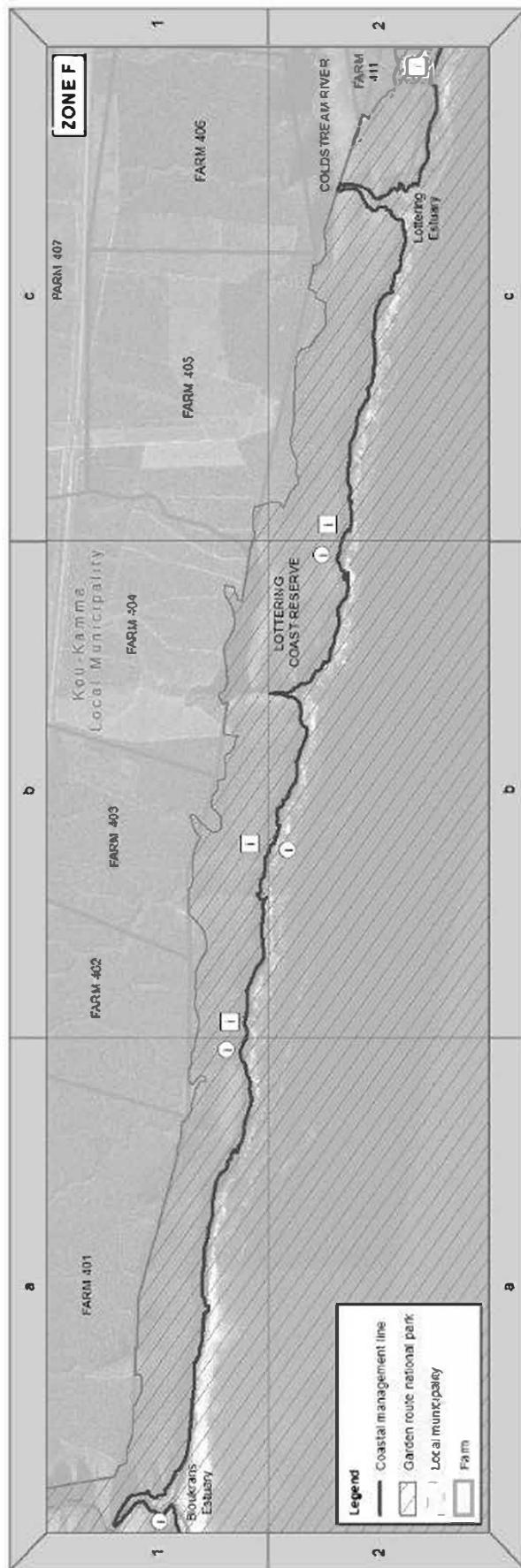


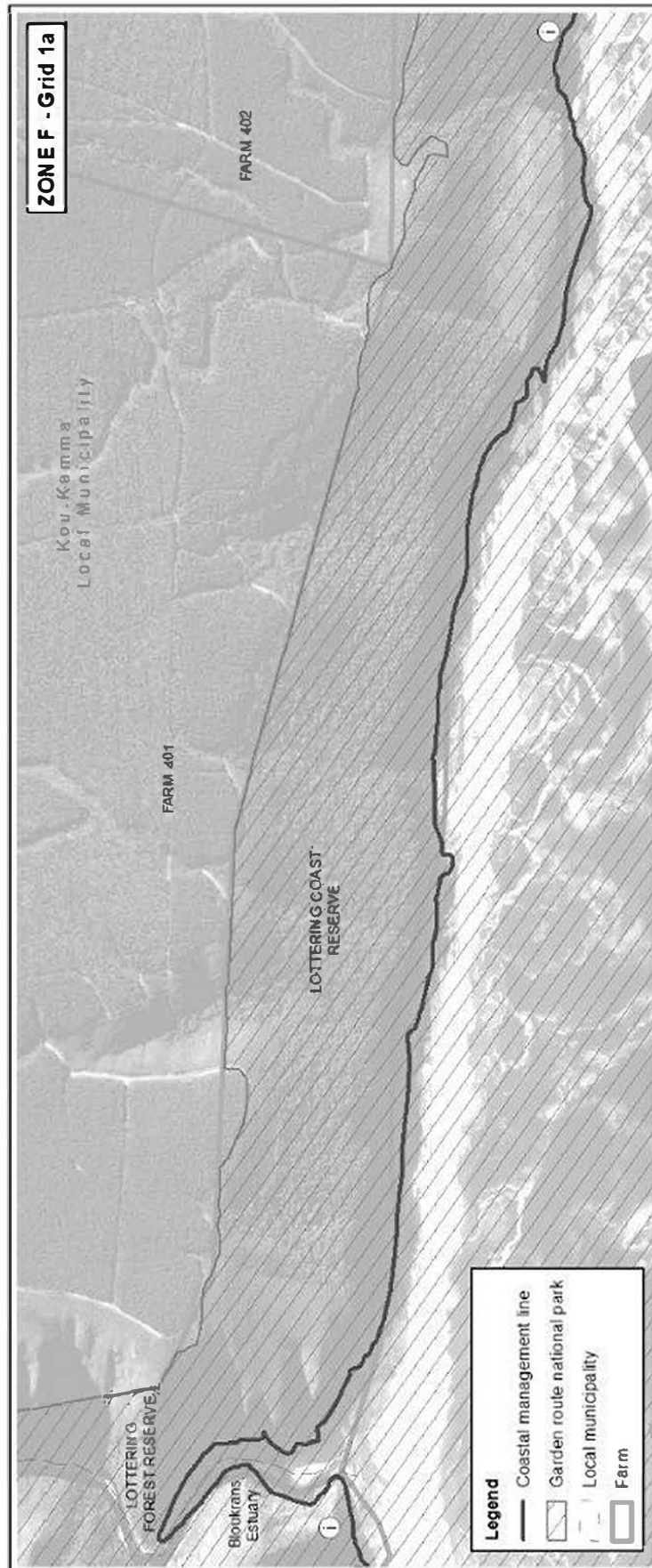


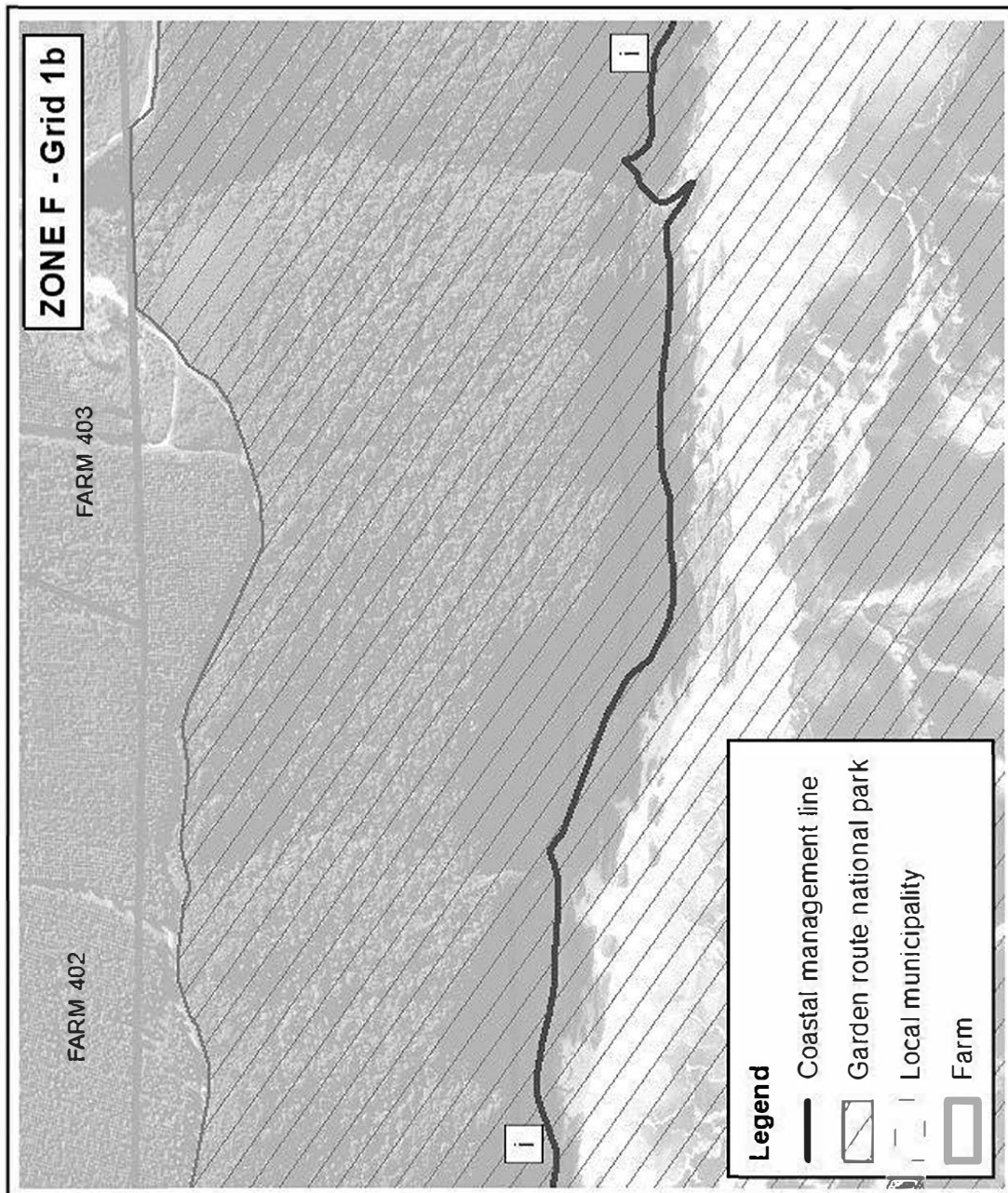


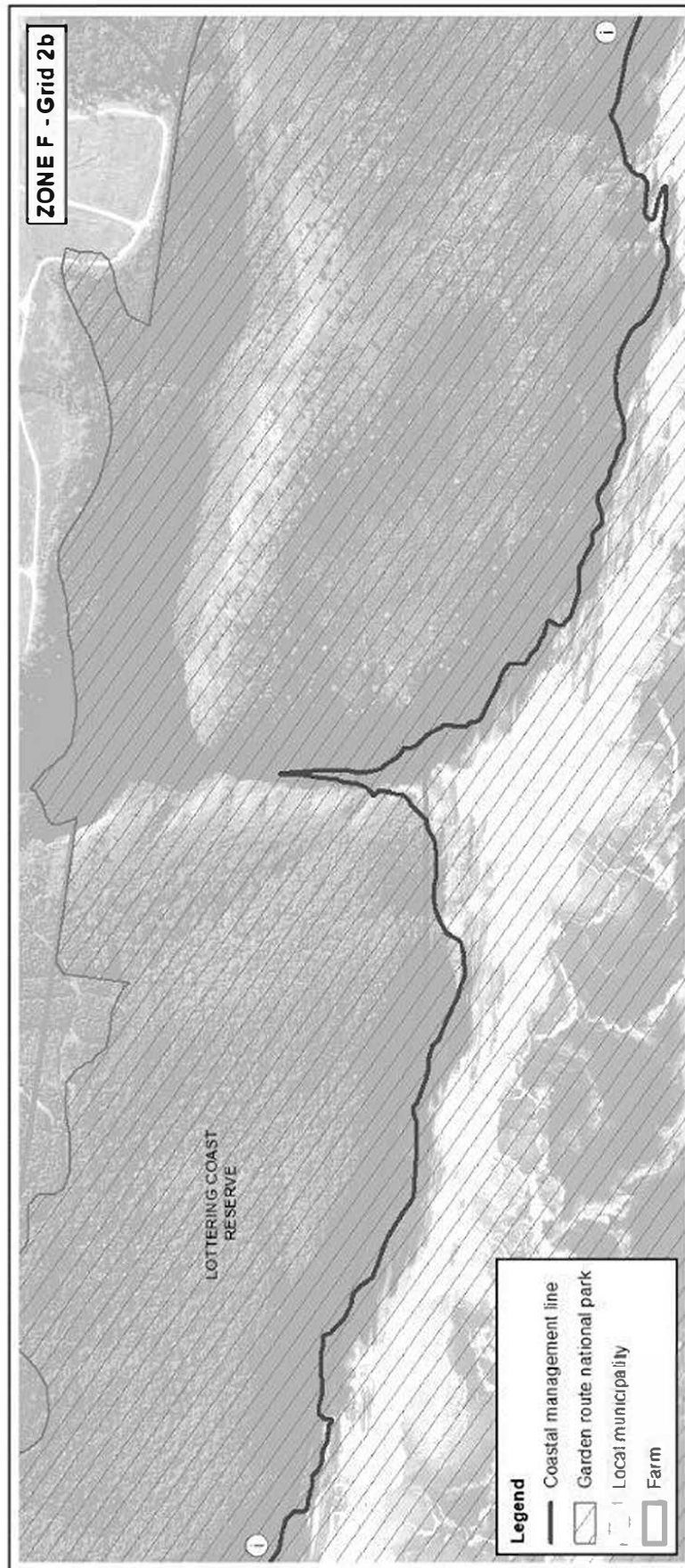


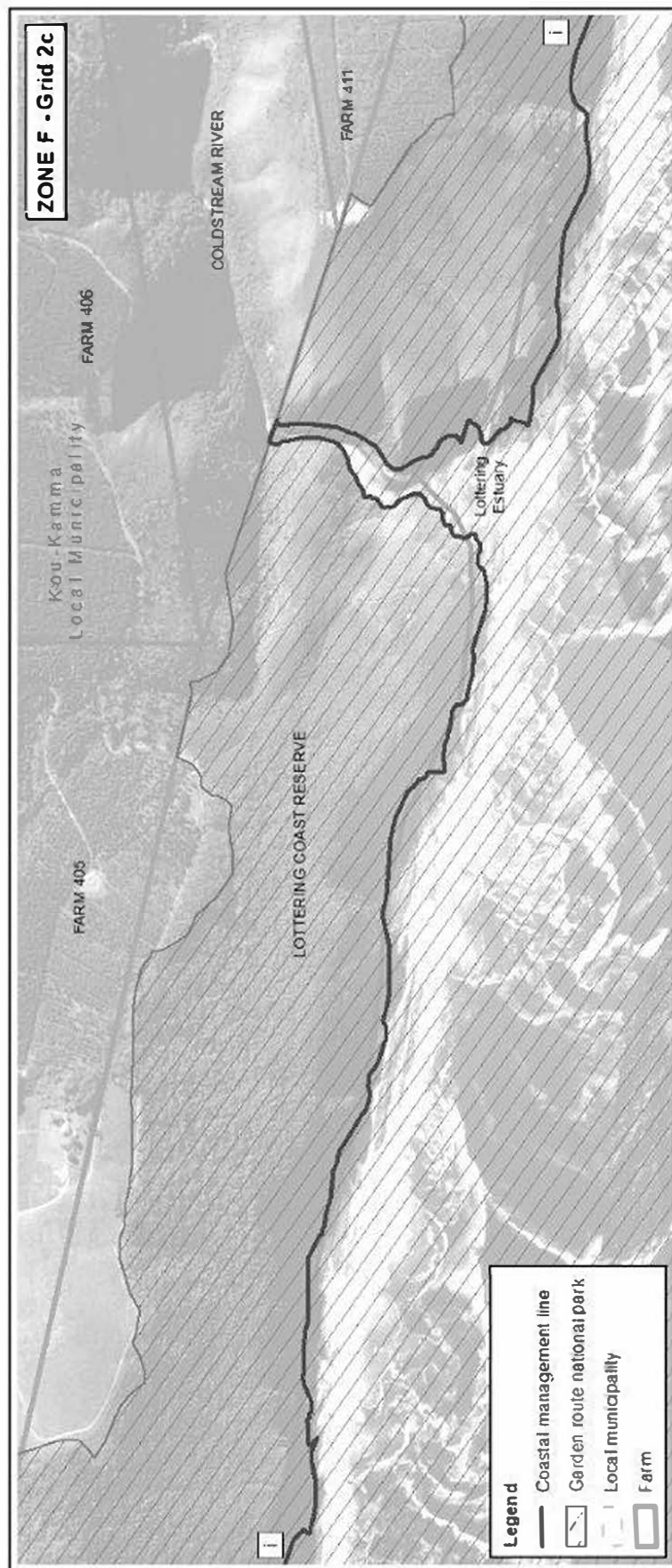


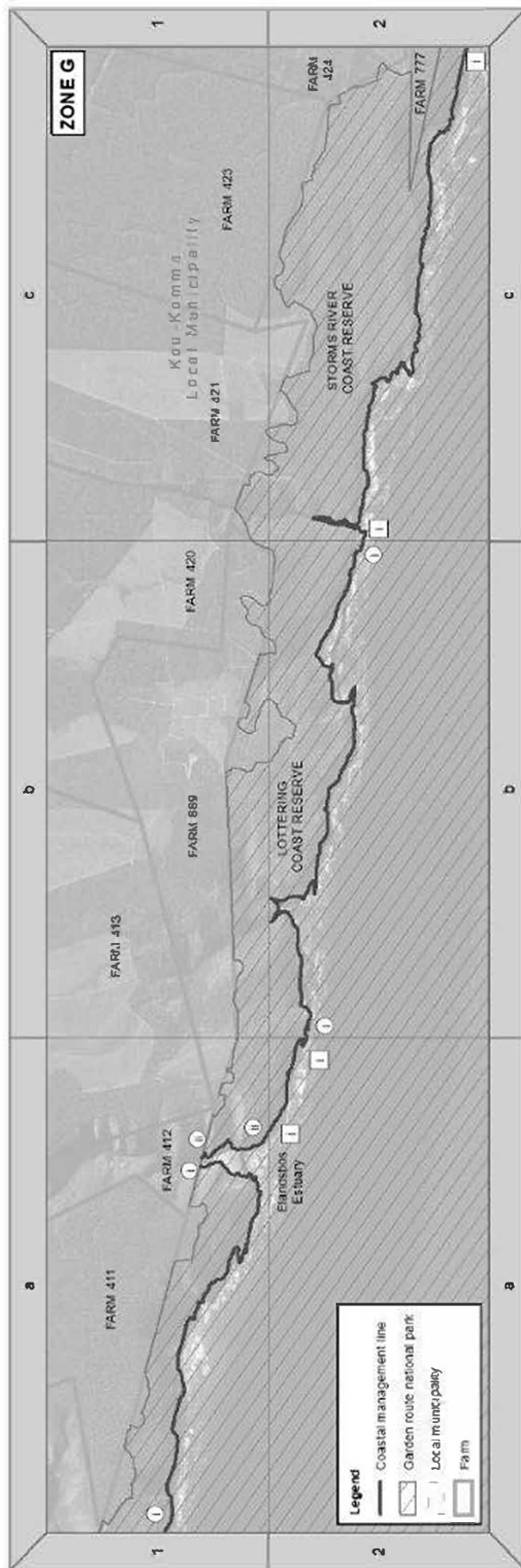




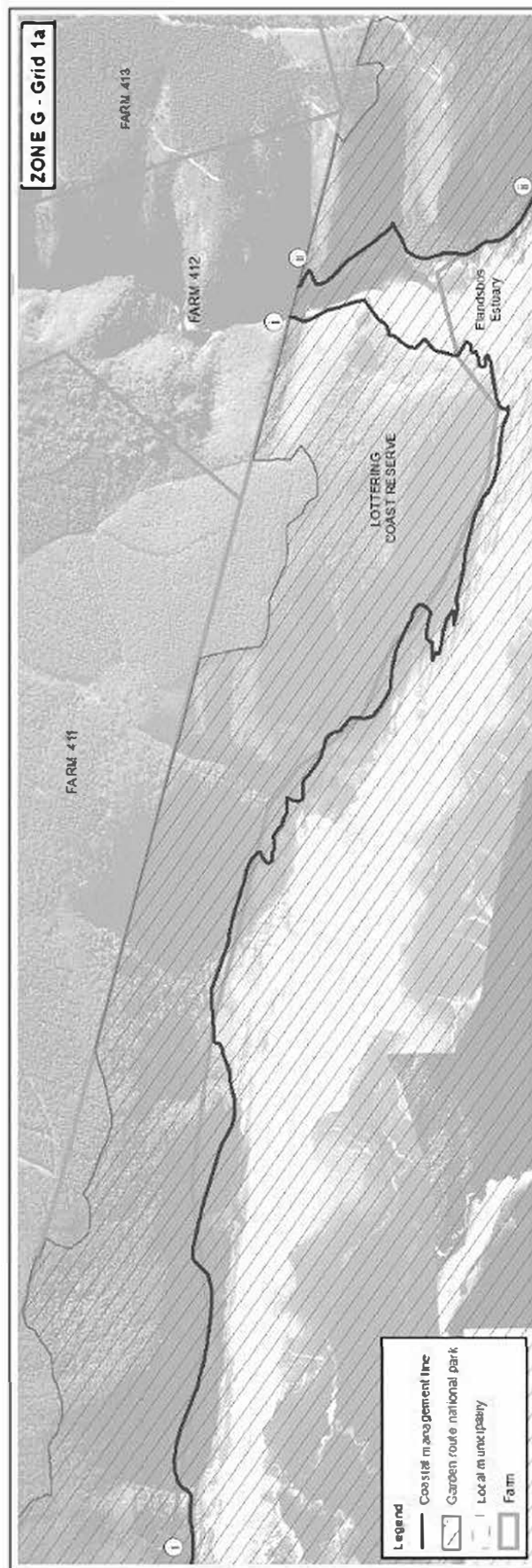


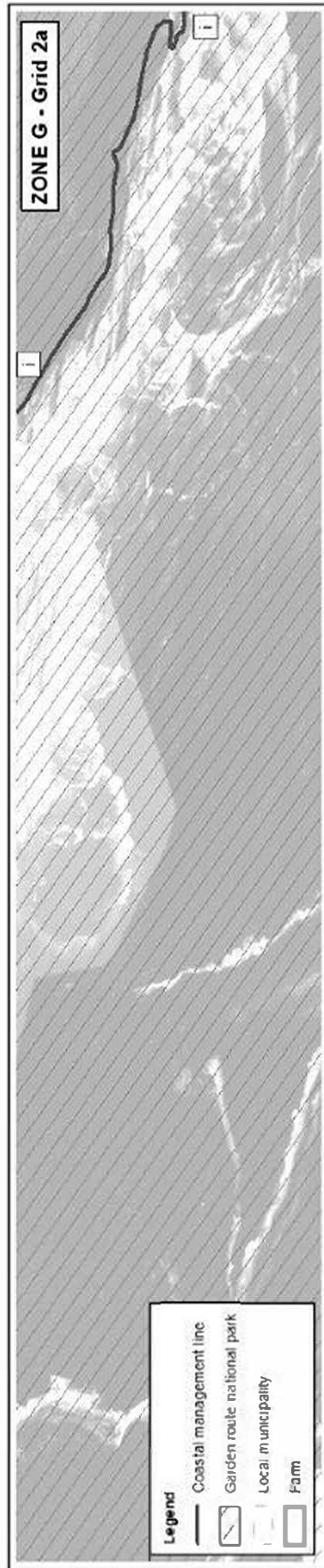


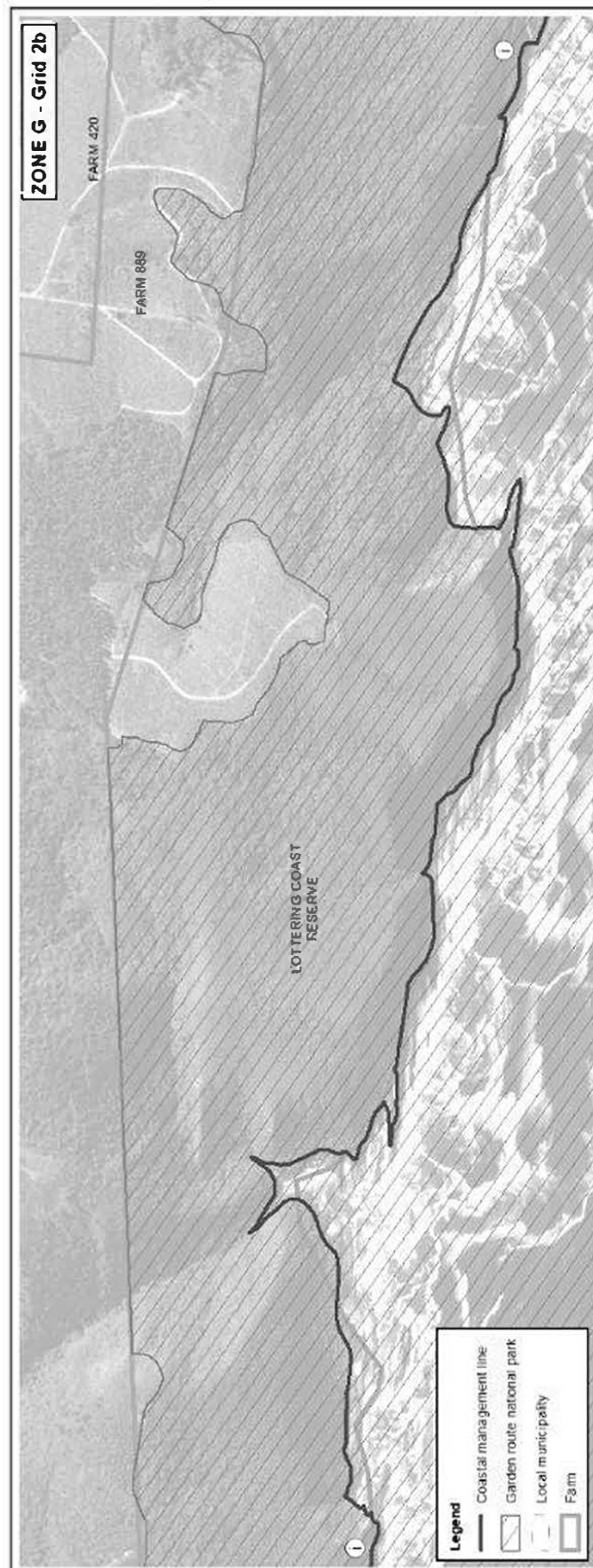


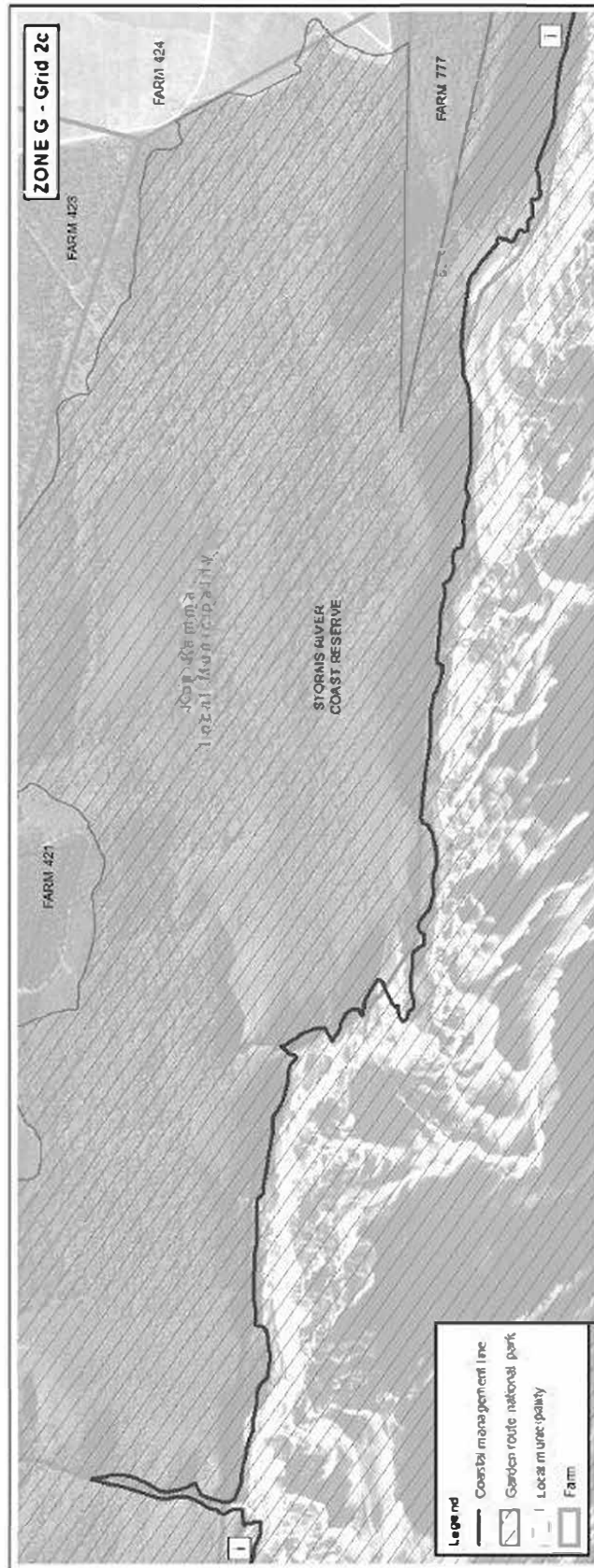


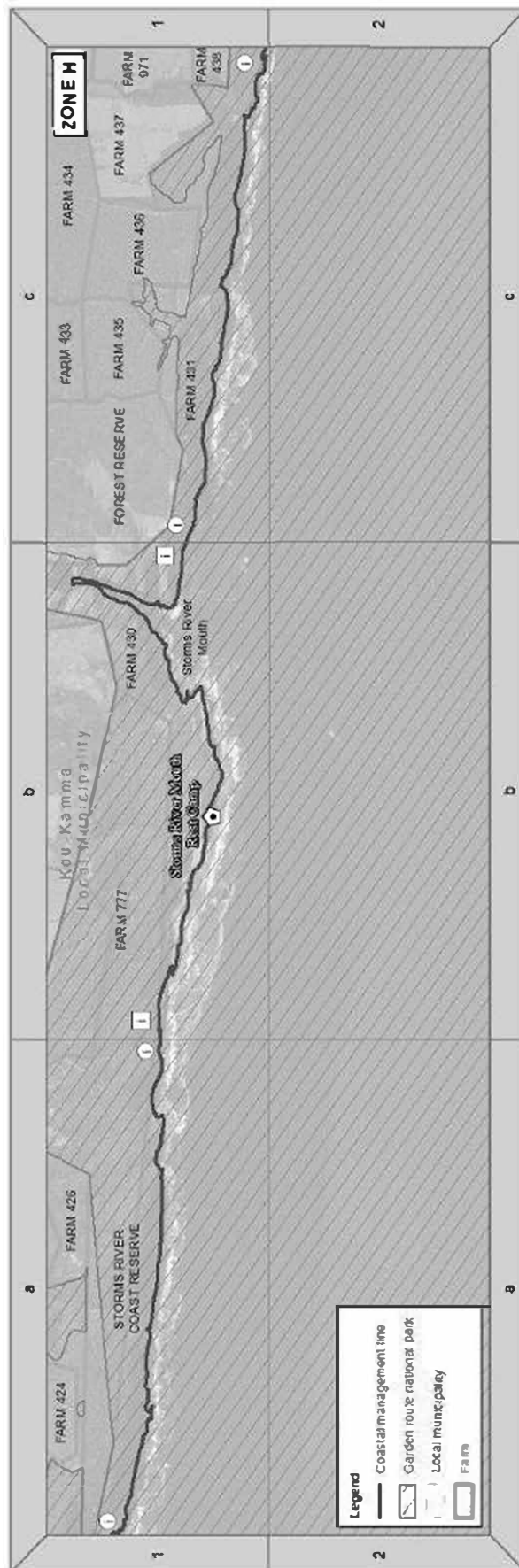


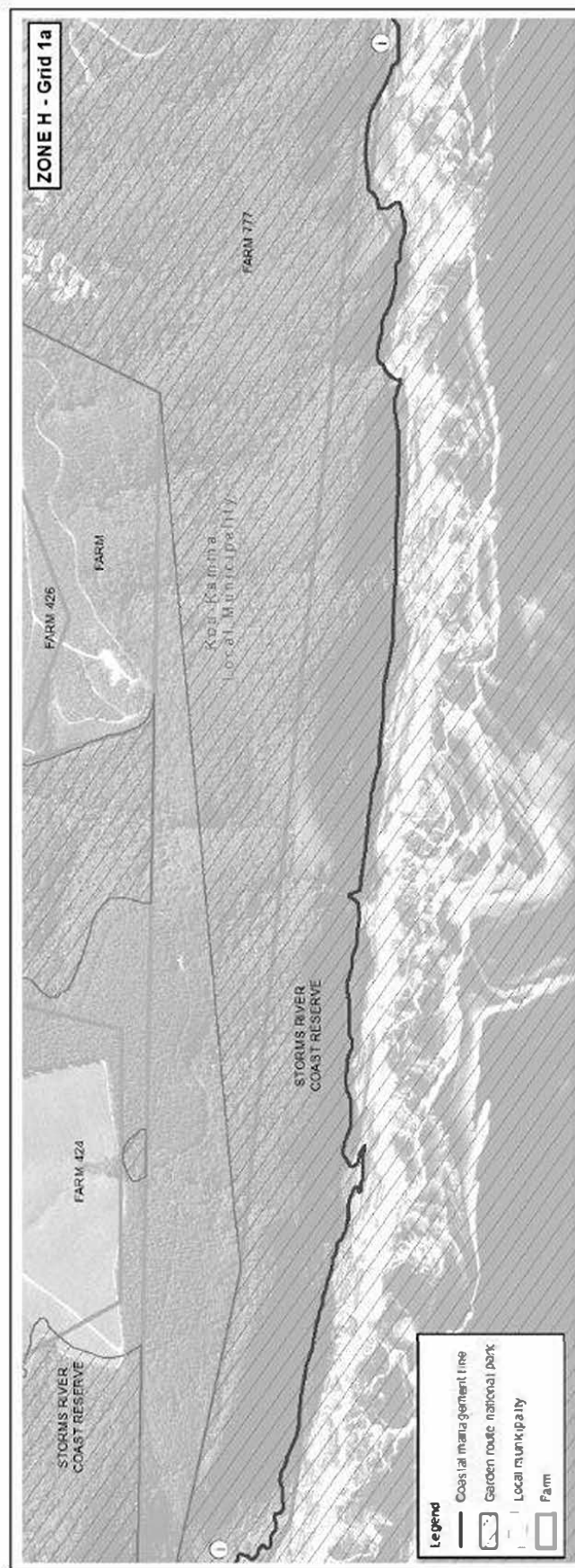


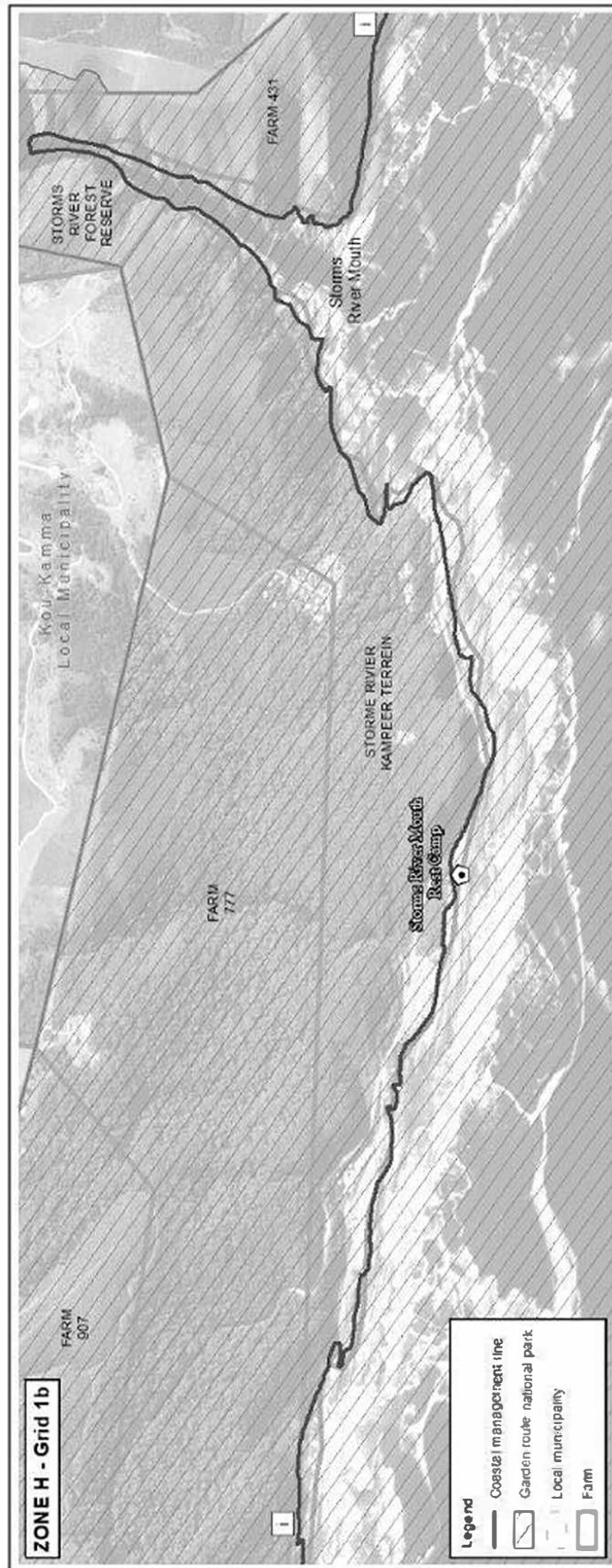


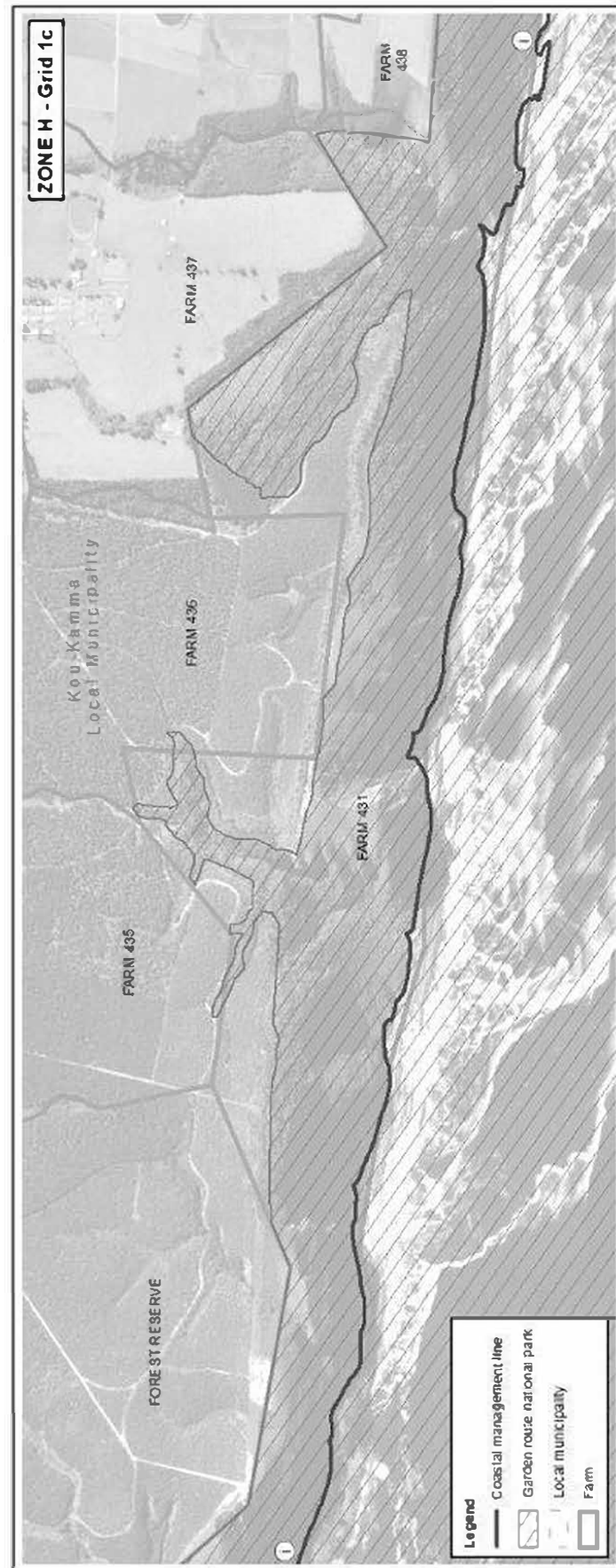




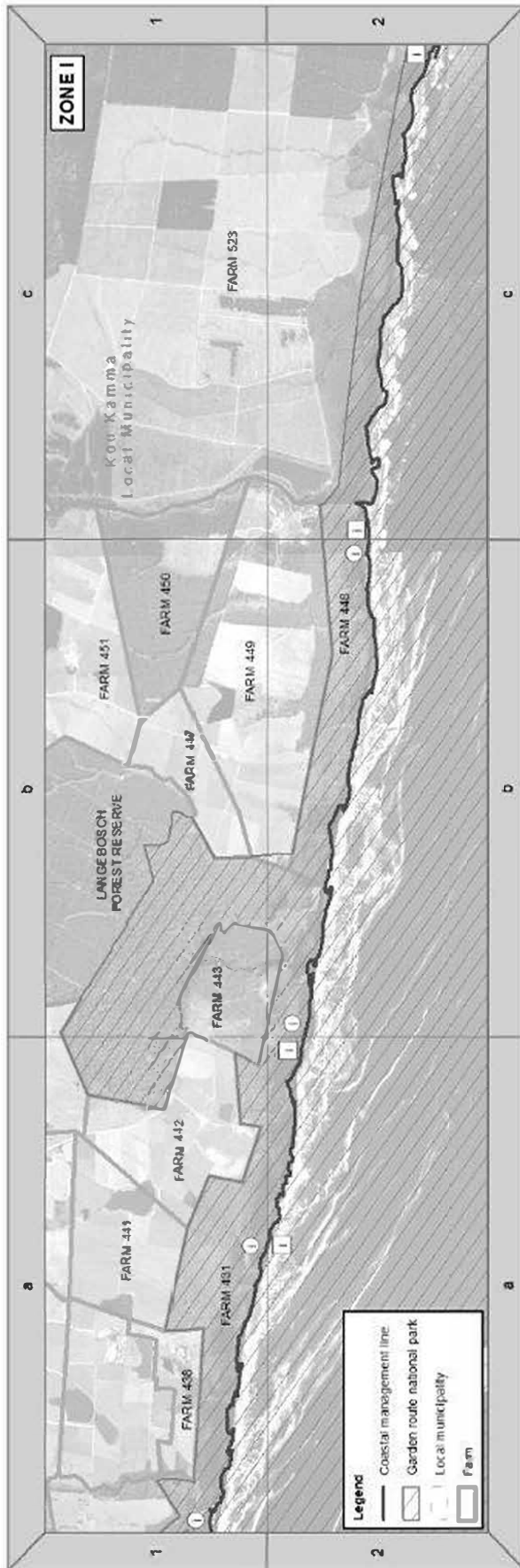


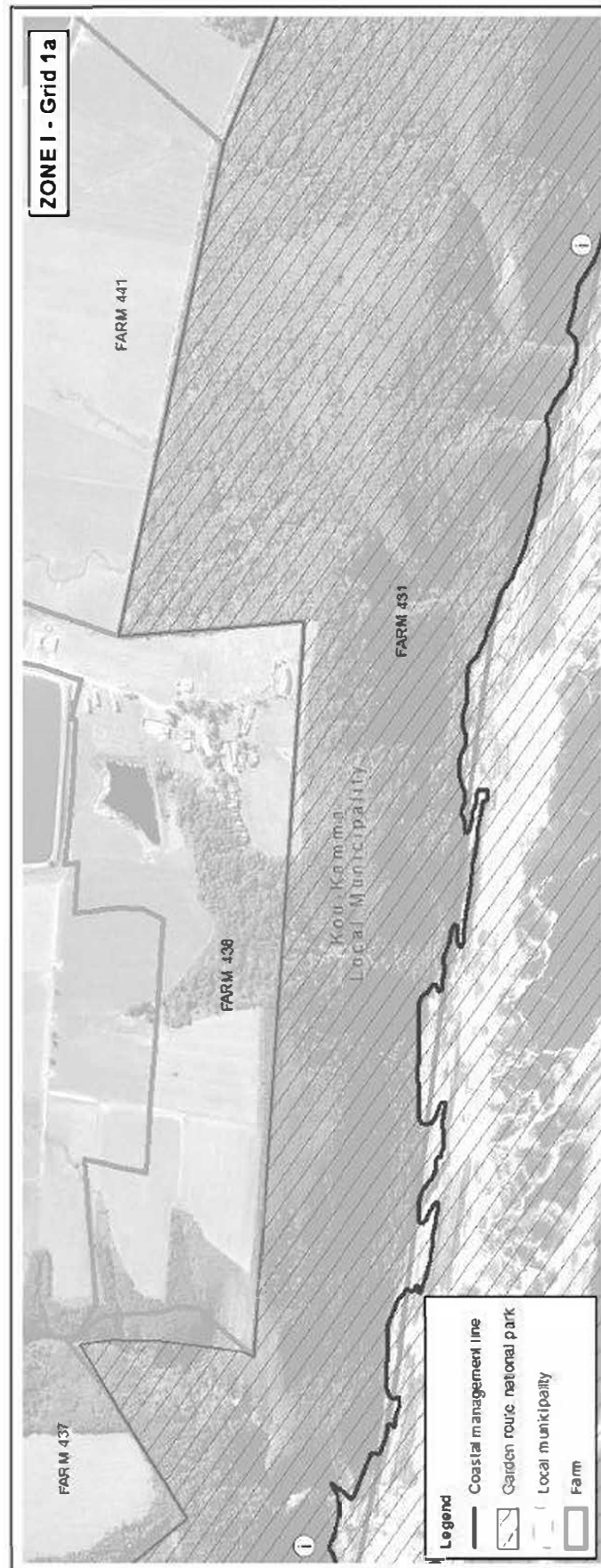


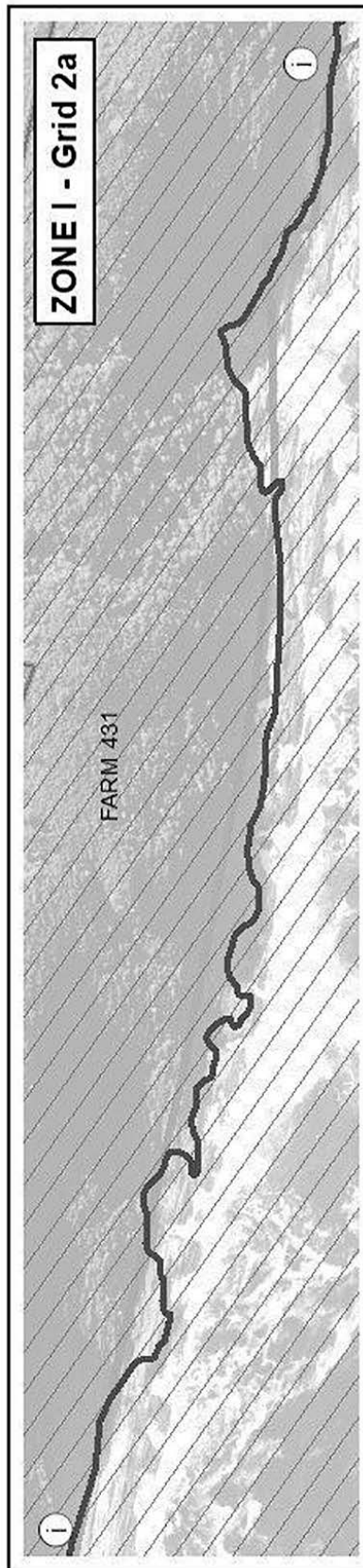


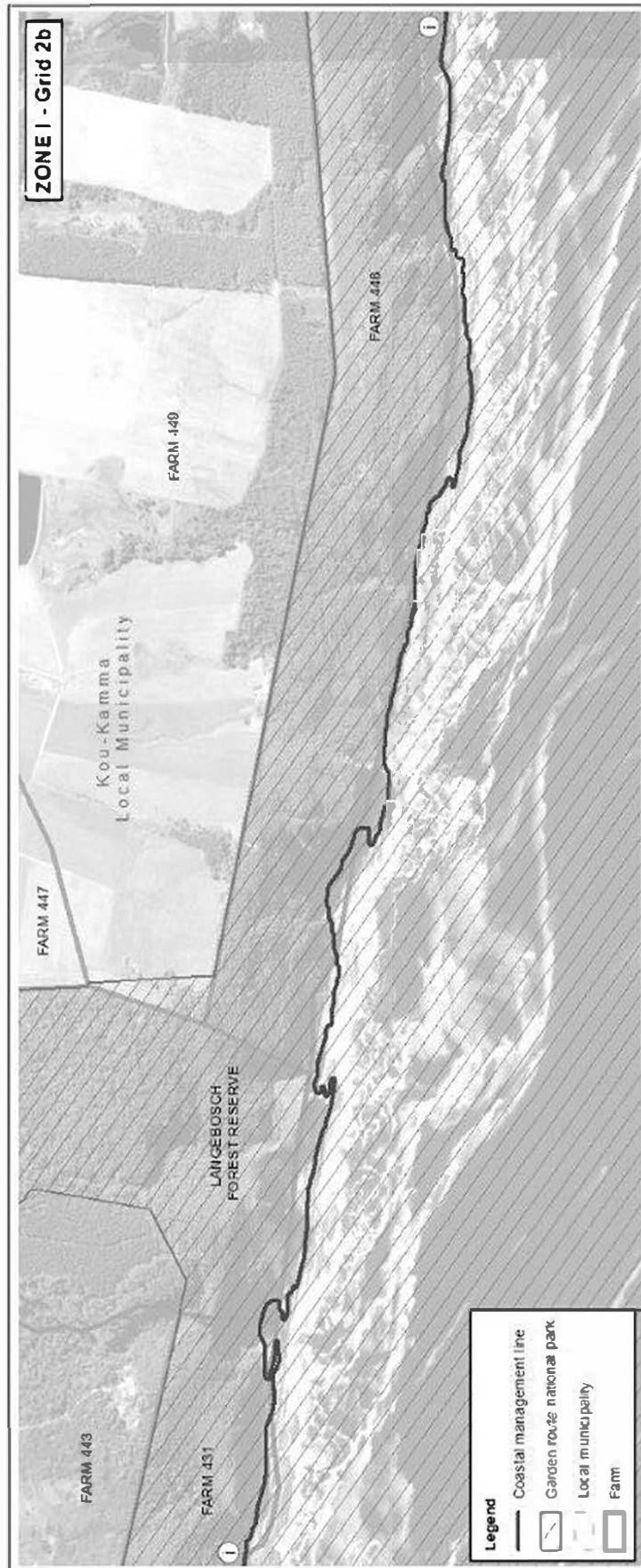


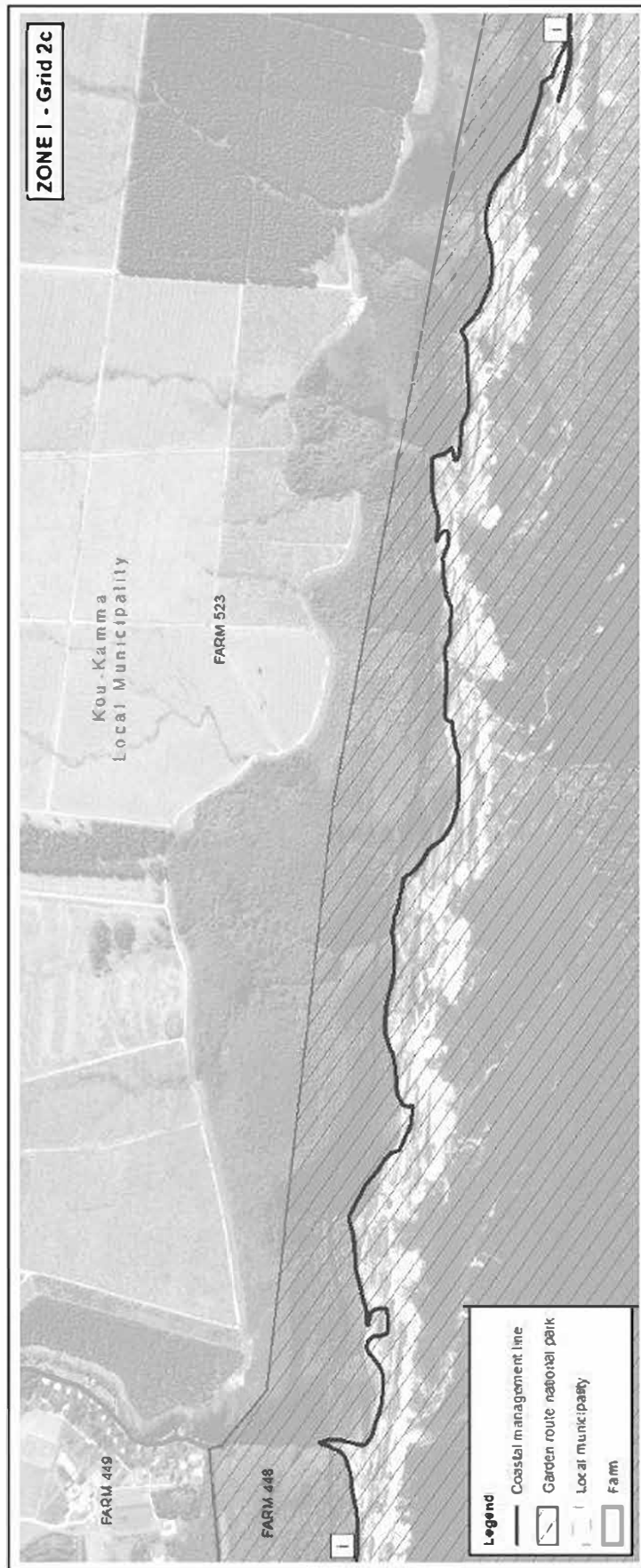


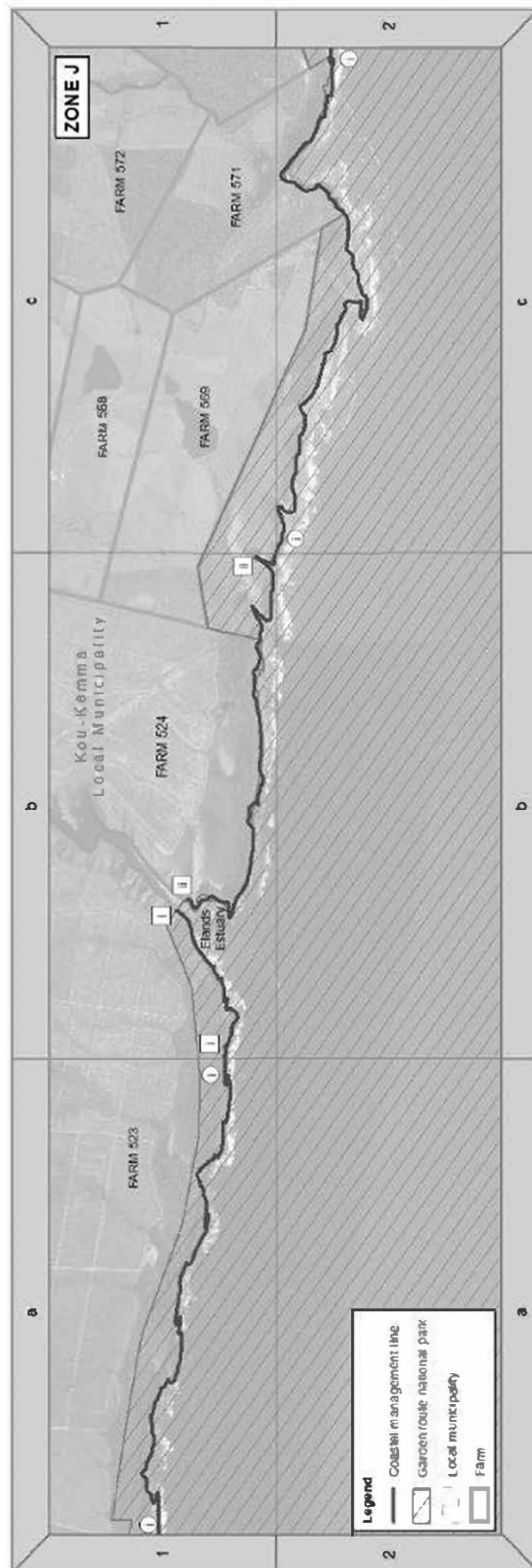


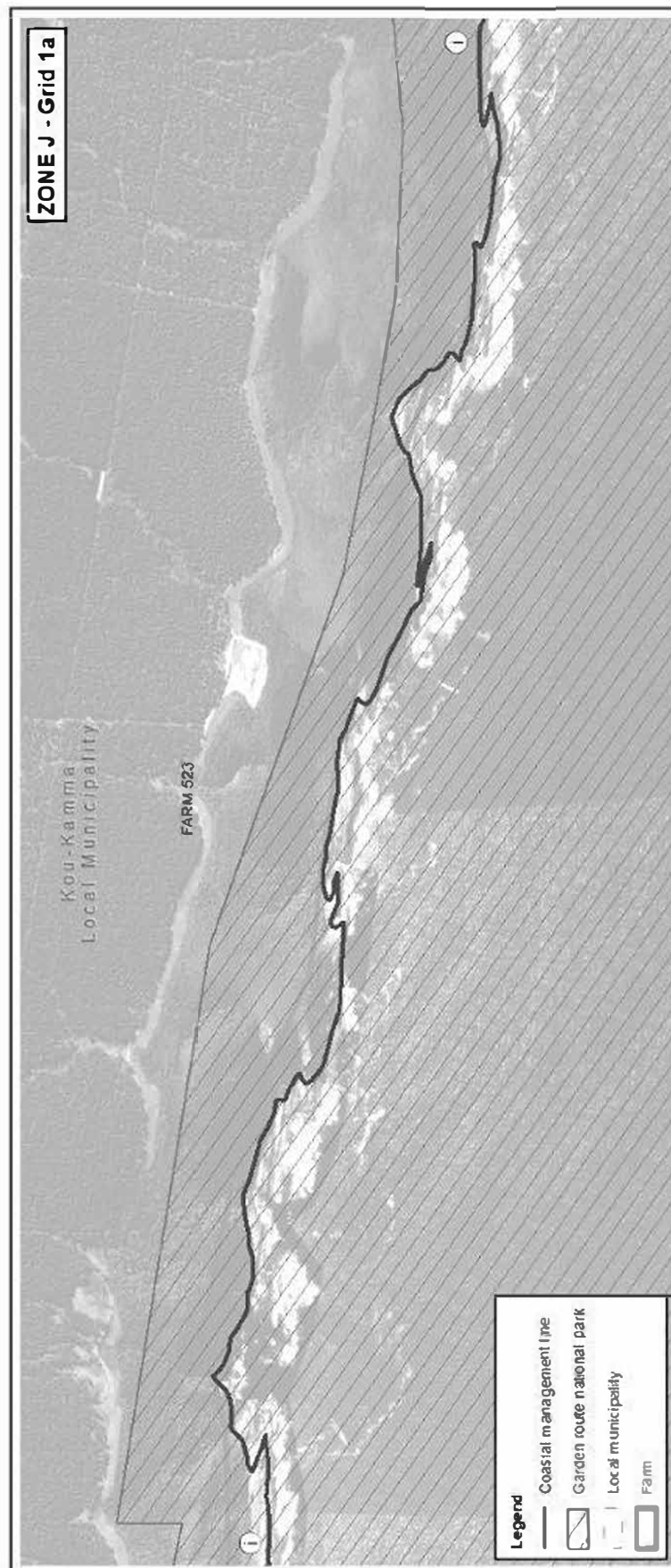


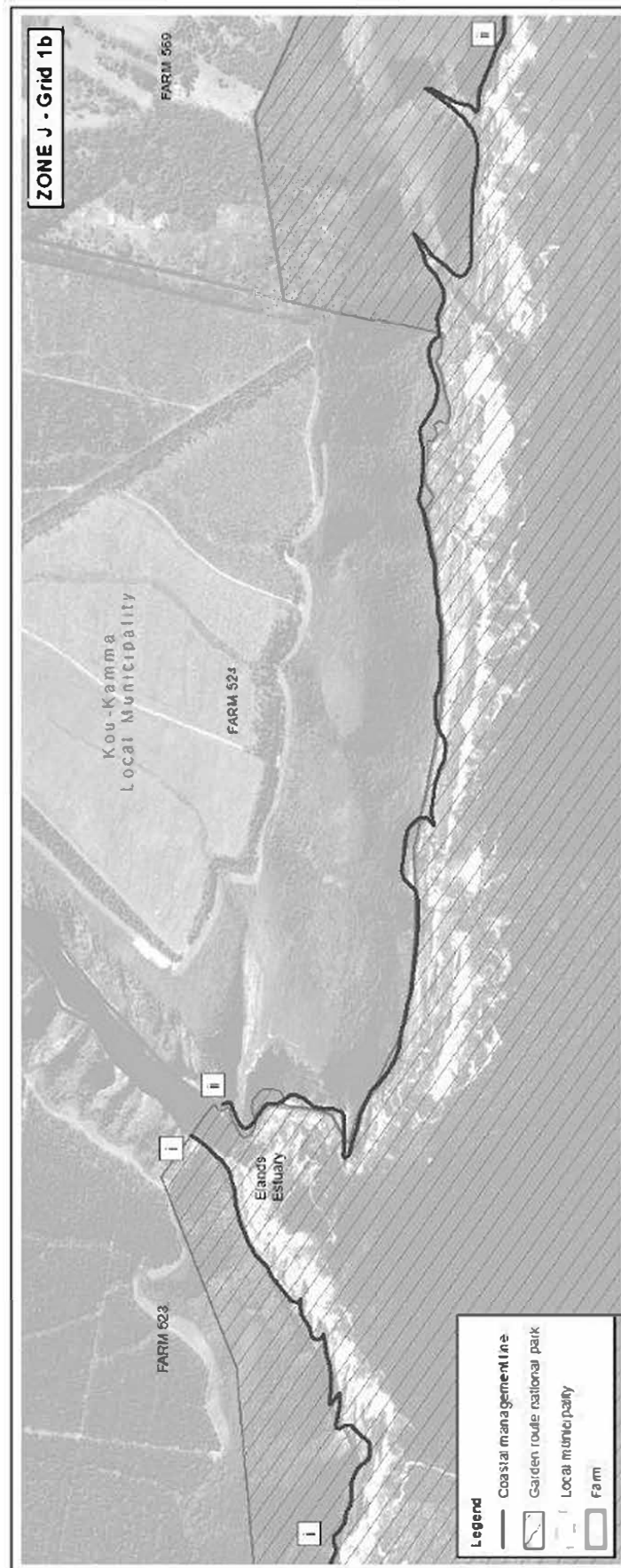




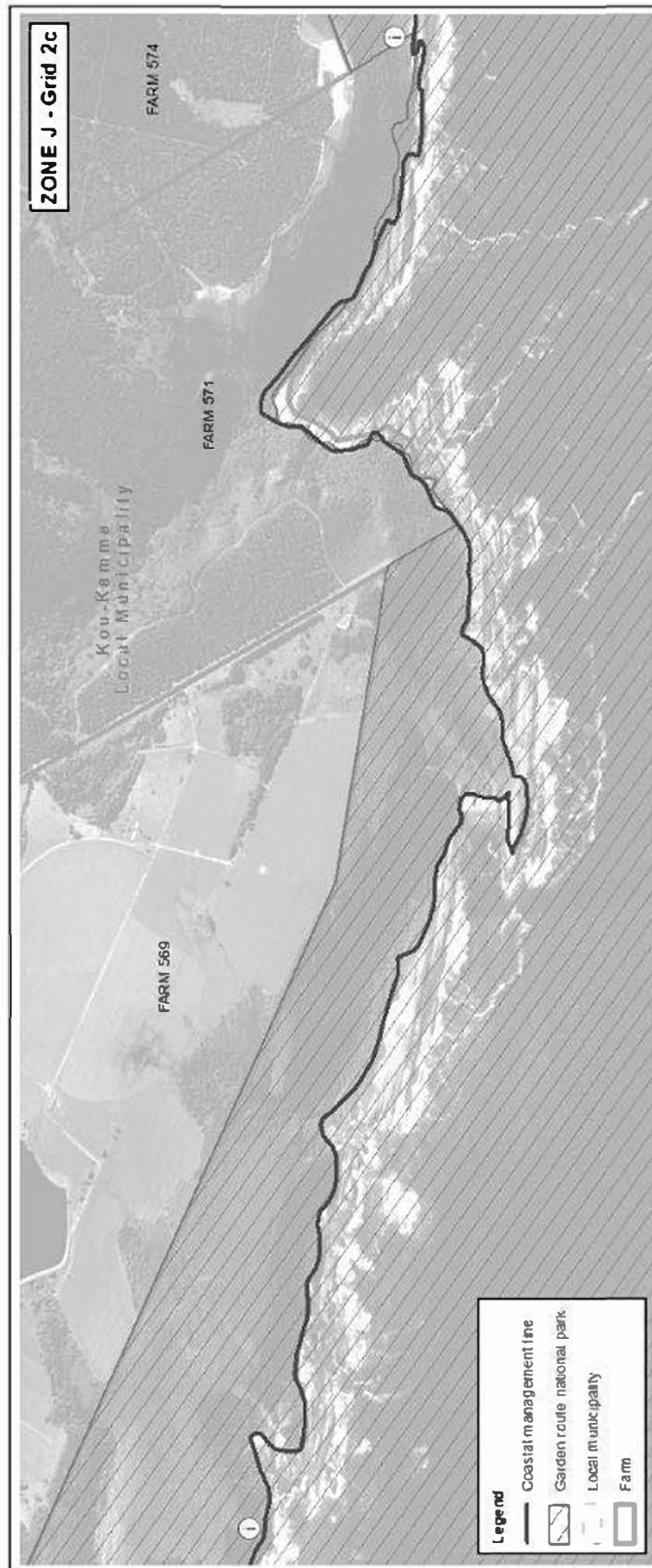


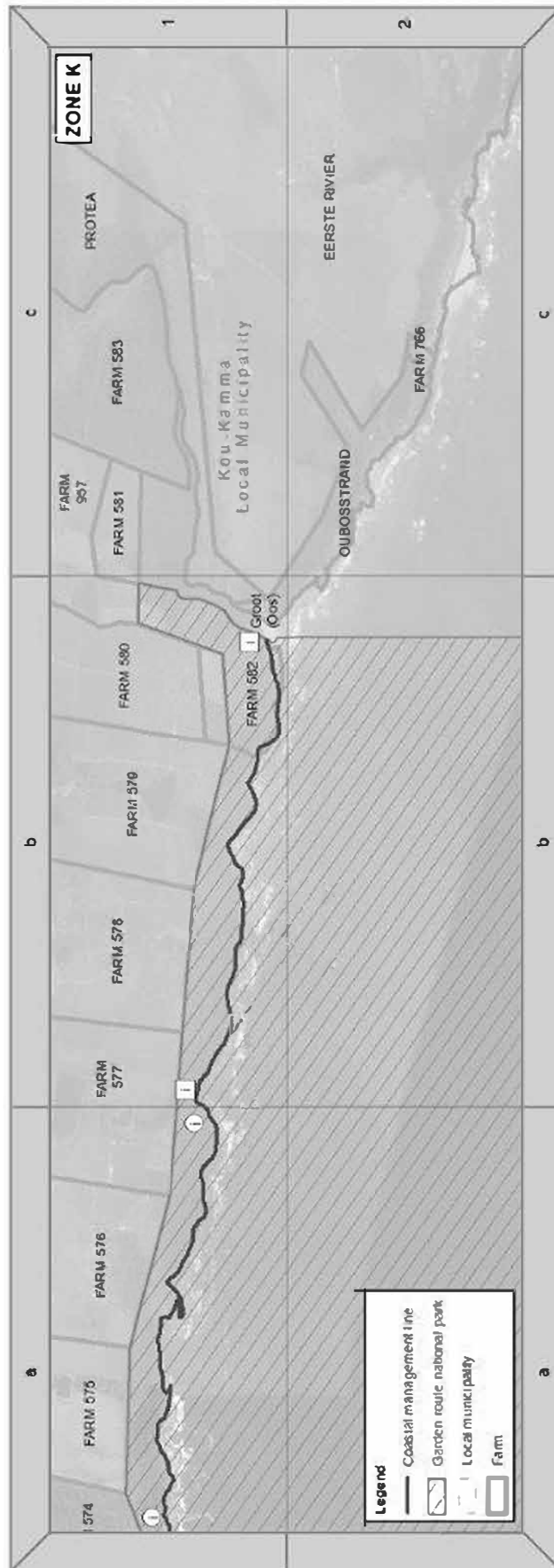


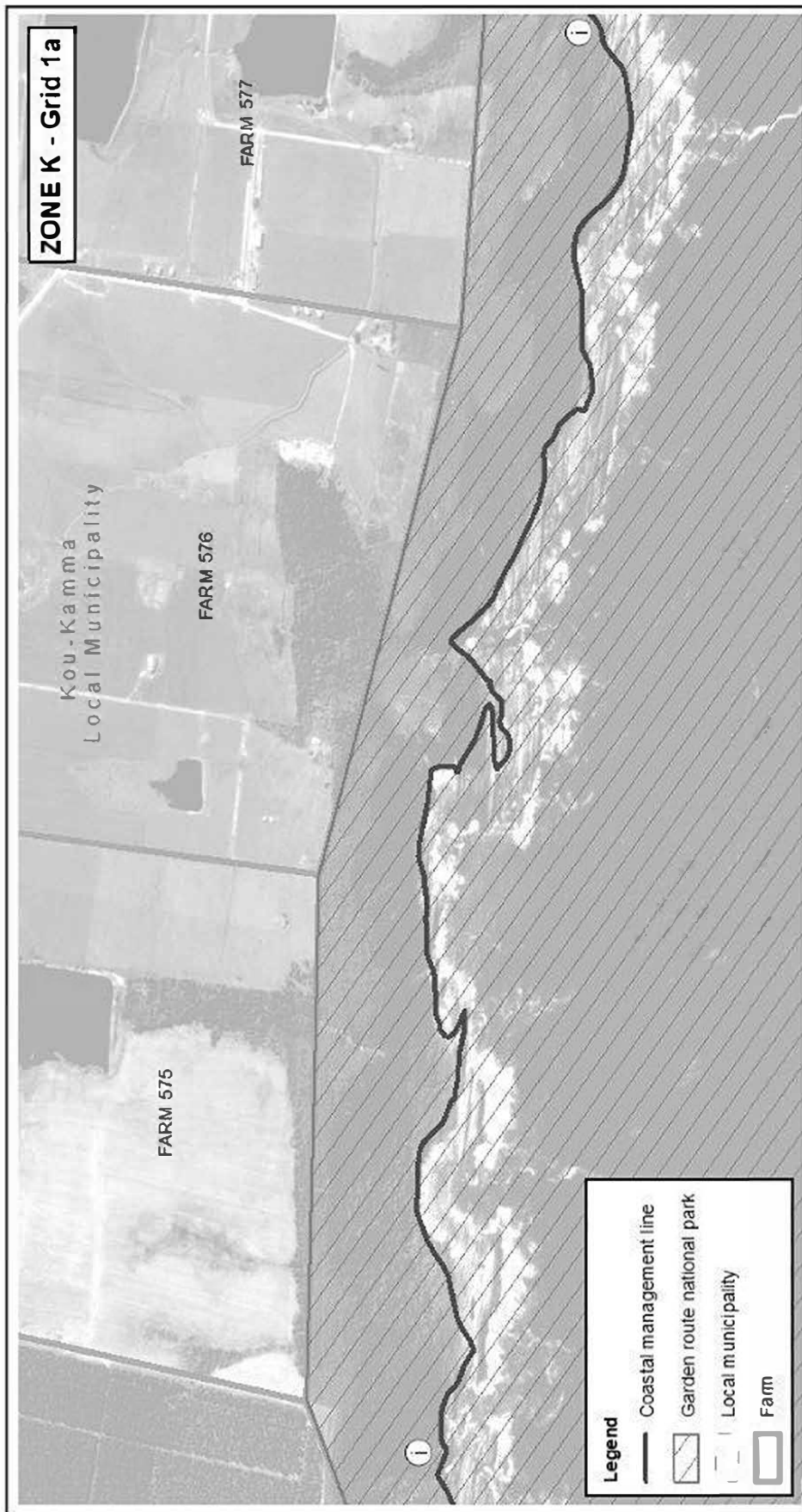


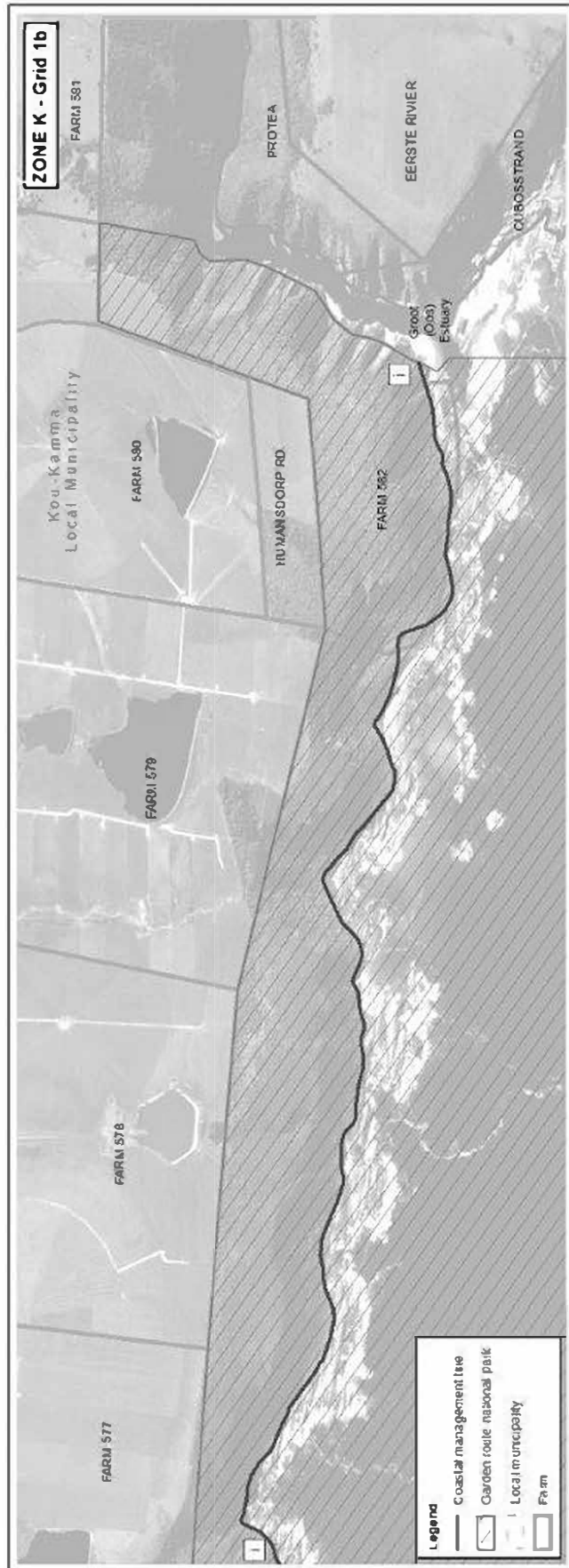












## NATIONAL TREASURY

NO. 721

13 August 2021

**PUBLIC FINANCE MANAGEMENT ACT, 1999: EXEMPTION**

I, TT Mboweni, the Minister of Finance, hereby in terms of section 92 of the Public Finance Management Act, 1999 (Act No. 1 of 1999), exempt the South African Revenue Service (SARS) from the following in so far as it relates to revenue administered and any directly associated transactions or activities undertaken for the National Revenue Fund and other entities:

- (a) Government Notice No. 516 of 9 May 2008 and the application of—
  - i. GRAP 9 on Revenue From Exchange Transactions;
  - ii. GRAP 12 on Inventories;
  - iii. GRAP 13 on Leases; and
  - iv. GRAP 19 on Provisions, Contingent Liabilities and Contingent Assets;
- (b) Government Notice No. 80 of 2 February 2011 and the application of—
  - i. GRAP 23 on Revenue from Non-exchange Transactions; and
  - ii. GRAP 24 on Presentation of Budget Information in Financial Statements;
- (c) Government Notice No. 719, 14 October 2011, and the application of GRAP 104 on Financial Instruments; and
- (d) Government Notice No. 207 of 26 April 2018 and the application of—
  - i. GRAP 18 on Segment Reporting;
  - ii. GRAP 108 on Statutory Receivables; and
  - iii. GRAP 109 on Accounting by Principals and Agents,

for a period of five years, with effect from 1 April 2022.



**TT MBOWENI**  
**MINISTER OF FINANCE**

NO. 722

**NATIONAL TREASURY  
PUBLIC FINANCE MANAGEMENT ACT, 1999  
REGULATIONS ON ACCOUNTING STANDARDS**

13 August 2021

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 the following implementation dates:

- (a) Annexure A: GRAP 104 on Financial Instruments (Revised 2019) from the 2025/2026 financial year;
- (b) Annexure B: Improvements to the Standards of GRAP 2020 from the 2023/2024 financial year; and
- (c) Annexure C: Amendments to GRAP 1 on Presentation of Financial Statements 2019 from the 2023/2024 financial year.

**SCHEDULE**

**ANNEXURE A**

**ACCOUNTING STANDARDS BOARD  
STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE  
FINANCIAL INSTRUMENTS  
(GRAP 104)**

**Contents****Standard of Generally Recognised Accounting Practice****Financial Instruments**

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## GRAP 104

## Chapter 1 – Objective and scope

## Objective

1.1 The objective of this Standard is to establish principles for recognising, measuring, presenting and disclosing financial instruments.

## Scope

1.2 *An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for financial instruments except:*

- (a) *the recognition and measurement of financial instruments issued by the entity that meets the definition of a residual interest;*
- (b) *employers' rights and obligations under employee benefit plans, to which the Standard of GRAP on Employee Benefits applies;*
- (c) *rights to payments to reimburse the entity for expenditure it is required to make to settle a liability that it recognises as a provision in accordance with the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets (GRAP 19), or for which, in an earlier period, it recognised a provision in accordance with that Standard; and*
- (d) *the initial recognition and initial measurement of financial instruments 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), 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) or a merger (see the Standard of GRAP on Mergers).*

1.3 *This Standard does not apply to the following instruments, except where indicated otherwise:*

- (a) *Interests in controlled entities, associates or joint ventures that are accounted for in accordance with the Standards of GRAP on Consolidated and Separate Financial Statements (GRAP 6), Investments in Associates (GRAP 7) or Interests in Joint Ventures (GRAP 8). However, in some cases, GRAP 6, 7 or 8 require or permit an entity to account for an interest in a controlled entity, associate or joint venture in accordance with some or all of the requirements of this Standard. Entities shall also apply this Standard to derivatives on an interest in a controlled entity, associate or joint venture (see Appendix A paragraphs AG1.2 to AG1.3), unless the derivative meets the definition of a residual interest.*
- (b) *Any forward contracts between an acquirer and a seller to buy or sell an acquiree that will result in a transfer of functions between entities not under common control at a future acquisition date. The term of the forward contract should not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction.*
- (c) *Rights and obligations under leases to which the Standard of GRAP on Leases applies. However:*
  - (i) *lease receivables recognised by a lessor are subject to the impairment, derecognition, presentation and disclosure provisions of this Standard (see paragraphs 5.17 to 5.35, 6.1 to 6.15, 7.1 to 8.60 and Appendix A paragraphs AG5.60 to AG5.115, AG7.1 to AG8.51);*
  - (ii) *finance lease payables recognised by a lessee are subject to the derecognition, presentation and disclosure provisions of this Standard (see paragraphs 6.16 to 6.19, and 7.1 to 8.60 and Appendix A paragraphs AG6.15 to AG6.21 and AG7.1 to AG8.51); and*
  - (iii) *derivatives that are embedded in leases are subject to the embedded derivatives provisions of this Standard (see paragraphs 4.9 to 4.15 and Appendix A paragraphs AG4.56 to AG4.67). Where an embedded derivative is separated from a lease, the presentation and disclosure requirements of this Standard also apply to the derivative (see paragraphs 7.1 to 8.60 and Appendix A paragraphs AG7.1 to AG8.51).*
- (d) *Rights and obligations arising under insurance contracts within the scope of the International Financial Reporting Standard(s) (IFRS® Standards) on insurance. This Standard shall, however, apply to:*
  - (i) *an issuer's rights and obligations arising under an insurance contract that meets the definition of a financial guarantee contract;*
  - (ii) *derivatives that are embedded in insurance contracts if this Standard requires the entity to account for them separately;*
  - (iii) *the presentation and disclosure of financial instruments that are within the scope of IFRS Standard 4 on insurance since they contain a discretionary participation feature (see paragraphs 7.1 to 8.60 and Appendix A paragraphs AG7.1 to AG8.51); and*
  - (iv) *the disclosure of investment components that are separated from contracts within the scope of IFRSs if IFRSs require such separation.*
- (e) *Loan commitments other than those loan commitments described in paragraph 1.7. However, an issuer of loan commitments shall apply the impairment requirements of this Standard to loan commitments that are not otherwise*

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*within the scope of this Standard. Also, all loan commitments are subject to the derecognition requirements of this Standard.*

- (f) *Contractual rights and obligations arising from non-exchange revenue transactions to which the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers) (GRAP 23) applies. However, receivables and payables recognised by an entity as a result of contractual non-exchange revenue transactions are subject to the subsequent measurement, derecognition, presentation and disclosure requirements of this Standard.*
- (g) *Statutory receivables as defined in the Standards of GRAP on Statutory Receivables.*
- (h) *Rights and obligations under service concession arrangements to which the Standard of GRAP on Service Concession Arrangements: Grantor applies. However, financial liabilities recognised by a grantor under the financial liability model are subject to the provisions of this Standard.*

**1.4** *An entity is permitted in terms of this Standard to apply hedge accounting as described in IFRS Standards on financial instruments. Where an entity chooses to apply hedge accounting, it must comply in full with the requirements for hedge accounting prescribed in IFRS Standards.*

#### Residual interests

- 1.5 Residual interests are those contracts that represent an entitlement to the net assets of an entity. This Standard does not establish principles for the recognition and measurement for the issuer of a residual interest. However, issuers of a residual interest are required to apply paragraphs 3.3 to 3.14 and paragraphs 7.1 to 7.8.
- 1.6 In their separate financial statements, holders of a residual interest are required to apply all the requirements of this Standard, unless they hold residual interests that are an investment in a controlled entity, associate or joint venture, and that investment is measured at cost in their separate financial statements in accordance with GRAP 6, GRAP 7 and GRAP 8.

#### Loan commitments

- 1.7 The following loan commitments are within the scope of this Standard:
  - (a) Loan commitments that the entity designates as financial liabilities at fair value through surplus or deficit (see paragraph 4.8). An entity that has a past practice of selling the assets resulting from its loan commitments shortly after origination shall apply this Standard to all its loan commitments in the same class.
  - (b) Loan commitments that can be settled net in cash or by delivering or issuing another financial instrument. These loan commitments are derivatives. A loan commitment is not regarded as settled net merely because the loan is paid out in instalments (for example, a construction loan that is paid out in instalments in line with the progress of construction).
  - (c) Commitments to provide a loan at a below market interest rate, including concessionary loans (see paragraph 4.7(d)).

#### Rights and obligations arising from non-exchange revenue transactions (see Appendix A paragraphs AG2.11 to AG2.16)

- 1.8 Contractual rights and obligations under non-exchange revenue transactions may give rise to receivables and payables that meet the definition of financial assets and financial liabilities. These receivables and payables are initially recognised and initially measured in accordance with GRAP 23 and subsequently measured, derecognised, presented and disclosed in accordance with this Standard.

#### Contracts to buy or sell non-financial items (see Appendix A paragraphs AG1.7 to AG1.10)

- 1.9 *This Standard shall be applied to those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. However, this Standard shall be applied to those contracts that an entity designates as measured at fair value through surplus or deficit in accordance with paragraph 1.10.*
- 1.10 *A contract to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contract was a financial instrument, may be irrevocably designated as measured at fair value through surplus or deficit even if it was entered into for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. This designation is available only at inception of the contract and only if it eliminates or significantly reduces a recognition inconsistency (sometimes referred to as an "accounting mismatch") that would otherwise arise from not recognising that contract because it is excluded from the scope of this Standard (see paragraph 1.9).*
- 1.11 There are various ways in which a contract to buy or sell a non-financial item can be settled net in cash or another financial instrument or by exchanging financial instruments. These include:
  - (a) when the terms of the contract permit either party to settle it net in cash or another financial instrument or by exchanging financial instruments;
  - (b) when the ability to settle net in cash or another financial instrument, or by exchanging financial instruments, is not explicit in the terms of the contract, but the entity has a practice of settling similar contracts net in cash or another financial instrument, or by exchanging financial instruments (whether with the counterparty, by entering into offsetting contracts or by selling the contract before its exercise or lapse);

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- (c) when, for similar contracts, the entity has a practice of taking delivery of the underlying and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price; and
- (d) when the non-financial item that is the subject of the contract is readily convertible to cash.

A contract to which (b) or (c) applies is not entered into for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale or usage requirements, and, accordingly, is within the scope of this Standard. Other contracts to which paragraph 1.9 applies are evaluated to determine whether they were entered into and continue to be held for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale or usage requirement, and accordingly, whether they are within the scope of this Standard.

- 1.12 A written option to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, in accordance with paragraph 1.11(a) or (d) is within the scope of this Standard. Such a contract cannot be entered into for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale or usage requirements.

## Chapter 2 - Definitions

Definitions (see Appendix A paragraphs AG2.1 to AG2.26)

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

**12 month expected credit losses** is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The **amortised cost** of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and for financial assets, adjusted for any loss allowance.

A **concessionary loan** is a loan granted to or received by an entity on terms that are not market related.

**Credit-adjusted effective interest rate** is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the amortised cost of a financial asset that is a purchased or originated credit-impaired financial asset. When calculating the credit-adjusted effective interest rate, an entity shall estimate the expected cash flows by considering all contractual terms of the financial asset (for example, prepayment, extension, call and similar options) and expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see paragraphs AG5.50 to AG5.52), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the remaining life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

**Credit-impaired financial asset** is a financial asset that is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (e) the disappearance of an active market for that financial asset because of financial difficulties; or
- (f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

*It may not be possible to identify a single discrete event — instead, the combined effect of several events may have caused financial assets to become credit-impaired.*

**Credit loss** is the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). An entity shall estimate cash flows by considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) through the expected life of that financial instrument. The cash flows that are considered shall include cash flows from the sale of collateral held (where applicable) or other credit enhancements that are integral to the contractual terms. There is a presumption that the expected life of a financial instrument can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the expected life of a financial instrument, the entity shall use the remaining contractual term of the financial instrument.

**Credit risk** is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

**Credit risk rating grades** are the ratings of credit risk based on the risk of default occurring on the financial instrument.

**Currency risk** is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

**Derecognition** is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A **derivative** is a financial instrument or other contract within the scope of this Standard (see paragraphs 1.2 to 1.12) with all three of the following characteristics:

- (a) Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the "underlying").
- (b) It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- (c) It is settled at a future date.

(See paragraphs AG2.17 to AG2.20)

The **effective interest method** is the method that is used in the calculation of the amortised cost of a financial asset or a financial liability and in the allocation and recognition of interest revenue or interest expense in surplus or deficit in the relevant period. (See paragraphs AG5.50 to AG5.59)

**Effective interest rate** is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. When calculating the effective interest rate, an entity shall estimate the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but shall not consider the expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see paragraphs AG5.50 to AG5.52), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

**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.

A financial asset is:

- (a) cash;
- (b) a residual interest of another entity; or
- (c) a contractual right to:
  - (i) receive cash or another financial asset from another entity; or
  - (ii) exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

(See paragraphs AG2.1 to AG2.16)

A **financial guarantee contract** is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A **financial instrument** is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

(See paragraphs AG2.1 to AG2.16)

A **financial liability** is any liability that is a contractual obligation to:

- (a) deliver cash or another financial asset to another entity; or
- (b) exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

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(See paragraphs AG2.1 to AG2.16)

**Financial liability at fair value through surplus or deficit** is a financial liability that meets one of the following conditions:

- (a) It meets the definition of held for trading.
- (b) Upon initial recognition it is designated by the entity as at fair value through surplus or deficit in accordance with paragraph 4.8 or 4.13.

**Firm commitment** is a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.

**Forecast transaction** is an uncommitted but anticipated future transaction.

**Gross carrying amount of a financial asset** is the amortised cost of a financial asset, before adjusting for any loss allowance.

A financial asset or financial liability that is **held for trading**:

- (a) is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- (b) on initial recognition is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- (c) is a derivative (except for a derivative that is a financial guarantee contract).

**Impairment gain or loss** is a gain or loss that is recognised in surplus or deficit in accordance with paragraph 5.23 and 5.36.

**Lifetime expected credit losses** are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

**Loss allowance** is the allowance for expected credit losses on financial assets measured in accordance with paragraph 4.2, lease receivables and the provision for expected credit losses on loan commitments and financial guarantee contracts.

**Interest rate risk** is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

**Liquidity risk** is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

**Loan commitment** is a firm commitment to provide credit under pre-specified terms and conditions.

**Loans payable** are financial liabilities, other than short-term payables on normal credit terms.

**Market risk** is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

**Modification gain or loss** is the amount arising from adjusting the gross carrying amount of a financial asset to reflect the renegotiated or modified contractual cash flows. The entity recalculates the gross carrying amount of a financial asset as the present value of the estimated future cash payments or receipts through the expected life of the renegotiated or modified financial asset that are discounted at the financial asset's original effective interest rate (or the original credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). When estimating the expected cash flows of a financial asset, an entity shall consider all contractual terms of the financial asset (for example, prepayment, call and similar options) but shall not consider the expected credit losses, unless the financial asset is a purchased or originated credit-impaired financial asset, in which case an entity shall also consider the initial expected credit losses that were considered when calculating the original credit-adjusted effective interest rate.

**Other price risk** is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is **past due** when a counterparty has failed to make a payment when that payment was contractually due.

**Purchased or originated credit impaired financial asset** is a purchased or originated financial asset(s), other than a receivable, that is credit-impaired on initial recognition.

**Reclassification date** is:

- (a) the first day of the first reporting period following the change in management model that results in an entity reclassifying financial assets; and
- (b) the date on which a reliable measure of fair value ceases to be, or becomes, available for an investment in a residual interest that meets the criteria in paragraph 4.5.

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**A residual interest is any contract that represents 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.**

**(See paragraphs AG2.25 to AG2.26)**

**Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability (see Appendix A paragraph AG5.57). An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.**

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

- 2.2 In this Standard, "entity" includes, amongst others, individuals, partnerships, incorporated bodies, trusts and organs of state.
- 2.3 In this Standard, "contract" and "contractual" refer to an agreement between two or more parties that has clear economic consequences that the parties have little, if any, discretion to avoid, usually because the agreement is enforceable by law. Contracts, and thus financial instruments, may take a variety of forms and need not be in writing.

### Chapter 3 – Initial recognition

#### Initial recognition

- 3.1 **An entity shall recognise a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument (see paragraphs AG3.12 to AG3.13). When an entity first recognises a financial asset, it shall classify it in accordance with paragraphs 4.1 to 4.6 and measure it in accordance with paragraphs 5.1 to 5.3. When an entity first recognises a financial liability, it shall classify it in accordance with paragraphs 4.7 to 4.8 and measure it in accordance with paragraph 5.1.**
- 3.2 **An entity recognises and derecognises financial assets using trade date accounting.**

#### Distinguishing liabilities and residual interests (see Appendix A paragraphs AG3.1 to AG3.5)

- 3.3 **The issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or a residual interest in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and a residual interest.**
- 3.4 When an issuer applies the definitions in paragraph 2.1 to determine whether a financial instrument is a residual interest rather than a financial liability, the instrument is a residual interest if, and only if, the instrument includes no contractual obligation to:
  - (a) deliver cash or another financial asset to another entity; or
  - (b) exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.

#### No contractual obligation to deliver cash or another financial asset

- 3.5 A critical feature in differentiating a financial liability from a residual interest is the existence of a contractual obligation of one party to the financial instrument (the issuer) either to deliver cash or another financial asset to the other party (the holder), or to exchange financial assets or financial liabilities with the holder under conditions that are potentially unfavourable to the issuer. Although the holder of a residual interest may be entitled to receive a pro rata share of any dividends or similar distributions, the issuer does not have a contractual obligation to make such distributions because it cannot be required to deliver cash or another financial asset to another party.
- 3.6 The substance of a financial instrument, rather than its legal form, governs its classification on the entity's statement of financial position. Substance and legal form are commonly consistent, but not always. Some financial instruments take the legal form of a residual interest but are liabilities in substance. Others may combine features associated with residual interests and features associated with financial liabilities. For example:
  - (a) A preference share that provides for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability.
  - (b) A financial instrument that gives the holder the right to put it back to the issuer for cash or another financial asset (a "puttable instrument") is a financial liability. The financial instrument is a financial liability even when the amount of cash or other financial asset is determined on the basis of an index or other item that has the potential to increase or decrease. The



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existence of an option for the holder to put the instrument back to the issuer for cash or another financial asset means that the puttable instrument meets the definition of a financial liability.

- 3.7 If an entity does not have an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the obligation meets the definition of a financial liability. For example:
- (a) A restriction on the ability of an entity to satisfy a contractual obligation, such as lack of access to foreign currency or the need to obtain approval for payment from a regulatory authority, does not negate the entity's contractual obligation or the holder's contractual right under the instrument.
  - (b) A contractual obligation that is conditional on a counterparty exercising its right to redeem is a financial liability because the entity does not have the unconditional right to avoid delivering cash or another financial asset.
- 3.8 A financial instrument that does not explicitly establish a contractual obligation to deliver cash or another financial asset may establish an obligation indirectly through its terms and conditions. For example, a financial instrument may contain a non-financial obligation that must be settled if, and only if, the entity fails to make distributions or to redeem the instrument. If the entity can avoid a transfer of cash or another financial asset only by settling the non-financial obligation, the financial instrument is a financial liability.

**Contingent settlement provisions**

- 3.9 A financial instrument may require the entity to deliver cash or another financial asset, or otherwise to settle it in such a way that it would be a financial liability, in the event of the occurrence or non-occurrence of uncertain future events (or on the outcome of uncertain circumstances) that are beyond the control of both the issuer and the holder of the instrument, such as a change in a stock market index, consumer price index, interest rate or taxation requirements, or the issuer's future revenues, net income or debt-to-equity ratio. The issuer of such an instrument does not have the unconditional right to avoid delivering cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability). Therefore, it is a financial liability of the issuer unless:
- (a) the part of the contingent settlement provision that could require settlement in cash or another financial asset (or otherwise in such a way that it would be a financial liability) is not genuine; and
  - (b) the issuer can be required to settle the obligation in cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability) only in the event of liquidation of the issuer.

**Compound financial instruments (see Appendix A paragraphs AG3.6 to AG3.11)**

- 3.10** *The issuer of a non-derivative financial instrument shall evaluate the terms of the financial instrument to determine whether it contains both a liability and residual interest component. Such components shall be classified separately as financial liabilities, financial assets or residual interests in accordance with paragraph 3.3.*
- 3.11 An entity recognises separately the components of a financial instrument that (a) creates a financial liability of the entity and (b) grants an option to the holder of the instrument to convert it into a residual interest of the entity. For example, a bond or similar instrument convertible by the holder into a fixed number of ordinary shares of the entity is a compound financial instrument. From the perspective of the entity, such an instrument comprises two components: a financial liability (a contractual arrangement to deliver cash or another financial asset) and a residual interest (a call option granting the holder the right, for a specified period of time, to convert it into a fixed number of ordinary shares of the entity). Accordingly, in all cases, the entity presents the liability and residual interest components separately in its statement of financial position.
- 3.12 Classification of the liability and residual interest components of a convertible instrument is not revised as a result of a change in the likelihood that a conversion option will be exercised, even when exercise of the option may appear to have become economically advantageous to some holders. Holders may not always act in the way that might be expected because, for example, the tax consequences resulting from conversion may differ among holders. Furthermore, the likelihood of conversion will change from time to time. The entity's contractual obligation to make future payments remains outstanding until it is extinguished through conversion, maturity of the instrument or some other transaction.
- 3.13 This Standard deals with the measurement of financial assets and financial liabilities. Residual interests evidence an interest in the assets of an entity after deducting all of its liabilities. Therefore, when the initial carrying amount of a compound financial instrument is allocated to its residual interest and liability components, the residual interest component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount determined separately for the liability component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the residual interest component (such as an equity conversion option) is included in the liability component. The sum of the carrying amounts assigned to the liability and residual interest components on initial recognition is always equal to the fair value that would be ascribed to the instrument as a whole. No gain or loss arises from initially recognising the components of the instrument separately.
- 3.14 Under the approach described in paragraph 3.13, the issuer of a bond convertible into ordinary shares first determines the carrying amount of the liability component by measuring the fair value of a similar liability (including any embedded non-equity derivative features) that does not have an associated residual interest component. The carrying amount of the residual interest represented by the option to convert the instrument into ordinary shares is then determined by deducting the fair value of the financial liability from the fair value of the compound financial instrument as a whole.

**Chapter 4 – Classification****Classification****Classification of financial assets**

- 4.1** *Unless paragraph 4.6 applies, an entity shall classify financial assets as subsequently measured at amortised cost or fair value through surplus or deficit on the basis of both:*
- (a) the entity's management model for managing the financial assets; and*
  - (b) the contractual cash flow characteristics of the financial asset.*
- 4.2** *A financial asset shall be measured at amortised cost if both of the following conditions are met:*
- (a) the financial asset is held within a management model whose objective is to hold financial assets in order to collect contractual cash flows; and*
  - (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.*
- Paragraphs AG4.1 to AG4.45 provide guidance on how to apply these conditions.*
- 4.3** *For the purpose of applying paragraph 4.2(b):*
- (a) Principal is the fair value of the financial asset at initial recognition. Paragraph AG4.18 provides additional guidance on the meaning of principal.*
  - (b) Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin (where applicable). Paragraphs AG4.17 and AG4.23 to AG4.27 provide additional guidance on the meaning of interest, including the meaning of the time value of money.*
- 4.4** *A financial asset shall be measured at fair value through surplus or deficit unless it is measured at amortised cost in accordance with paragraph 4.2 or cost in accordance with paragraph 4.5.*
- 4.5** *Investments in residual interests are measured at fair value through surplus or deficit. As a practical expedient, an investment in a residual interest whose fair value cannot be reliably measured is measured at cost. If a reliable measure of fair value becomes available, the investment should be measured at fair value through surplus or deficit.*

**Option to designate a financial asset at fair value through surplus or deficit**

- 4.6** *Despite paragraphs 4.1 to 4.5, an entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through surplus or deficit-if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on the on different bases (see paragraphs AG4.48 to AG4.51).*

**Classification of financial liabilities**

- 4.7** *An entity shall classify all financial liabilities as subsequently measured at amortised cost, except for:*
- (a) Financial liabilities at fair value through surplus or deficit. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.*
  - (b) Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition. Paragraph 6.14 applies to the measurement of such financial liabilities.*
  - (c) Financial guarantee contracts. After initial recognition, an issuer of such a contract shall (unless paragraph 4.7(a) or (b) applies) subsequently measure it at the higher of:*
    - (i) the amount of the loss allowance determined in accordance with paragraphs 5.17 to 5.35; and*
    - (ii) the amount initially recognised (see paragraph 5.1) less, when appropriate, the cumulative amount of revenue recognised in accordance with the principles of the Standard of GRAP on Revenue from Exchange Transactions (GRAP 9)(where applicable).*
  - (d) Commitments to provide a loan at a below-market interest rate. An issuer of such a commitment shall (unless paragraph 4.7(a) applies) subsequently measure it at the higher of:*
    - (i) the amount of the loss allowance determined in accordance with paragraphs 5.17 to 5.35 plus, for concessionary loans, any social benefit provided (see paragraphs 5.4, AG5.15 and AG5.17); and*
    - (ii) the amount initially recognised (see paragraph 5.1) less, when appropriate, the cumulative amount of revenue recognised in accordance with the principles of GRAP 9 (where applicable).*
  - (e) Contingent consideration recognised by an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfers of Functions Between Entities Not Under Common*

*Control applies. Such contingent consideration shall subsequently be measured at fair value with changes recognised in surplus or deficit.*

#### **Option to designate a financial liability at fair value through surplus or deficit**

- 4.8** *An entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through surplus or deficit when permitted by paragraph 4.13, or when doing so results in more relevant information, because either:*
- (a) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as “an accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases (see paragraphs AG4.48 to AG4.51); or*
  - (b) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity’s management (as defined in the Standard of GRAP on Related Party Disclosures (GRAP 24)), for example, the entity’s governing body and chief executive officer or permanent head (see paragraphs AG4.52 to AG4.55).*

#### **Embedded derivatives**

- 4.9** An embedded derivative is a component of a hybrid contract that also includes a non-derivative host contract—with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

#### **Hybrid contracts with financial asset hosts**

- 4.10** If a hybrid contract contains a host that is an asset within the scope of this Standard, an entity shall apply the requirements in paragraphs 4.1 to 4.6. to the entire contract.

#### **Other hybrid contracts**

- 4.11** *If a hybrid contract contains a host that is not an asset within the scope of this Standard, an embedded derivative shall be separated from the host and accounted for as a derivative under this Standard if, and only if:*
- (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract (see Appendix A paragraphs AG4.60 and AG4.63);*
  - (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and*
  - (c) the hybrid contract is not measured at fair value with the changes in fair value recognised in surplus or deficit (i.e. a derivative that is embedded in a financial instrument at fair value is not separated).*
- 4.12** *If an embedded derivative is separated, the host contract shall be accounted for in accordance with the appropriate Standards. This Standard does not address whether an embedded derivative shall be presented separately in the statement of financial position.*
- 4.13** *Despite paragraphs 4.11 and 4.12, if a contract contains a host that is not an asset within the scope of this Standard, an entity may designate the entire hybrid contract as at fair value through surplus or deficit unless:*
- (a) the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or*
  - (b) it is clear with little or no analysis when a similar hybrid instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortised cost.*
- 4.14** *If an entity is required by this Standard to separate an embedded derivative from its host, but is unable to measure the embedded derivative separately either at acquisition or at the end of a subsequent financial reporting period, it shall designate the entire hybrid contract as at fair value through surplus or deficit.*
- 4.15** If an entity is unable to measure reliably the fair value of an embedded derivative on the basis of its terms and conditions, the fair value of the embedded derivative is the difference between the fair value of the hybrid contract and the fair value of the host. If the entity is unable to measure the fair value of the embedded derivative using this method, paragraph 4.14 applies and the hybrid contract is designated at fair value through surplus or deficit.

#### **Reclassification**

- 4.16** *An entity shall reclassify financial assets when:*
- (a) an entity changes its management model for managing financial assets it shall reclassify all affected financial assets in accordance with paragraphs 4.1 to 4.4. (See paragraphs 5.37 to 5.39, AG4.68 to AG4.70 and AG5.116 to AG5.117 for additional guidance on reclassifying financial assets);*

- (b) *a reliable measure of fair value either becomes, or ceases to be, available for an investment in a residual interest. (See paragraphs 5.40 to 5.41 and AG4.71 to AG4.72.)*

**4.17** *An entity shall not reclassify any financial liability.*

## Chapter 5 – Measurement

### Measurement

#### Initial measurement

- 5.1** *Except for receivables and payables within the scope of paragraph 5.3, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or a financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability (see Appendix A paragraphs AG5.1 to AG5.11).*
- 5.2** *However, if the fair value of the financial asset or financial liability at initial recognition differs from the transaction price, an entity shall apply paragraph AG5.4.*
- 5.3** Despite the requirement in paragraph 5.1, at initial recognition, an entity shall measure receivables and payables at their transaction price if they do not contain a material financing transaction (see Appendix A paragraphs AG5.8 to AG5.11).

#### Concessionary loans and investments (see Appendix A paragraphs AG5.12 to AG5.33)

- 5.4** *An entity assesses whether the substance of a concessionary loan or investment is a loan or investment by applying the principles in paragraphs 3.3 to 3.14. On initial recognition, an entity analyses a concessionary loan or investment into its component parts and accounts for each component separately. An entity accounts for that part of a concessionary loan or investment that is:*
- (a) *a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements<sup>1</sup>, where it is the issuer of the loan or the investor; or*
- (b) *a contribution from owners and/or non-exchange revenue, in accordance with GRAP 23, where it is the recipient of the loan or the investment proceeds.*
- 5.5** The part of the concessionary loan or investment that is a social benefit, a contribution from owners, or non-exchange revenue is determined as the difference between the fair value of the loan or investment and the transaction price (loan or investment proceeds), either paid or received.
- 5.6** After initial recognition, an entity measures concessionary loans or investments in accordance with paragraph 5.7.

#### Subsequent measurement of financial assets

- 5.7** *After initial recognition, an entity shall measure a financial asset in accordance with paragraph 4.1 to 4.5 at:*
- (a) *amortised cost;*
- (b) *fair value through surplus or deficit (see Appendix A paragraphs AG5.35 to AG5.49); or*
- (c) *cost.*
- 5.8** *An entity shall apply the impairment requirements in paragraphs 5.17 to 5.35 to financial assets that are measured at amortised cost in accordance with paragraph 4.2 and paragraph 5.36 to financial assets measured at cost in accordance with paragraph 4.5.*

#### Subsequent measurement of financial liabilities

- 5.9** *After initial recognition, an entity shall measure a financial liability in accordance with paragraphs 4.7 to 4.8.*

#### Fair value measurement

- 5.10** *In determining the fair value of a financial asset or a financial liability for the purpose of applying this Standard an entity shall apply paragraphs AG5.35 to AG5.49 of Appendix A.*
- 5.11** The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum

<sup>1</sup> 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*.

use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

- 5.12 The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

#### Amortised cost measurement

##### Financial assets

###### Effective interest method

- 5.13 ***Interest revenue shall be calculated by using the effective interest method (see Appendix A and paragraphs AG5.50 to AG5.56). This shall be calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:***

- (a) ***Purchased or originated credit-impaired financial assets. For those financial assets, the entity shall apply the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.***
- (b) ***Financial assets, other than receivables, that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the entity shall apply the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.***

- 5.14 An entity that, in a reporting period, calculates interest revenue by applying the effective interest method to the amortised cost of a financial asset in accordance with paragraph 5.13(b), shall, in subsequent reporting periods, calculate the interest revenue by applying the effective interest rate to the gross carrying amount if the credit risk on the financial instrument improves so that the financial asset is no longer credit-impaired and the improvement can be related objectively to an event occurring after the requirements in paragraph 5.13(b) were applied (such as an improvement in the borrower's credit rating).

###### Modification of contractual cash flows

- 5.15 When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with this Standard, an entity shall recalculate the gross carrying amount of the financial asset and shall recognise a modification gain or loss in surplus or deficit. The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

###### Write-off

- 5.16 ***An entity shall directly reduce the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event.***

#### Impairment

##### Recognition of expected credit losses

###### General approach

- 5.17 ***An entity shall recognise a loss allowance for expected credit losses on a financial asset that is measured in accordance with paragraphs 4.2, a lease receivable, or a loan commitment and a financial guarantee contract to which the impairment requirements apply in accordance with paragraphs 1.3(e), 4.7(c) or (d)***
- 5.18 ***Subject to paragraphs 5.28 to 5.30, at each reporting date, an entity shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.***
- 5.19 The objective of the impairment requirements is to recognise lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition — whether assessed on an individual or collective basis — considering all reasonable and supportable information, including that which is forward-looking.
- 5.20 ***Subject to paragraphs 5.28 to 5.30, if, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, an entity shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.***
- 5.21 For loan commitments and financial guarantee contracts, the date that the entity becomes a party to the irrevocable commitment shall be considered to be the date of initial recognition for the purposes of applying the impairment requirements.
- 5.22 If an entity has measured the loss allowance for a financial instrument at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that paragraph 5.18 is no longer met, the

entity shall measure the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date.

- 5.23 An entity shall recognise in surplus or deficit, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with this Standard.

*Determining significant increases in credit risk*

- 5.24 At each reporting date, an entity shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, an entity shall use the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. To make that assessment, an entity shall compare the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

- 5.25 An entity may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date (see paragraphs AG5.81 to AG5.83).

- 5.26 If reasonable and supportable forward-looking information is available without undue cost or effort, an entity cannot rely solely on past due information when determining whether credit risk has increased significantly since initial recognition. However, when information that is more forward-looking than past due status (either on an individual or a collective basis) is not available without undue cost or effort, an entity may use past due information to determine whether there have been significant increases in credit risk since initial recognition. Regardless of the way in which an entity assesses significant increases in credit risk, there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. An entity can rebut this presumption if the entity has reasonable and supportable information that is available without undue cost or effort, that demonstrates that the credit risk has not increased significantly since initial recognition even though the contractual payments are more than 30 days past due. When an entity determines that there have been significant increases in credit risk before contractual payments are more than 30 days past due, the rebuttable presumption does not apply.

*Modified financial assets*

- 5.27 If the contractual cash flows on a financial asset have been renegotiated or modified and the financial asset was not derecognised, an entity shall assess whether there has been a significant increase in the credit risk of the financial instrument in accordance with paragraph 5.18 by comparing:

- (a) the risk of a default occurring at the reporting date (based on the modified contractual terms); and
- (b) the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms).

*Purchased or originated credit impaired financial assets*

- 5.28 ***Despite paragraphs 5.18 and 5.20, at the reporting date, an entity shall only recognise the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets.***

- 5.29 At each reporting date, an entity shall recognise in surplus or deficit the amount of the change in lifetime expected credit losses as an impairment gain or loss. An entity shall recognise favourable changes in lifetime expected credit losses as an impairment gain, even if the lifetime expected credit losses are less than the amount of expected credit losses that were included in the estimated cash flows on initial recognition.

**Simplified approach for receivables and lease receivables**

- 5.30 ***Despite paragraphs 5.18 and 5.20, an entity shall always measure the loss allowance at an amount equal to lifetime expected credit losses for receivables and lease receivables.***

- 5.31 ***The requirements for purchased or originated credit impaired financial assets (see paragraphs 2.1 and 5.28 to 5.29) do not apply to receivables.***

**Measurement of expected credit losses**

- 5.32 ***An entity shall measure expected credit losses of a financial instrument in a way that reflects:***

- (a) ***an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;***
- (b) ***the time value of money; and***
- (c) ***reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.***

- 5.33 When measuring expected credit losses, an entity need not necessarily identify every possible scenario. However, it shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.
- 5.34 The maximum period to consider when measuring expected credit losses is the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if that longer period is consistent with practice.
- 5.35 However, some financial instruments include both a loan and an undrawn commitment component and the entity's contractual ability to demand repayment and cancel the undrawn commitment does not limit the entity's exposure to credit losses to the contractual notice period. For such financial instruments, and only those financial instruments, the entity shall measure expected credit losses over the period that the entity is exposed to credit risk and expected credit losses would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period.

#### Financial assets measured at cost

- 5.36 *If there is objective evidence that an impairment loss has been incurred, using the definition of a "credit impaired financial asset", on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset (see Appendix A paragraphs AG5.47 to AG5.48). Such impairment losses shall not be reversed.*

#### Reclassification of financial assets

- 5.37 *If an entity reclassifies financial assets in accordance with paragraph 4.16, it shall apply the reclassification prospectively from the reclassification date. The entity shall not restate any previously recognised gains, losses (including impairment gains or losses) or interest. Paragraphs 5.37 to 5.41 set out the requirements for reclassifications.*
- 5.38 *If an entity reclassifies a financial asset out of the amortised cost measurement category and into the fair value through surplus or deficit measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in surplus or deficit.*
- 5.39 *If an entity reclassifies a financial asset out of the fair value through surplus or deficit measurement category and into the amortised cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount. (See paragraph AG5.117 for guidance on determining an effective interest rate and a loss allowance at the reclassification date.)*
- 5.40 *If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, an entity shall reclassify the investment from fair value through surplus or deficit to cost. The carrying amount at the date that fair value is no longer available becomes the cost.*
- 5.41 *If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, an entity reclassifies the investment from cost to fair value through surplus or deficit and recognises the difference between its carrying amount and fair value in accordance with paragraph 5.42.*

#### Gains and losses

- 5.42 *A gain or loss on a financial asset or financial liability that is measured at fair value shall be recognised in surplus or deficit unless it is a financial liability designated as at fair value through surplus or deficit and the entity is required to present the effects of changes in the liability's credit risk in the statement of changes in net assets.*
- 5.43 *A gain or loss on a financial asset that is measured at amortised cost shall be recognised in surplus or deficit when the financial asset is derecognised, reclassified in accordance with paragraph 5.38, through the amortisation process or in order to recognise impairment gains or losses. An entity shall apply paragraphs 5.38 if it reclassifies financial assets out of the amortised cost measurement category. A gain or loss on a financial liability that is measured at amortised cost shall be recognised in surplus or deficit when the financial liability is derecognised and through the amortisation process. (See paragraph AG5.118 for guidance on foreign exchange gains or losses.)*

#### Liabilities designated as at fair value through surplus or deficit

- 5.44 *An entity shall present a gain or loss on a financial liability that is designated as at fair value through surplus or deficit in accordance with paragraph 4.8 or paragraph 4.13 as follows:*
- (a) *the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability shall be presented in the statement of changes in net assets (see paragraphs AG5.127 to AG 5.134), and*
- (b) *the remaining amount of change in the fair value of the liability shall be presented in surplus or deficit unless the treatment of the effects in the liability's credit risk described in (a) would create or enlarge an accounting mismatch in surplus or deficit (in which case paragraph 5.45 applies). Paragraphs AG5.119 to AG5.121*

and AG5.124 to AG5.126 provide guidance on determining whether an accounting mismatch would be created or enlarged.

- 5.45 *If the requirements in paragraph 5.44 would create or enlarge an accounting mismatch in surplus or deficit, an entity shall present all gains or losses on that liability (including the effects of changes in the credit risk of that liability) in surplus or deficit.*
- 5.46 Despite the requirements in paragraphs 5.44 and 5.45, an entity shall present in surplus or deficit all gains and losses on loan commitments and financial guarantee contracts that are designated as at fair value through surplus or deficit.

## Chapter 6 – Derecognition

### Derecognition

#### Derecognition of financial assets (see Appendix A paragraphs AG6.1 to AG6.14)

- 6.1 *An entity derecognises financial assets using trade date accounting.*
- 6.2 In consolidated financial statements, paragraphs 6.3 to 6.8 and Appendix A paragraphs AG6.1 to AG6.14 are applied at a consolidated level. Hence, an entity first consolidates all controlled entities in accordance with GRAP 6 and then applies paragraphs 6.3 to 6.8 and Appendix A paragraphs AG6.1 to AG6.14.
- 6.3 *Before evaluating whether, and to what extent, derecognition is appropriate under paragraphs 6.6 to 6.13, an entity determines whether those paragraphs should be applied to a part of a financial asset (or a part of a group of similar financial assets) or a financial asset (or a group of similar financial assets) in its entirety, as follows:*
- (a) *Paragraphs 6.3 to 6.8 are applied to a part of a financial asset (or a part of a group of similar financial assets) if, and only if, the part being considered for derecognition meets one of the following three conditions:*
- (i) *The part comprises only specifically identified cash flows from a financial asset (or a group of similar financial assets). For example, when an entity enters into an interest rate strip whereby the counterparty obtains the right to the interest cash flows, but not the principal cash flows from a debt instrument, paragraphs 6.3 to 6.8 are applied to the interest cash flows.*
- (ii) *The part comprises only a fully proportionate (pro rata) share of the cash flows from a financial asset (or a group of similar financial assets). For example, when an entity enters into an arrangement whereby the counterparty obtains the rights to a 90% share of all cash flows of a debt instrument, paragraphs 6.3 to 6.8 are applied to 90% of those cash flows. If there is more than one counterparty, each counterparty is not required to have a proportionate share of the cash flows, provided that the transferring entity has a fully proportionate share.*
- (iii) *The part comprises only a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets). For example, when an entity enters into an arrangement whereby the counterparty obtains the rights to a 90% share of interest cash flows from a financial asset, paragraphs 6.3 to 6.8 are applied to 90% of those interest cash flows. If there is more than one counterparty, each counterparty is not required to have a proportionate share of the specifically identified cash flows, provided that the transferring entity has a fully proportionate share.*
- (b) *In all other cases, paragraphs 6.3 to 6.8 are applied to the financial asset in its entirety (or to the group of similar financial assets in their entirety). For example, when an entity transfers (i) the rights to the first or the last 90% of cash collections from a financial asset (or a group of financial assets), or (ii) the rights to 90% of the cash flows from a group of receivables, but provides a guarantee to compensate the buyer for any credit losses up to 8% of the principal amount of the receivables, paragraphs 6.3 to 6.8 are applied to the financial asset (or a group of similar financial assets) in its entirety.*

*In paragraphs 6.3 to 6.8, the term “financial asset” refers to either a part of a financial asset (or a group of similar financial assets) as identified in (a) above or, otherwise, a financial asset (or a group of similar financial assets) in its entirety.*

- 6.4 *An entity shall derecognise a financial asset only when:*
- (a) *the contractual rights to the cash flows from the financial asset expire, are settled or waived;*
- (b) *the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset;*  
*or*
- (c) *the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity shall:*
- (i) *derecognise the asset; and*
- (ii) *recognise separately any rights and obligations created or retained in the transfer.*



***The carrying amounts of the transferred asset shall be allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations shall be measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised in accordance with this paragraph shall be recognised in surplus or deficit in the period of the transfer.***

**Waiver of rights relating to financial assets (see Appendix A paragraph AG6.2 to AG6.3)**

- 6.5 An entity may waive the right to receive contractual receipts under the terms of an existing arrangement. The following outline scenarios of when a waiver of rights may arise:
- (a) A municipality may waive its right to contractual receipts due on consumer accounts where those consumers become eligible to have their debts waived in accordance with the municipality's indigent policy. Where the waiver of rights results in the provision of a social benefit, it is accounted for in accordance with paragraph 5.4(a).
  - (b) An entity may waive its rights to contractual receipts because of a subsequent event such as the issuing of a court order. A court may order that, instead of being entitled to a right to receive cash or another financial asset, the entity instead has a right to another asset, good and/or services, i.e. the debt will be settled through the seizure of property or other goods/services rather than through cash or equivalent means. In these instances, an entity derecognises the financial asset (or part of the financial asset) that represents the entity's right to cash or another financial asset, and recognises the right to receive another asset in terms of the *Framework for the Preparation and Presentation of Financial Statement*<sup>1</sup>.

**Assessing the transfer of risks and rewards, and control (see Appendix A paragraphs AG6.4 to AG6.6)**

- 6.6 The transfer of risks and rewards (see paragraph 6.4) is evaluated by comparing the entity's exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset. An entity has retained substantially all the risks and rewards of ownership of a financial asset if its exposure to the variability in the present value of the future net cash flows from the financial asset does not change significantly as a result of the transfer (e.g. because the entity has sold a financial asset subject to an agreement to buy it back at a fixed price or the sale price plus a lender's return). An entity has transferred substantially all the risks and rewards of ownership of a financial asset if its exposure to such variability is no longer significant in relation to the total variability in the present value of the future net cash flows associated with the financial asset (e.g. because the entity has sold a financial asset subject only to an option to buy it back at its fair value at the time of repurchase).
- 6.7 Often it will be obvious whether the entity has transferred or retained substantially all of the risks and rewards of ownership and there will be no need to perform any computations. In other cases, it will be necessary to compute and compare the entity's exposure to the variability in the present value of the future net cash flows before and after the transfer. The computation and comparison is made using as the discount rate an appropriate current market interest rate. All reasonably possible variability in net cash flows is considered, with greater weight being given to those outcomes that are more likely to occur.
- 6.8 Whether the entity has transferred control of the asset depends on the transferee's ability to sell the asset. If the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, the entity has not retained control. In all other cases, the entity has retained control.

**Transfers that qualify for derecognition (see Appendix A paragraphs AG6.10 to AG6.11)**

- 6.9 ***If an entity transfers a financial asset in a transfer that qualifies for derecognition (see paragraph 6.4) in its entirety and retains the right to service the financial asset for a fee, it shall recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation shall be recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset shall be recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset in accordance with paragraph 6.12.***
- 6.10 ***If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity shall recognise the new financial asset, financial liability or servicing liability at fair value.***
- 6.11 ***On derecognition of a financial asset in its entirety, the difference between:***
- (a) the carrying amount; and***
  - (b) the sum of the consideration received (including any new asset obtained less any new liability assumed)***
- shall be recognised in surplus or deficit.***
- 6.12 ***If the transferred asset is part of a larger financial asset (e.g. when an entity transfers interest cash flows that are part of a debt instrument) and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset shall be allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset shall be treated as a part that continues to be recognised. The difference between:***

- (a) *the carrying amount allocated to the part derecognised; and*
- (b) *the sum of the consideration received for the part derecognised (including any new asset obtained less any new liability assumed)*

*shall be recognised in surplus or deficit.*

- 6.13 When an entity allocates the previous carrying amount of a larger financial asset between the part that continues to be recognised and the part that is derecognised, the fair value of the part that continues to be recognised needs to be determined. When the entity has a history of selling parts similar to the part that continues to be recognised or other market transactions exist for such parts, recent prices of actual transactions provide the best estimate of its fair value. When there are no price quotes or recent market transactions to support the fair value of the part that continues to be recognised, the best estimate of the fair value is the difference between the fair value of the larger financial asset as a whole and the consideration received from the transferee for the part that is derecognised.

#### Transfers that do not qualify for derecognition

- 6.14 *If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity shall continue to recognise the transferred asset in its entirety and shall recognise a financial liability for the consideration received. In subsequent periods, the entity shall recognise any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset and the associated liability nor the revenue and the associated expenses may be offset.*

#### Non-cash collateral

- 6.15 *If a transferor provides non-cash collateral (such as debt instruments or a residual interest) to the transferee, the accounting for the collateral by the transferor and the transferee depends on whether the transferee has the right to sell or repledge the collateral and on whether the transferor has defaulted. The transferor and transferee shall account for the collateral as follows:*
- (a) *if the transferee has the right by contract or custom to sell or repledge the collateral, the transferor shall reclassify that asset in its statement of financial position (e.g. as a loaned asset, a pledged investment in a residual interests or repurchase receivable) separately from other assets;*
  - (b) *if the transferee sells collateral pledged to it, it shall recognise the proceeds from the sale and a liability measured at fair value for its obligation to return the collateral;*
  - (c) *if the transferor defaults under the terms of the contract and is no longer entitled to redeem the collateral, it shall derecognise the collateral, and the transferee shall recognise the collateral as its asset initially measured at fair value or, if it has already sold the collateral, derecognise its obligation to return the collateral; and*
  - (d) *except as provided in (c), the transferor shall continue to carry the collateral as its asset, and the transferee shall not recognise the collateral as an asset.*

#### Derecognition of financial liabilities (see Appendix A paragraphs AG6.15 to AG6.21)

- 6.16 *An entity shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived (see also GRAP 23 for the waiver of debt as part of a non-exchange transaction).*
- 6.17 *An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as having extinguished the original financial liability, and a new financial liability recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as having extinguished the original financial liability and having recognised a new financial liability.*
- 6.18 *The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction, are accounted for in accordance with GRAP 23.*
- 6.19 If an entity repurchases a part of a financial liability, the entity shall allocate the previous carrying amount of the financial liability between the part that continues to be recognised and the part that is derecognised based on the relative fair values of those parts on the date of the repurchase. The difference between (a) the carrying amount allocated to the part derecognised and (b) the consideration paid, including any non-cash assets transferred or liabilities assumed, for the part derecognised shall be recognised in surplus or deficit.

## Chapter 7 – Presentation

### Presentation

Interest, dividends or similar distributions, losses and gains (see Appendix A paragraph AG7.1)

- 7.1** *Interest, dividends or similar distributions, losses and gains relating to a financial instrument or a component that is a financial liability shall be recognised as revenue or expense in surplus or deficit. Distributions to holders of residual interests shall be recognised by the entity directly in net assets. Transaction costs incurred on residual interests shall be accounted for as a deduction from net assets.*
- 7.2 Income tax (where applicable) relating to distributions to holders of residual interests and to transaction costs incurred on residual interests shall be accounted for in accordance with the International Accounting Standard<sup>®</sup> on *Income Taxes* (IAS 12).
- 7.3 The classification of a financial instrument as a financial liability or a residual interest determines whether interest, dividends or similar distributions, losses and gains relating to that instrument are recognised as revenue or expense in surplus or deficit. Thus, payments for dividends or similar distributions on instruments wholly recognised as liabilities are recognised as expenses in the same way as interest on a bond. Similarly, gains and losses associated with redemptions or refinancing of financial liabilities are recognised in surplus or deficit, whereas redemptions or refinancing of residual interests are recognised as changes in net assets. Changes in the fair value of a residual interest are not recognised in the financial statements.
- 7.4 An entity typically incurs various costs in issuing or acquiring its own residual interests. Those costs might include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties. Any related transaction costs are accounted for as a deduction from net assets to the extent they are incremental costs directly attributable to the transaction that otherwise would have been avoided. The costs of such a transaction that is abandoned are recognised as an expense.
- 7.5 Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and residual interest components of the instrument in proportion to the allocation of proceeds. Transaction costs that relate jointly to more than one transaction are allocated to those transactions using a basis of allocation that is rational and consistent with similar transactions.
- 7.6 The amount of transaction costs accounted for as a deduction from net assets in the period is disclosed separately in accordance with the Standard of GRAP on *Presentation of Financial Statements* (GRAP 1).
- 7.7 Dividends or similar distributions classified as an expense may be presented in the statement of financial performance either with interest on other liabilities or as a separate item. In addition to the requirements of this paragraph and paragraph 8.30 of this Standard, disclosure of interest and dividends or similar distributions is subject to the requirements of GRAP 1. Disclosures of the tax effects (where applicable) are made in accordance with IAS 12. In some circumstances, because of the differences between interest and dividends or similar distributions with respect to matters such as tax deductibility, it is desirable to disclose them separately in the statement of financial performance. Disclosures of the tax effects are made in accordance with IAS 12.
- 7.8 Gains and losses related to changes in the carrying amount of a financial liability are recognised as revenue or expenses in surplus or deficit even when they relate to an instrument that includes a right to the residual interest in the assets of the entity in exchange for cash or another financial asset (see paragraph 3.6(b)). Under GRAP 1 the entity presents any gain or loss arising from remeasurement of such an instrument separately in the statement of financial performance when it is relevant in explaining the entity's performance.

**Offsetting a financial asset and a financial liability (see Appendix A paragraph AG8.38 to AG8.51)**

- 7.9** *A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when, and only when, an entity:*
- (a) currently has a legally enforceable right to set off the recognised amounts; and*
  - (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.*
- In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity shall not offset the transferred asset and the associated liability (see paragraph 6.14).*
- 7.10 This Standard requires the presentation of financial assets and financial liabilities on a net basis when doing so reflects an entity's expected future cash flows from settling two or more separate financial instruments. When an entity has the right to receive or pay a single net amount and intends to do so, it has, in effect, only a single financial asset or financial liability. In other circumstances, financial assets and financial liabilities are presented separately from each other consistently with their characteristics as resources or obligations of the entity. An entity shall disclose the information required in paragraphs 8.16 to 8.19 of this Standard.
- 7.11 Offsetting a recognised financial asset and a recognised financial liability and presenting the net amount differs from the derecognition of a financial asset or a financial liability. Although offsetting does not give rise to recognition of a gain or loss, the derecognition of a financial instrument not only results in the removal of the previously recognised item from the statement of financial position but also may result in recognition of a gain or loss.
- 7.12 A right of set-off is a debtor's legal right, by contract or otherwise, to settle or otherwise eliminate all or a portion of an amount due to a creditor by applying against that amount an amount due from the creditor. In unusual circumstances, a debtor may have a legal right to apply an amount due from a third party against the amount due to a creditor provided that there is an agreement between the three parties that clearly establishes the debtor's right of set-off. Because the right of set-off is a legal right the laws applicable to the relationships between the parties need to be considered.
- 7.13 The existence of an enforceable right to set off a financial asset and a financial liability affects the rights and obligations associated with a financial asset and a financial liability and may affect an entity's exposure to credit and liquidity risk. However, the existence of the right, by itself, is not a sufficient basis for offsetting. In the absence of an intention to exercise the right or to settle simultaneously, the amount and timing of an entity's future cash flows are not affected. When an entity intends to exercise the right or to settle simultaneously, presentation of the asset and liability on a net basis reflects more appropriately the amounts and

timing of the expected future cash flows, as well as the risks to which those cash flows are exposed. An intention by one or both parties to settle on a net basis without the legal right to do so is not sufficient to justify offsetting because the rights and obligations associated with the individual financial asset and financial liability remain unaltered.

- 7.14 An entity's intentions with respect to settlement of particular assets and liabilities may be influenced by its normal operating practices, the requirements of the financial markets and other circumstances that may limit the ability to settle net or to settle simultaneously. When an entity has a right of set-off, but does not intend to settle net or to realise the asset and settle the liability simultaneously, the effect of the right on the entity's credit risk exposure is disclosed in accordance with paragraph 8.57.
- 7.15 Simultaneous settlement of two financial instruments may occur through, for example, the operation of a clearing house in an organised financial market or a face-to-face exchange. In these circumstances the cash flows are, in effect, equivalent to a single net amount and there is no exposure to credit or liquidity risk. In other circumstances, an entity may settle two instruments by receiving and paying separate amounts, becoming exposed to credit risk for the full amount of the asset or liquidity risk for the full amount of the liability. Such risk exposures may be significant even though relatively brief. Accordingly, realisation of a financial asset and settlement of a financial liability are treated as simultaneous only when the transactions occur at the same moment.
- 7.16 The conditions set out in paragraph 7.9 are generally not satisfied and offsetting is usually inappropriate when:
- (a) several different financial instruments are used to emulate the features of a single financial instrument (a "synthetic instrument");
  - (b) financial assets and financial liabilities arise from financial instruments having the same primary risk exposure (for example, assets and liabilities within a portfolio of forward contracts or other derivative instruments) but involve different counterparties;
  - (c) financial or other assets are pledged as collateral for non-recourse financial liabilities;
  - (d) financial assets are set aside in trust by a debtor for the purpose of discharging an obligation without those assets having been accepted by the creditor in settlement of the obligation (for example, a sinking fund arrangement); or
  - (e) obligations incurred as a result of events giving rise to losses are expected to be recovered from a third party by virtue of a claim made under an insurance contract.
- 7.17 An entity that undertakes a number of financial instrument transactions with a single counterparty may enter into a "master netting arrangement" with that counterparty. Such an agreement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on, or termination of, any one contract. These arrangements are commonly used by financial institutions to provide protection against loss in the event of bankruptcy or other circumstances that result in a counterparty being unable to meet its obligations. A master netting arrangement commonly creates a right of set-off that becomes enforceable and affects the realisation or settlement of individual financial assets and financial liabilities only following a specified event of default or in other circumstances not expected to arise in the normal course of operations. A master netting arrangement does not provide a basis for offsetting unless both of the criteria in paragraph 7.9 are satisfied. When financial assets and financial liabilities subject to a master netting arrangement are not offset, the effect of the arrangement on an entity's exposure to credit risk is disclosed in accordance with paragraph 8.56.

## Chapter 8 – Disclosure

### Disclosure (see Appendix A paragraphs AG8.1 to AG8.51)

- 8.1 The disclosures in paragraphs 8.1 to 8.60 enable users of the financial statements to evaluate:
- (a) the significance of financial instruments for the entity's financial position and performance; and
  - (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.
- 8.2 These disclosures apply to recognised and unrecognised financial instruments. Recognised financial instruments include financial assets and financial liabilities recognised in accordance with this Standard. Unrecognised financial instruments include some financial instruments that, although outside the recognition and measurement requirements of this Standard, require certain disclosures under this Standard (such as financial guarantee contracts and loan commitments).

### Accounting policies (see Appendix A paragraph AG8.1)

- 8.3 ***In accordance with paragraph .124 of GRAP 1, an entity discloses its significant accounting policies comprising, the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.***

### Classes of financial instruments and level of disclosure (see Appendix A paragraphs AG8.2 to AG8.4)

- 8.4 ***When this Standard requires disclosures by class of financial instrument, an entity shall group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. An entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position.***

**Significance of financial instruments for financial position and performance**

- 8.5** *An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance.*

**Statement of financial position****Categories of financial assets and financial liabilities**

- 8.6** *The carrying amounts of each of the following categories, as specified in this Standard, shall be disclosed either in the statement of financial position or in the notes:*

- (a) *Financial assets measured at fair value through surplus or deficit, showing separately (i) those designated as such upon initial recognition and (ii) those mandatorily measured at fair value through surplus or deficit in accordance with this Standard.*
- (b) *Financial liabilities at fair value through surplus or deficit, showing separately (i) those designated as such upon initial recognition and (ii) those that meet the definition of held for trading.*
- (c) *Financial assets measured at amortised cost.*
- (d) *Financial liabilities measured at amortised cost.*

*Financial assets or financial liabilities at fair value through surplus or deficit*

- 8.7** *For concessionary loans, and financial assets (or group of financial assets) that an entity has designated as measured at fair value through surplus or deficit that would otherwise be measured at amortised cost, it shall disclose:*

- (a) *The maximum exposure to credit risk (see paragraph 8.56(a)) of the financial asset (or group of financial assets) at the end of the reporting period.*
- (b) *The amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk (see paragraph 8.56(b)).*
- (c) *The amount of change, during the period and cumulatively, in the fair value of the financial asset (or group of financial assets) that is attributable to changes in the credit risk of the financial asset determined either:*
  - (i) *as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk; or*
  - (ii) *using an alternative method the entity believes more faithfully represents the amount of change in its fair value that is attributable to changes in the credit risk of the asset.*

*Changes in market conditions that give rise to market risk include changes in an observed (benchmark) interest rate, commodity price, foreign exchange rate or index of prices or rates.*

- (d) *The amount of the change in the fair value of any related credit derivatives or similar instruments that has occurred during the period and cumulatively since the financial asset was designated.*

- 8.8** *If the entity has designated a financial liability as at fair value through surplus or deficit in accordance with paragraph 4.8 and is required to present the effects of changes in that liability's credit risk in the statement of changes in net assets (see paragraph 5.44), it shall disclose:*

- (a) *The amount of change, cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability (see paragraphs AG5.127 to AG5.134 for guidance on determining the effects of changes in a liability's credit risk).*
- (b) *The difference between the financial liability's carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.*
- (c) *Any transfers of the cumulative gain or loss within net assets during the period including the reason for such transfers.*
- (d) *If a liability is derecognised during the period, the amount (if any) presented in the statement of changes in net assets that was realised at derecognition.*

- 8.9** *If an entity has designated a financial liability as at fair value through surplus or deficit and is required to present all changes in the fair value of that liability (including the effects of changes in the credit risk of the liability) in surplus or deficit (see paragraphs 5.44 and 5.45), it shall disclose:*

- (a) *the amount of change, during the period and cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability (see paragraphs AG5.127 to AG5.134 for guidance on determining the effects of changes in a liability's credit risk); and*

- (b) *the difference between the financial liability's carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.*

**8.10** *The entity shall also disclose:*

- (a) *A detailed description of the methods used to comply with the requirements in paragraphs 8.7(c), 8.8(a) and 8.9 and paragraph 5.44(a), including an explanation of why the method is appropriate.*
- (b) *If the entity believes that the disclosure it has given, either in the statement of financial position or in the notes, to comply with the requirements in paragraph 8.7(c), 8.8(a) or 8.9(a) or paragraph 5.44(a) does not faithfully represent the change in the fair value of the financial asset or financial liability attributable to changes in its credit risk, the reasons for reaching this conclusion and the factors it believes are relevant.*
- (c) *A detailed description of the methodology or methodologies used to determine whether presenting the effects of changes in a liability's credit risk in the statement of changes in net assets would create or enlarge an accounting mismatch in surplus or deficit (see paragraphs 5.43 and 5.45). If an entity is required to present the effects of changes in a liability's credit risk in surplus or deficit (see paragraph 5.45), the disclosure must include a detailed description of the economic relationship described in paragraph AG5.120.*

*Financial assets at cost*

**8.11** *Where an entity measures an investment in a residual interest at cost instead of fair value, it shall disclose why cost was used, and what inputs could not be estimated reliably to determine fair value.*

**Reclassification**

**8.12** *An entity shall disclose if, in the current or previous reporting periods, it has reclassified any financial assets in accordance with paragraph 4.16. For each such event, an entity shall disclose:*

- (a) *The date of reclassification.*
- (b) *A detailed explanation of the change in management model and a qualitative description of its effect on the entity's financial statements.*
- (c) *The amount reclassified into and out of each category.*

**8.13** *For each reporting period following reclassification until derecognition, an entity shall disclose for assets reclassified out of the fair value through surplus or deficit category so that they are measured at amortised cost paragraph 4.16 of this Standard:*

- (a) *the effective interest rate determined on the date of reclassification; and*
- (b) *the interest revenue recognised.*

**8.14** *If, since its last annual reporting date, an entity has reclassified financial assets out of the fair value through surplus or deficit category so that they are measured at amortised cost it shall disclose:*

- (a) *the fair value of the financial assets at the end of the reporting period; and*
- (b) *the fair value gain or loss that would have been recognised in surplus or deficit during the reporting period if the financial assets had not been reclassified.*

**Offsetting financial assets and financial liabilities**

**8.15** *The disclosures in paragraphs 8.16 to 8.19 supplement the other disclosure requirements of this Standard and are required for all recognised financial instruments that are set off in accordance with paragraph 7.9. These disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with paragraph 7.9.*

**8.16** *An entity shall disclose information to enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position. This includes the effect or potential effect of rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities that are within the scope of 5.*

**8.17** *To meet the objective in 6, an entity shall disclose, at the end of the reporting period, the following quantitative information separately for recognised financial assets and recognised financial liabilities that are within the scope of paragraph 8.15:*

- (a) *the gross amounts of those recognised financial assets and recognised financial liabilities;*
- (b) *the amounts that are set off in accordance with the criteria in paragraph 7.9 when determining the net amounts presented in the statement of financial position;*
- (c) *the net amounts presented in the statement of financial position;*
- (d) *the amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in paragraph 8.17(b), including:*
- (i) *amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria in paragraph 7.9; and*

- (ii) amounts related to financial collateral (including cash collateral); and
- (e) the net amount after deducting the amounts in (d) from the amounts in (c) above.

The information required by this paragraph shall be presented in a tabular format, separately for financial assets and financial liabilities, unless another format is more appropriate.

- 8.18 The total amount disclosed in accordance with paragraph 8.17(d) for an instrument shall be limited to the amount in paragraph 8.17(c) for that instrument.
- 8.19 An entity shall include a description in the disclosures of the rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities subject to enforceable master netting arrangements and similar agreements that are disclosed in accordance with paragraph 8.17(d), including the nature of those rights.
- 8.20 If the information required by paragraphs 8.16 to 8.19 is disclosed in more than one note to the financial statements, an entity shall cross-refer between those notes.

#### **Derecognition**

- 8.21 ***An entity may have transferred financial assets in such a way that part or all of the financial assets do not qualify for derecognition (see paragraphs 6.1 to 6.4). The entity shall disclose for each class of such financial assets:***
- (a) *the nature of the assets;*
  - (b) *the nature of the risks and rewards of ownership to which the entity remains exposed; and*
  - (c) *when the entity continues to recognise all of the assets, the carrying amounts of the assets and of the associated liabilities.*

#### **Collateral**

- 8.22 ***An entity shall disclose:***
- (a) *the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with paragraph 6.15(a); and*
  - (b) *the terms and conditions relating to its pledge.*
- 8.23 ***When an entity holds collateral (of financial or non-financial assets) and is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, it shall disclose:***
- (a) *the fair value of the collateral held;*
  - (b) *the fair value of any such collateral sold or repledged, and whether the entity has an obligation to return it; and*
  - (c) *the terms and conditions associated with its use of the collateral.*

#### **Compound financial instruments with multiple embedded derivatives**

- 8.24 ***If an entity has issued an instrument that contains both a liability and a residual interest component (see paragraph 3.10) and the instrument has multiple embedded derivatives whose values are interdependent (such as a callable convertible debt instrument), it shall disclose the existence of those features.***

#### **Concessionary loans and investments**

- 8.25 ***If an entity has granted or received a concessionary loan or investments, it shall disclose:***
- (a) *the existence of such loans and investments;*
  - (b) *their significant terms and conditions;*
  - (c) *the nominal value of the loan and investment balances at year end; and*
  - (d) *the circumstances that led to the purchase or origination of a credit impaired concessionary loan.*
- 8.26 ***For concessionary loans granted by an entity and measured at amortised cost, an entity discloses the following:***
- (a) ***A reconciliation between the opening and closing carrying amounts of the loans, including:***
    - (i) *nominal value of new loans granted during the period;*
    - (ii) *the concessionary component recognised on initial recognition;*
    - (iii) *loans repaid during the period;*
    - (iv) *impairment losses recognised;*
    - (v) *any increase during the period in the discounted amount arising from the passage of time; and*
    - (vi) *other changes.*

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- (b) *nominal value of the loans at the end of the period;*
- (c) *the purpose and terms of the various types of loans; and*
- (d) *valuation assumptions, including whether the valuation approach in paragraph AG5.19 was applied.*

**8.27** *For concessionary loans granted by an entity and measured at fair value, an entity discloses the following:*

- (a) *A reconciliation between the opening and closing carrying amounts of the loans, including:*
  - (i) *nominal value of new loans granted during the period;*
  - (ii) *the concessionary component recognised on initial recognition;*
  - (iii) *loans repaid during the period;*
  - (iv) *the fair value adjustment during the period (separate from initial recognition); and*
  - (v) *other changes.*
- (b) *nominal value of the loans at the end of the period;*
- (c) *the purpose and terms of the various types of loans; and*
- (d) *valuation assumptions, including whether the valuation approach in paragraph AG5.19 was applied.*

#### **Defaults and breaches**

**8.28** *For loans payable recognised at the end of the reporting period, an entity shall disclose:*

- (a) *details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable;*
- (b) *the carrying amount of the loans payable in default at the end of the reporting period; and*
- (c) *whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.*

**8.29** *If, during the period, there were breaches of loan agreement terms other than those described in paragraph 8.28 an entity shall disclose the same information as required by paragraph 8.28 if those breaches permitted the lender to demand accelerated repayment (unless the breaches were remedied, or the terms of the loan were renegotiated, on or before the end of the reporting period).*

#### **Statement of financial performance**

##### **Items of revenue, expense, gains or losses**

**8.30** *An entity shall disclose the following items of revenue, expense, gains or losses either in the statement of financial performance or in the notes:*

- (a) *net gains or net losses on:*
  - (i) *Financial assets or financial liabilities measured at fair value through surplus or deficit, showing separately those on financial assets or financial liabilities designated as such upon initial recognition, and those on financial assets or financial liabilities that are mandatorily measured at fair value through surplus or deficit (e.g. financial liabilities that meet the definition of held for trading). For financial liabilities designated as at fair value through surplus or deficit, an entity shall show separately the amount of gain or loss recognised in the statement of changes in net assets and the amount recognised in surplus or deficit.*
  - (ii) *Financial liabilities measured at amortised cost.*
  - (iii) *Financial assets measured at amortised cost.*
- (b) *Total interest revenue and total interest expense (calculated using the effective interest method) for financial assets that are measured at amortised cost; or financial liabilities that are not measured at fair value through surplus or deficit.*
- (c) *Fee income and expense (other than amounts included in determining the effective interest rate) arising from:*
  - (i) *financial assets and financial liabilities that are not at fair value through surplus or deficit; and*
  - (ii) *trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions.*

#### **Notes to the financial statements**

##### **Fair value disclosures**

**8.31** *The disclosure of the fair values of financial instruments measured at amortised cost is encouraged, but not required. Where an entity elects to disclose the fair values of financial instruments measured at amortised cost, it applies paragraph 8.32.*

8.32 **An entity shall disclose for each class of instrument measured or disclosed at fair value, the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities. For example, if applicable, an entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses and interest rates or discount rates. If there has been a change in valuation technique, the entity shall disclose that change and the reasons for making it.**

8.33 **For fair value measurements recognised in the statement of financial position an entity shall disclose for each class of financial instruments the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety, segregating fair value measurements in accordance with the levels defined in paragraph 8.34.**

8.34 **For fair value measurements recognised in the statement of financial position, an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:**

- (a) **quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);**
- (b) **inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and**
- (c) **inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).**

**The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.**

8.35 For fair value measurements recognised in the statement of financial position an entity is encouraged, but not required to disclose for each class of financial instruments:

- (a) Any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. Transfers into each level shall be disclosed and discussed separately from transfers out of each level. For this purpose, significance shall be judged with respect to surplus or deficit, and total assets or total liabilities.
- (b) For fair value measurements in Level 3 of the fair value hierarchy, a reconciliation from the beginning balances to the ending balances, disclosing separately changes during the period attributable to the following:
  - (i) total gains or losses for the period recognised in surplus or deficit, and a description of where they are presented in the statement of financial performance;
  - (ii) purchases, sales, issues and settlements (each type of movement disclosed separately); and
  - (iii) transfers into or out of Level 3 (e.g. transfers attributable to changes in the observability of market data) and the reasons for those transfers. For significant transfers, transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3;
- (c) the amount of total gains or losses for the period in (c)(i) above, included in surplus or deficit, that are attributable to gains or losses relating to those assets and liabilities held at the end of the reporting period and a description of where those gains or losses are presented in the statement of financial performance; and
- (d) for fair value measurements in Level 3, if changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, the entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to a reasonably possible alternative assumption was calculated. For this purpose, significance shall be judged with respect to surplus or deficit, and total assets or total liabilities.

An entity shall present the quantitative disclosures required by this paragraph in tabular format unless another format is more appropriate.

#### **Nature and extent of risks arising from financial instruments (see Appendix A paragraph AG8.5)**

8.36 **An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.**

8.37 The disclosures required by paragraphs 8.39 to 8.60 focus on the risks that arise from financial instruments and how they have been managed. These risks typically include, but are not limited to, credit risk, liquidity risk and market risk.

8.38 Providing qualitative disclosures in the context of quantitative disclosures enables users to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial instruments. The interaction between qualitative and quantitative disclosures contributes to disclosure of information in a way that better enables users to evaluate an entity's exposure to risks.

#### **Qualitative disclosures**

**8.39** For each type of risk arising from financial instruments, an entity shall disclose:

- (a) the exposures to risk and how they arise;
- (b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and
- (c) any changes in (a) or (b) from the previous period.

Quantitative disclosures (see Appendix A paragraphs AG8.6 to AG8.37)

**8.40** For each type of risk arising from financial instruments, an entity shall disclose:

- (a) summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to management of the entity (as defined in GRAP 24), for example the entity's governing body and chief executive officer of permanent head;
- (b) the disclosures required by paragraphs 8.42 to 8.60, to the extent not provided in (a), unless the risk is not material (see paragraphs .36 to .38 of GRAP 1 for a discussion of materiality); and
- (c) concentrations of risk if not apparent from (a) and (b).

**8.41** If the quantitative data disclosed as at the end of the reporting period is unrepresentative of an entity's exposure to risk during the period, an entity shall provide further information that is representative.

Credit risk (see Appendix A paragraphs AG8.8 to AG8.19)

Scope and objectives

**8.42** An entity shall apply the disclosure requirements in paragraphs 8.47 to 8.55 to financial instruments to which the impairment requirements in this Standard are applied. However:

- (a) for receivables and lease receivables, paragraph 8.51(a) applies to those receivables or lease receivables on which lifetime expected credit losses are recognised in accordance with paragraph 5.30, if those financial assets are modified while more than 30 days past due; and
- (b) paragraph 8.51(b) does not apply to lease receivables.

**8.43** The credit risk disclosures made in accordance with paragraphs 8.47 to 8.55 shall enable users of financial statements to understand the effect of credit risk on the amount, timing and uncertainty of future cash flows. To achieve this objective, credit risk disclosures shall provide:

- (a) information about an entity's credit risk management practices and how they relate to the recognition and measurement of expected credit losses, including the methods, assumptions and information used to measure expected credit losses;
- (b) quantitative and qualitative information that allows users of financial statements to evaluate the amounts in the financial statements arising from expected credit losses, including changes in the amount of expected credit losses and the reasons for those changes; and
- (c) information about an entity's credit risk exposure (i.e. the credit risk inherent in an entity's financial assets and commitments to extend credit) including significant credit risk concentrations.

**8.44** An entity need not duplicate information that is already presented elsewhere, provided that the information is incorporated by cross-reference from the financial statements to other statements, such as a management commentary or risk report that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

**8.45** To meet the objectives in paragraph 8.43, an entity shall (except as otherwise specified) consider how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation or disaggregation, and whether users of financial statements need additional explanations to evaluate the quantitative information disclosed.

**8.46** If the disclosures provided in accordance with paragraphs 8.47 to 8.55 are insufficient to meet the objectives in paragraph 8.43, an entity shall disclose additional information that is necessary to meet those objectives.

The credit risk management practices

**8.47** An entity shall explain its credit risk management practices and how they relate to the recognition and measurement of expected credit losses. To meet this objective an entity shall disclose information that enables users of financial statements to understand and evaluate:

- (a) how an entity determined whether the credit risk of financial instruments has increased significantly since initial recognition, including, if and how:
  - (i) financial instruments are considered to have low credit risk in accordance with paragraph 5.25, including the classes of financial instruments to which it applies; and

- (ii) *the presumption in paragraph 5.26, that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has been rebutted;*
- (b) *an entity's definitions of default, including the reasons for selecting those definitions;*
- (c) *how the instruments were grouped if expected credit losses were measured on a collective basis;*
- (d) *how an entity determined that financial assets are credit-impaired financial assets;*
- (e) *an entity's write-off policy, including the indicators that there is no reasonable expectation of recovery and information about the policy for financial assets that are written-off but are still subject to enforcement activity; and*
- (f) *how the requirements in paragraph 5.27 for the modification of contractual cash flows of financial assets have been applied, including how an entity:*
  - (i) *determines whether the credit risk on a financial asset that has been modified while the loss allowance was measured at an amount equal to lifetime expected credit losses, has improved to the extent that the loss allowance reverts to being measured at an amount equal to 12-month expected credit losses in accordance with paragraph 5.20; and*
  - (ii) *monitors the extent to which the loss allowance on financial assets meeting the criteria in (i) is subsequently remeasured at an amount equal to lifetime expected credit losses in accordance with paragraph 5.18.*

**8.48** *An entity shall explain the inputs, assumptions and estimation techniques used to apply the requirements in paragraphs 5.17 to 5.35. For this purpose an entity shall disclose:*

- (a) *the basis of inputs and assumptions and the estimation techniques used to:*
  - (i) *measure the 12-month and lifetime expected credit losses;*
  - (ii) *determine whether the credit risk of financial instruments has increased significantly since initial recognition; and*
  - (iii) *determine whether a financial asset is a credit-impaired financial asset.*
- (b) *how forward-looking information has been incorporated into the determination of expected credit losses, including the use of macroeconomic information; and*
- (c) *changes in the estimation techniques or significant assumptions made during the reporting period and the reasons for those changes.*

*Quantitative and qualitative information about amounts arising from expected credit losses*

**8.49** *To explain the changes in the loss allowance and the reasons for those changes, an entity shall provide, by class of financial instrument, a reconciliation from the opening balance to the closing balance of the loss allowance, in a table, showing separately the changes during the period for:*

- (a) *the loss allowance measured at an amount equal to 12-month expected credit losses;*
- (b) *the loss allowance measured at an amount equal to lifetime expected credit losses for:*
  - (i) *financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets;*
  - (ii) *financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired); and*
  - (iii) *receivables or lease receivables for which the loss allowances are measured in accordance with paragraph 5.30*
- (c) *financial assets that are purchased or originated credit-impaired. In addition to the reconciliation, an entity shall disclose the total amount of undiscounted expected credit losses at initial recognition on financial assets initially recognised during the reporting period.*

**8.50** *To enable users of financial statements to understand the changes in the loss allowance disclosed in accordance with paragraph 8.49, an entity shall provide an explanation of how significant changes in the gross carrying amount of financial instruments during the period contributed to changes in the loss allowance. The information shall be provided separately for financial instruments that represent the loss allowance as listed in paragraph 8.49(a) to (c) and shall include relevant qualitative and quantitative information. Examples of changes in the gross carrying amount of financial instruments that contributed to the changes in the loss allowance may include:*

- (a) *changes because of financial instruments originated or acquired during the reporting period;*
- (b) *the modification of contractual cash flows on financial assets that do not result in a derecognition of those financial assets;*
- (c) *changes because of financial instruments that were derecognised (including those that were written-off) during the reporting period; and*

(d) *changes arising from whether the loss allowance is measured at an amount equal to 12-month or lifetime expected credit losses.*

**8.51** *To enable users of financial statements to understand the nature and effect of modifications of contractual cash flows on financial assets that have not resulted in derecognition and the effect of such modifications on the measurement of expected credit losses, an entity shall disclose:*

(a) *the amortised cost before the modification and the net modification gain or loss recognised for financial assets for which the contractual cash flows have been modified during the reporting period while they had a loss allowance measured at an amount equal to lifetime expected credit losses; and*

(b) *the gross carrying amount at the end of the reporting period of financial assets that have been modified since initial recognition at a time when the loss allowance was measured at an amount equal to lifetime expected credit losses and for which the loss allowance has changed during the reporting period to an amount equal to 12-month expected credit losses.*

**8.52** *To enable users of financial statements to understand the effect of collateral and other credit enhancements on the amounts arising from expected credit losses, an entity shall disclose by class of financial instrument:*

(a) *The amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (e.g. netting agreements that do not qualify for offset).*

(b) *A narrative description of collateral held as security and other credit enhancements, including:*

(i) *a description of the nature and quality of the collateral held;*

(ii) *an explanation of any significant changes in the quality of that collateral or credit enhancements as a result of deterioration or changes in the collateral policies of the entity during the reporting period; and*

(iii) *information about financial instruments for which an entity has not recognised a loss allowance because of the collateral.*

(c) *Quantitative information about the collateral held as security and other credit enhancements (for example, quantification of the extent to which collateral and other credit enhancements mitigate credit risk) for financial assets that are credit-impaired at the reporting date.*

**8.53** *An entity shall disclose the contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity.*

*Credit risk exposure*

**8.54** *To enable users of financial statements to assess an entity's credit risk exposure and understand its significant credit risk concentrations, an entity shall disclose, by credit risk rating grades, the gross carrying amount of financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts. This information shall be provided separately for financial instruments:*

(a) *for which the loss allowance is measured at an amount equal to 12-month expected credit losses;*

(b) *for which the loss allowance is measured at an amount equal to lifetime expected credit losses and that are:*

(i) *financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets;*

(ii) *financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired); and*

(iii) *receivables or lease receivables for which the loss allowances are measured in accordance with paragraph 5.30.*

(c) *that are purchased or originated credit-impaired financial assets.*

**8.55** *For receivables and lease receivables to which an entity applies, the information provided in accordance with paragraph 8.54 may be based on a provision matrix (see paragraph AG5.95).*

**8.56** *For all financial instruments within the scope of this Standard, but to which the impairment requirements are not applied, an entity shall disclose by class of financial instrument:*

(a) *The amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (e.g. netting agreements that do not qualify for offset); this disclosure is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk.*

(b) *A description of collateral held as security and other credit enhancements, and their financial effect (e.g. quantification of the extent to which collateral and other credit enhancements mitigate credit risk) in respect of the amount that best represents the maximum exposure to credit risk (whether disclosed in accordance with (a) or represented by the carrying amount of a financial instrument).*

*Collateral and other credit enhancements obtained*

**8.57** *When an entity obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (e.g. guarantees), and such assets meet the recognition criteria in other Standards, an entity shall disclose:*

- (a) *the nature and carrying amount of the assets obtained; and*
- (b) *when the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.*

**Liquidity risk (see Appendix A paragraphs AG8.20 to AG8.27)**

**8.58** *An entity shall disclose:*

- (a) *a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities;*
- (b) *a maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows; and*
- (b) *a description of how it manages the liquidity risk inherent in (a) and (b).*

**Market risk (see Appendix A paragraphs AG8.28 to AG8.37)**

*Sensitivity analysis*

**8.59** *An entity discloses:*

- (a) *a sensitivity analysis for each significant type of market risk to which the entity is exposed at the end of the reporting period, showing how surplus or deficit would have been affected by changes in the relevant risk variable that were reasonably possible at that date;*
- (b) *the methods and assumptions used in preparing the sensitivity analysis; and*
- (c) *changes from the previous period in the methods and assumptions used, and the reasons for such changes.*

*If the quantitative data disclosed as at the end of the reporting period is unrepresentative of an entity's exposure to risk during the period, an entity shall provide further information that is representative.*

**8.60** *If an entity prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between variables (e.g. interest rates and exchange rates) and uses it to manage financial risks, it may use that sensitivity analysis in place of the analysis specified in paragraph 8.59. The entity shall also disclose:*

- (a) *an explanation of the method used in preparing such a sensitivity analysis and of the main parameters and assumptions underlying the data provided; and*
- (b) *an explanation of the objective of the method used and of limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved.*

## **Chapter 9 – Transitional provisions and effective date**

### **Transitional provisions**

#### **Initial adoption of the Standards of GRAP**

**9.1** *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**

**9.2** *An entity shall apply this Standard of GRAP 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 Financial Instruments**

**9.3** *This Standard supersedes the previous Standard of GRAP on Financial Instruments issued in October 2009.*

**Appendix A - Application guidance**

*This appendix is an integral part of this Standard.*

**Chapter 1 – Objective and scope**

AG1.1 This application guidance explains the application of particular aspects of this ~~the~~ Standard.

**Scope****Measurement of interests in controlled entities, associates or joint ventures in separate financial statements (Paragraphs 1.3(a) and 1.6)**

AG1.2 An entity can either measure investments in controlled entities, associates or joint ventures at cost or at fair value as a financial instrument in its separate financial statements in accordance with GRAP 6, GRAP 7 and GRAP 8.

AG1.3 An entity that elects to measure an investment in a controlled entity, associate or joint venture at fair value as a financial instrument applies this Standard to those investments. Where an entity elects to apply the cost model to such investments in its separate financial statements, it applies GRAP 6, GRAP 7 and GRAP 8, in conjunction with the Standards of GRAP on *Impairment of Cash-generating Assets* or *Impairment of Non-cash-generating Assets*.

**Strategic investment in an equity instrument**

AG1.4 Sometimes, an entity makes what it views as a “strategic investment” in equity instruments issued by another entity, with the intention of establishing or maintaining a long term operational relationship with the entity in which the investment is made. The investor or joint venture entity uses the Standards of GRAP on *Investments in Associates* and *Interests in Joint Ventures* to determine whether the equity method of accounting shall be applied to such an investment.

**Application to insurers**

AG 1.5 This Standard applies to the financial assets and financial liabilities of insurers, other than rights and obligations that paragraph 1.3(d) excludes because they arise under contracts within the scope of the IFRS Standard(s) on insurance.

**Financial guarantee contracts (Paragraphs 1.3(d))**

AG 1.6 Financial guarantee contracts may have various legal forms, such as a guarantee, some types of letter of credit, a credit default contract or an insurance contract. Their accounting treatment does not depend on their legal form. For a guarantee to meet the definition of a financial guarantee contract in this Standard, the arrangement must (a) be contractual, and (b) guarantee a specific debt arrangement between a borrower and lender. The following are examples of the appropriate treatment (see paragraph 1.3(d)):

- (a) Although a financial guarantee contract meets the definition of an insurance contract in IFRS Standards if the risk transferred is significant, the issuer applies this Standard. Paragraph 5.1 requires the issuer to recognise a financial guarantee contract initially at fair value (except for some financial guarantees issued in a non-exchange transaction). If the financial guarantee contract was issued to an unrelated party in a stand-alone arm’s length transaction, its fair value at inception is likely to equal the premium received, unless there is evidence to the contrary. Subsequently, unless the financial guarantee contract was designated at inception as at fair value through surplus or deficit or unless paragraphs 6.14 and AG6.12 apply (when a transfer of a financial asset does not qualify for derecognition), the issuer measures it at the higher of:
  - (i) the amount determined in accordance with paragraphs 5.17 to 5.35; and
  - (ii) the amount initially recognised less, when appropriate, the cumulative amount of revenue recognised in accordance with the principles of GRAP 9 (see paragraph 4.7(c)).

Paragraphs AG5.28 to AG5.32 provide guidance on the measurement of financial guarantees issued in non-exchange transactions.

- (b) Some credit-related guarantees do not, as a precondition for payment, require that the holder is exposed to, and has incurred a loss on, the failure of the debtor to make payments on the guaranteed asset when due. An example of such a guarantee is one that requires payments in response to changes in a specified credit rating or credit index. Such guarantees are not financial guarantee contracts as defined in this Standard, and are not insurance contracts as defined in IFRS Standards. Such guarantees are derivatives and the issuer applies this Standard to them.
- (c) If a financial guarantee contract was issued in connection with the sale of goods, the issuer applies GRAP 9 in determining when it recognises the revenue from the guarantee and from the sale of goods.
- (d) Letters of support, for example where a controlling entity guarantees the financial stability or ongoing payment of operational expenses for a controlled entity, are not financial guarantee contracts if there is no specific debt guaranteed. The terms and conditions of the letters of support need to be examined to determine if they are financial guarantee contracts as defined. If the letters of support meet the definition of a financial guarantee contract they are accounted for using this Standard, and if they do not meet the definition, they are accounted for using GRAP 19.



**Contracts to buy or sell non-financial items (Paragraphs 1.9 to 1.12)**

- AG1.7 Contracts to buy or sell non-financial items do not meet the definition of a financial instrument because the contractual right of one party to receive a non-financial asset or service and the corresponding obligation of the other party do not establish a present right or obligation of either party to receive, deliver or exchange a financial asset. For example, contracts that provide for settlement only by the receipt or delivery of a non-financial item (e.g. an option, futures or forward contract on oil) are not financial instruments. Many commodity contracts are of this type. Some are standardised in form and traded on organised markets in much the same fashion as some derivative financial instruments. For example, a commodity futures contract may be bought and sold readily for cash because it is listed for trading on an exchange and may change hands many times. However, the parties buying and selling the contract are, in effect, trading the underlying commodity. The ability to buy or sell a commodity contract for cash, the ease with which it may be bought or sold, and the possibility of negotiating a cash settlement of the obligation to receive or deliver the commodity, do not alter the fundamental character of the contract in a way that creates a financial instrument. Nevertheless, some contracts to buy or sell non-financial items that can be settled net or by exchanging financial instruments, or in which the non-financial item is readily convertible to cash, are within the scope of this Standard as if they were financial instruments.
- AG1.8 A contract that involves the receipt or delivery of physical assets does not give rise to a financial asset of one party and a financial liability of the other party unless any corresponding payment is deferred past the date on which the physical assets are transferred. Such is the case with the purchase or sale of goods on credit.
- AG1.9 Some contracts are commodity-linked, but do not involve settlement through the physical receipt or delivery of a commodity. They specify settlement through cash payments that are determined according to a formula in the contract, as opposed to payment of fixed amounts. For example, the principal amount of a bond may be calculated by applying the market price of oil prevailing at the maturity of the bond to a fixed quantity of oil. The principal is indexed by reference to a commodity price, but is settled only in cash. Such a contract constitutes a financial instrument.
- AG1.10 The definition of a financial instrument also encompasses a contract that gives rise to a non-financial asset or non-financial liability in addition to a financial asset or financial liability. Such financial instruments often give one party an option to exchange a financial asset for a non-financial asset. For example, an oil-linked bond may give the holder the right to receive a stream of fixed periodic interest payments and a fixed amount of cash on maturity, with the option to exchange the principal amount for a fixed quantity of oil. The desirability of exercising this option will vary from time to time depending on the fair value of oil relative to the exchange ratio of cash for oil (the exchange price) inherent in the bond. The intentions of the bondholder concerning the exercise of the option do not affect the substance of the component assets. The financial asset of the holder and the financial liability of the issuer make the bond a financial instrument, regardless of the other types of assets and liabilities also created.

**Chapter 2 – Definitions****Definitions (Paragraphs 2.1 to 2.3)****Financial assets, financial liabilities and residual interests**

- AG2.1 Currency (cash) is a financial asset because it represents a medium of exchange and is therefore the basis on which all transactions are measured and recognised in financial statements. A deposit of cash with a bank or similar financial institution is a financial asset because it represents the contractual right of the depositor to obtain cash from the institution or to draw a cheque or similar instrument against the balance in favour of a creditor in payment of a financial liability.
- AG2.2 Common examples of financial assets representing a contractual right to receive cash in the future and corresponding financial liabilities representing a contractual obligation to deliver cash in the future are:
- (a) accounts receivable and payable;
  - (b) notes receivable and payable;
  - (c) loans receivable and payable; and
  - (d) bonds receivable and payable.
- In each case, one party's contractual right to receive (or obligation to pay) cash is matched by the other party's corresponding obligation to pay (or right to receive).
- AG2.3 Another type of financial instrument is one for which the economic benefit to be received or given up is a financial asset other than cash. For example, a note payable in government bonds gives the holder the contractual right to receive and the issuer the contractual obligation to deliver government bonds, not cash. The bonds are financial assets because they represent obligations of the issuing government to pay cash. The note is, therefore, a financial asset of the note holder and a financial liability of the note issuer.
- AG2.4 "Perpetual" debt instruments (such as "perpetual" bonds and debentures) normally provide the holder with the contractual right to receive payments on account of interest at fixed dates extending into the indefinite future, either with no right to receive a return of principal or a right to a return of principal under terms that make it very unlikely or very far in the future. For example:

- (a) an entity issues a perpetual bond requiring it to make annual payments in perpetuity equal to a stated interest rate of 8% applied to a stated par or principal amount of R1 000. Assuming 8% to be the market rate of interest for the instrument when issued, the issuer assumes a contractual obligation to make a stream of future interest payments having a fair value (present value) of R1 000 on initial recognition. The holder and issuer of the instrument have a financial asset and a financial liability respectively; and
- (b) an entity issues a perpetual bond, with no stated interest and no maturity date. As the issuer has no contractual obligation to pay cash or another financial asset to the holder, the instrument may show evidence of a residual interest in the entity. The holder of the instrument would have a financial asset because it has acquired an interest in the net assets of another entity.

- AG2.5 A contractual right or contractual obligation to receive, deliver or exchange financial instruments is itself a financial instrument. A chain of contractual rights or contractual obligations meets the definition of a financial instrument if it will ultimately lead to the receipt or payment of cash or to the acquisition or issue of a residual interest.
- AG2.6 The ability to exercise a contractual right or the requirement to satisfy a contractual obligation may be absolute, or it may be contingent on the occurrence of a future event. For example, a financial guarantee is a contractual right of the lender to receive cash from the guarantor, and a corresponding contractual obligation of the guarantor to pay the lender, if the borrower defaults. The contractual right and obligation exist because of a past transaction or event (assumption of the guarantee), even though the lender's ability to exercise its right and the requirement for the guarantor to perform under its obligation are both contingent on a future act of default by the borrower. A contingent right and obligation meet the definition of a financial asset and a financial liability, even though such assets and liabilities are not always recognised in the financial statements. Some of these contingent rights and obligations may be insurance contracts within the scope of the IFRS Standard(s) on insurance.
- AG2.7 Under GRAP 13 a finance lease is regarded as primarily an entitlement of the lessor to receive, and an obligation of the lessee to pay, a stream of payments that are substantially the same as blended payments of principal and interest under a loan agreement. The lessor accounts for its investment in the amount receivable under the lease contract rather than the leased asset itself. An operating lease, on the other hand, is regarded as primarily an uncompleted contract committing the lessor to provide the use of an asset in future periods in exchange for consideration similar to a fee for a service. The lessor continues to account for the leased asset itself rather than any amount receivable in the future under the contract. Accordingly, a finance lease is regarded as a financial instrument and an operating lease is not regarded as a financial instrument (except individual payments currently due and payable).
- AG2.8 Physical assets (such as inventories, property, plant and equipment and biological assets), leased assets and intangible assets (such as software) are not financial assets. Control of such physical and intangible assets creates an opportunity to generate an inflow of cash or another financial asset, but it does not give rise to a present right to receive cash or another financial asset.
- AG2.9 Assets (such as prepaid expenses) for which the future economic benefit is the receipt of goods or services, rather than the right to receive cash or another financial asset, are not financial assets. Similarly, most obligations arising from non-exchange revenue transactions with conditions and warranty obligations are not financial liabilities because the outflow of economic benefits associated with them is the delivery of goods and services rather than a contractual obligation to pay cash or another financial asset.
- AG2.10 Liabilities that are not contractual (such as income taxes and social benefits that are created as a result of statutory requirements imposed by governments) are not financial liabilities or financial assets. Accounting for income taxes payable is dealt with in IAS 12. Similarly, constructive obligations, as defined in GRAP 19, do not arise from contracts and are not financial liabilities.

#### **Contractual arrangements**

- AG2.11 Assets and liabilities in the public sector arise from both contractual and non-contractual arrangements. Assets and liabilities arising out of non-contractual arrangements do not meet the definition of a financial asset or a financial liability.
- AG2.12 Contracts, for the purposes of this Standard, are evidenced by the following three criteria:
- contracts involve willing parties entering into an arrangement;
  - the terms of the contract create rights and obligations for the parties to the contract, and those rights and obligations need not result in equal performance by each party. For example, a donor funding arrangement creates an obligation for the donor to transfer resources to the recipient in terms of the agreement concluded, and establishes the right of the recipient to receive those resources. These types of arrangements may be contractual even though the recipient did not provide equal consideration in return, i.e. the arrangement does not result in equal performance by the parties; and
  - performance and remedy for non-performance are enforceable by law.

- AG2.13 Contractual arrangements can often be distinguished from statutory (non-contractual) transactions or arrangements as follows:
- (a) Contractual arrangements are governed by common law whereas non-contractual transactions or arrangements in the public sector are undertaken in terms of specific legislation.
  - (b) Parties to a contractual arrangement are willing, whereas parties to a non-contractual transactions or arrangements are usually compelled to transact with one another on terms specified in legislation or an equivalent.
- The remedies for non-performance differ. In a contractual arrangement, the remedies for non-performance are agreed between the parties and may include termination of the contract. In non-contractual arrangements, the remedy for non-performance is often outlined in specific legislation.
- AG2.14 Non-contractual, non-exchange revenue transactions are initially recognised and measured in accordance with GRAP 23. If non-exchange revenue transactions are contractual and otherwise meet the definition of a financial asset, the principles in this Standard are also applied. Where the transaction is statutory (non-contractual) in nature, an entity applies the Standard of GRAP on *Statutory Receivables* rather than this Standard.
- AG2.15 The following examples illustrate paragraphs AG2.12 and AG2.13:
- (a) an entity may undertake a formal agreement with an international aid agency to receive funding for one of its programmes. Although the initial recognition and initial measurement of the receivable is dealt with in GRAP 23, it is also a financial asset since the receivable arises from a contract which is to be settled through the receipt of cash. Consequently, the subsequent measurement, derecognition, presentation and disclosure requirements of this Standard also apply; and
  - (b) a reporting entity in the national government collects taxes in terms of legislation. Even though taxes are settled between the taxpayer and the entity in cash, any resulting assets and liabilities are not financial instruments since the transaction is executed in terms of legislation as opposed to a contract. The entity recognises an asset (a receivable for taxes owing to the government) when the taxable event occurs and measures the asset at fair value in accordance with GRAP 23 and subsequently accounts for the receivable using the Standard of GRAP on *Statutory Receivables*.
- AG2.16 An entity also considers the classification requirements of this Standard in determining whether an inflow of resources received as part of a contractual non-exchange revenue transaction is in substance a liability or a residual interest.
- AG2.17 Typical examples of derivatives are futures and forward, swap and option contracts. A derivative usually has a notional amount, which is an amount of currency, a number of shares, a number of units of weight or volume or other units specified in the contract. However, a derivative instrument does not require the holder or writer to invest or receive the notional amount at the inception of the contract. Alternatively, a derivative could require a fixed payment or payment of an amount that can change (but not proportionally with a change in the underlying) as a result of some future event that is unrelated to a notional amount. For example, a contract may require a fixed payment of R1 000 if six-month JIBAR increases by 100 basis points. Such a contract is a derivative even though a notional amount is not specified.
- AG2.18 The definition of a derivative in this Standard includes contracts that are settled gross by delivery of the underlying item (e.g. a forward contract to purchase a fixed rate debt instrument). An entity may have a contract to buy or sell a non-financial item that can be settled net in cash or another financial instrument or by exchanging financial instruments (e.g. a contract to buy or sell a commodity at a fixed price at a future date). Such a contract is within the scope of this Standard unless it was entered into and continues to be held for the purpose of delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements (see paragraphs 1.11 and 1.12). However, this Standard applies to such contracts for an entity's expected purchase, sale or usage requirements if the entity makes a designation in accordance with paragraph 1.10 (see paragraphs 1.9 to 1.12).
- AG2.19 One of the defining characteristics of a derivative is that it has an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors. An option contract meets that definition because the premium is less than the investment that would be required to obtain the underlying financial instrument to which the option is linked. A currency swap that requires an initial exchange of different currencies of equal fair values meets the definition because it has a zero initial net investment.
- AG2.20 The definition of a derivative refers to non-financial variables that are not specific to a party to the contract. These include an index of earthquake losses in a particular region and an index of temperatures in a particular city. Non-financial variables specific to a party to the contract include the occurrence or non-occurrence of a fire that damages or destroys an asset of a party to the contract. A change in the fair value of a non-financial asset is specific to the owner if the fair value reflects not only changes in market prices for such assets (a financial variable) but also the condition of the specific non-financial asset held (a non-financial variable). For example, if a guarantee of the residual value of a specific car exposes the guarantor to the risk of changes in the car's physical condition, the change in that residual value is specific to the owner of the car.

#### **Financial assets and financial liabilities held for trading**

- AG2.21 Trading generally reflects active and frequent buying and selling, and financial instruments held for trading generally are used with the objective of generating a profit from short-term fluctuations in price.

- AG2.22 Financial liabilities held for trading include:
- (a) derivative liabilities;
  - (b) obligations to deliver financial assets borrowed by a short seller (i.e. an entity that sells financial assets it has borrowed and does not yet own);
  - (c) financial liabilities that are incurred with an intention to repurchase them in the near term (e.g. a quoted debt instrument that the issuer may buy back in the near term depending on changes in its fair value); and
  - (d) financial liabilities that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking.
- AG2.23 The fact that a liability is used to fund trading activities does not in itself make that liability one that is held for trading.

#### **Purchased or originated credit impaired financial assets**

- AG2.24 Purchased or originated credit impaired financial assets are those assets that are credit impaired on initial recognition. Financial assets are credit impaired because one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. The definition of "credit impaired" in paragraph 2.1 outlines a number of events that may indicate that a financial asset is credit impaired. Some of the events may not be relevant in assessing whether a concessionary loan (or investment) is credit impaired at purchase or origination because these loans are generally granted on below market terms to achieve specific social or other policy objectives. For example:
- (a) Paragraph (c) refers to concessions that a lender would not otherwise consider being granted to a borrower in financial difficulty. As the purpose of the concessionary loan may be to provide assistance to such a lender through concessionary terms, this criteria may be irrelevant in considering if the loan is credit impaired.
  - (b) Paragraph (f) outlines that the purchase or origination of a financial asset at a deep discount that reflects incurred credit losses may be an indication that a financial asset is credit impaired. Once an entity has measured a concessionary loan granted by it at fair value on initial recognition, the fair value may reflect a deep discount compared to the original transaction price. This difference however reflects the separation of the loan into its component parts and its measurement at market terms. As a result, this criterion may not be relevant in assessing whether an asset is credit impaired on purchase or origination.

#### **Residual interests**

- AG2.25 A residual interest is a contract that shows evidence of an interest in the net assets of another entity. The key distinction between a residual interest and a financial liability is that a financial liability requires the payment of cash or another financial asset to another party. A residual interest merely 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.
- AG2.26 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 unutilised capital, the contribution usually evidences a residual interest of another entity when:
- (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.

### **Chapter 3 – Recognition**

#### **Initial recognition (Paragraphs 3.3 to 3.4)**

##### **Distinguishing liabilities and residual interests**

##### **Treatment of preference shares**

- AG3.1 Preference shares may be issued with various rights. In determining whether a preference share is a financial liability or a residual interest, an issuer assesses the particular rights attaching to the share to determine whether it exhibits the fundamental characteristic of a financial liability. For example, a preference share that provides for redemption on a specific date or at the option of the holder contains a financial liability because the issuer has an obligation to transfer financial assets to the holder of the share. The potential inability of an issuer to satisfy an obligation to redeem a preference share when contractually required to do so, whether because of a lack of funds, a statutory restriction or insufficient surpluses or reserves, does not negate the obligation. An option of the issuer to redeem the shares for cash does not satisfy the definition of a financial liability because the issuer does not have a present obligation to

transfer financial assets to the owner. In this case, redemption of the shares is solely at the discretion of the issuer. An obligation may arise, however, when the issuer of the shares exercises its option, usually by formally notifying the owners of an intention to redeem the shares.

AG3.2 When preference shares are non-redeemable, the appropriate classification is determined by the other rights that attach to them. Classification is based on an assessment of the substance of the contractual arrangements and the definitions of a financial liability and a residual interest. When distributions to holders of the preference shares, whether cumulative or non-cumulative, are at the discretion of the issuer, the shares are residual interests. The classification of a preference share as a residual interest or a financial liability is not affected by, for example:

- (a) a history of making distributions;
- (b) an intention to make distributions in the future;
- (c) a possible negative impact on the price of ordinary shares of the issuer if distributions are not made (for example, because of restrictions on paying dividends or similar distributions on the ordinary shares if dividends or similar distributions are not paid on the preference shares);
- (d) the amount of the issuer's reserves;
- (e) an issuer's expectation of a surplus or deficit for a period; or
- (f) an ability or inability of the issuer to influence the amount of its surplus or deficit for the period.

#### **Contractual obligation to deliver cash**

AG3.3 In determining whether an instrument is a financial liability or a residual interest, an entity considers the contractual rights and obligations of the instrument and not the intention of the parties. Failure by an entity to enforce the rights and obligations in an arrangement, whether deliberately or erroneously, does not, in itself, change the nature of the transaction. An entity should however consider whether not executing the terms of an arrangement affects their enforceability in terms of law. Consider the following examples:

- (a) A controlling entity grants a loan to a controlled entity which requires the repayment of capital and interest at specific dates. The controlling entity fails to enforce collection of outstanding amounts under the terms of the agreement for a period of two years due to a shortcoming in its administrative processes. The failure of the entity to not collect amounts due does not change the nature of the transaction and that the entity classifies the transaction as a financial liability.
- (b) A controlling entity grants a loan to a controlled entity which requires the repayment of capital and interest at specific dates. The controlling entity fails to enforce collection of outstanding amounts under the terms of the agreement for a period of ten years due to a shortcoming in its administrative processes. The entity determines that the failure to enforce the terms of the arrangement means that the debt has legally prescribed. Due to the change in legal terms, an entity assesses whether a financial liability still exists.

#### **Contingent settlement provisions**

AG3.4 Paragraph 3.9 requires that if a part of a contingent settlement provision that could require settlement in cash or another financial asset (or in another way that would result in the instrument being a financial liability) is not genuine, the settlement provision does not affect the classification of a financial instrument. Thus, a contract that requires settlement in cash only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur is a residual interest.

#### **Treatment in consolidated financial statements**

AG3.5 In consolidated financial statements, an entity presents minority interests – i.e. the interests of other parties in the net assets and revenue of its controlled entities – in accordance with GRAP 1 and GRAP 6. When classifying a financial instrument (or a component of it) in consolidated financial statements, an entity considers all terms and conditions agreed between members of the economic entity and the holders of the instrument in determining whether the economic entity as a whole has an obligation to deliver cash or another financial asset in respect of the instrument or to settle it in a manner that results in liability classification. When a controlled entity in an economic entity issues a financial instrument and a controlling entity or other entity within the economic entity agrees additional terms directly with the holders of the instrument (e.g. a guarantee), the economic entity may not have discretion over distributions or redemption. Although the controlled entity may appropriately classify the instrument without regard to these additional terms in its individual financial statements, the effect of other agreements between members of the economic entity and the holders of the instrument is considered in order to ensure that consolidated financial statements reflect the contracts and transactions entered into by the economic entity as a whole. To the extent that there is such an obligation the instrument (or component of it that is subject to the obligation) is classified as a financial liability in consolidated financial statements.

#### **Compound financial instruments (Paragraphs 3.10 to 3.14)**

AG3.6 Paragraph 3.3 applies only to issuers of non-derivative compound financial instruments. Paragraph 3.3 does not deal with compound financial instruments from the perspective of holders. Paragraphs 4.11 to 4.15 deal with the separation of embedded derivatives from the perspective of holders of compound financial instruments that contain features of both financial liabilities and residual interests.

- AG3.7 A form of compound financial instrument is a debt instrument with an embedded conversion option, such as a bond convertible into ordinary shares of the issuer, and without any other embedded derivative features. Paragraph 3.3 requires the issuer of such a financial instrument to present the liability component and the residual interest component separately in the statement of financial position, as follows:
- (a) The issuer's obligation to make scheduled payments of interest and principal is a financial liability that exists as long as the instrument is not converted. On initial recognition, the fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option.
  - (b) The instrument is an embedded option to convert the liability into a residual interest of the issuer. This option has value on initial recognition even when it is out of the money.
- AG3.8 On conversion of a convertible instrument at maturity, the entity derecognises the liability component and recognises it as a residual interest. The original residual interest component remains as a residual interest (although it may be transferred from one line item within net assets to another). There is no gain or loss on conversion at maturity.
- AG3.9 When an entity extinguishes a convertible instrument before maturity through an early redemption or repurchase in which the original conversion privileges are unchanged, the entity allocates the consideration paid and any transaction costs for the repurchase or redemption to the liability and residual interest components of the instrument at the date of the transaction. The method used in allocating the consideration paid and transaction costs to the separate components is consistent with that used in the original allocation to the separate components of the proceeds received by the entity when the convertible instrument was issued, in accordance with paragraphs 3.10 to 3.14.
- AG3.10 Once the allocation of the consideration is made, any resulting gain or loss is treated in accordance with accounting principles applicable to the related component, as follows:
- (a) the amount of gain or loss relating to the liability component is recognised in surplus or deficit; and
  - (b) the amount of consideration relating to the residual interest component is recognised in net assets.
- AG3.11 An entity may amend the terms of a convertible instrument to induce early conversion, for example by offering a more favourable conversion ratio or paying other additional consideration in the event of conversion before a specified date. The difference, at the date the terms are amended, between the fair value of the consideration the holder receives on conversion of the instrument under the revised terms and the fair value of the consideration the holder would have received under the original terms is recognised as a loss in surplus or deficit.

#### **Recognition of financial assets and financial liabilities**

- AG3.12 As a consequence of the principle in paragraph 3.1, an entity recognises all of its contractual rights and obligations under derivatives in its statement of financial position as assets and liabilities, respectively.
- AG3.13 The following are examples of applying the principle in paragraph 3.3:
- (a) unconditional receivables and payables are recognised as assets or liabilities when the entity becomes a party to the contract and, as a consequence, has a legal right to receive, or a legal obligation to pay cash;
  - (b) assets to be acquired and liabilities to be incurred as a result of a firm commitment to purchase or sell goods or services are generally not recognised until at least one of the parties has performed under the agreement. For example, an entity that receives a firm order does not generally recognise an asset (and the entity that places the order does not recognise a liability) at the time of the commitment but delays recognition until the ordered goods or services have been shipped, delivered or rendered. If a firm commitment to buy or sell non-financial items is within the scope of this Standard under paragraphs 1.11 to 1.12, its net fair value is recognised as an asset or liability on the commitment date (see (c) below);
  - (c) a forward contract that is within the scope of this Standard (see paragraphs 1.3 to 1.12) is recognised as an asset or a liability on the commitment date, instead of the date on which settlement takes place. When an entity becomes a party to a forward contract, the fair values of the right and obligation are often equal, so that the net fair value of the forward is zero. If the net fair value of the right and obligation is not zero, the contract is recognised as an asset or liability;
  - (d) option contracts that are within the scope of this Standard (see paragraphs 1.3 to 1.12) are recognised as assets or liabilities when the holder or writer becomes a party to the contract; and
  - (e) planned future transactions, no matter how likely, are not assets and liabilities because the entity has not become a party to a contract.

**Chapter 4 – Classification****Classification****Classification of financial assets****The entity's management model for managing financial assets**

AG4.1 Paragraph 4.1(a) requires an entity to classify financial assets on the basis of the entity's management model for managing the financial assets, unless paragraph 4.6 applies. An entity assesses whether its financial assets meet the condition in paragraph 4.2(a) on the basis of the management model as determined by the entity's management (as defined in GRAP 24).

AG4.2 An entity's management model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular objective. The entity's management model does not depend on management's intentions for an individual instrument. Accordingly, this condition is not an instrument-by-instrument approach to classification and should be determined on a higher level of aggregation. However, a single entity may have more than one management model for managing its financial instruments. Consequently, classification need not be determined at the reporting entity level. For example, an entity may hold a portfolio of investments that it manages in order to collect contractual cash flows and another portfolio of investments that it manages in order to trade to realise fair value changes. Similarly, in some circumstances, it may be appropriate to separate a portfolio of financial assets into sub-portfolios in order to reflect the level at which an entity manages those financial assets. For example, that may be the case if an entity purchases a portfolio of bonds and manages some of the bonds with an objective of collecting contractual cash flows and manages the other bonds with an objective of selling them.

AG4.3 An entity's management model refers to how an entity manages its financial assets in order to generate cash flows. That is, the entity's management model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Consequently, this assessment is not performed on the basis of scenarios that the entity does not reasonably expect to occur, such as so-called "worst case" or "stress case" scenarios. For example, if an entity expects that it will sell a particular portfolio of financial assets only in a stress case scenario, that scenario would not affect the entity's assessment of the management model for those assets if the entity reasonably expects that such a scenario will not occur. If cash flows are realised in a way that is different from the entity's expectations at the date that the entity assessed the management model (for example, if the entity sells more or fewer financial assets than it expected when it classified the assets), that does not give rise to a prior period error in the entity's financial statements (see GRAP 3 on *Accounting Policies, Changes in Accounting Estimates and Errors*) nor does it change the classification of the remaining financial assets held in that management model (i.e. those assets that the entity recognised in prior periods and still holds) as long as the entity considered all relevant information that was available at the time that it made the management model assessment. However, when an entity assesses the management model for newly originated or newly purchased financial assets, it must consider information about how cash flows were realised in the past, along with all other relevant information.

AG4.4 An entity's management model for managing financial assets is a matter of fact and not merely an assertion. It is typically observable through the activities that the entity undertakes to achieve the objective of the management model. An entity will need to use judgement when it assesses its management model for managing financial assets and that assessment is not determined by a single factor or activity. Instead, the entity must consider all relevant evidence that is available at the date of the assessment. Such relevant evidence includes, but is not limited to:

- (a) how the performance of the management model and the financial assets held within that management model are evaluated and reported to the entity's management;
- (b) the risks that affect the performance of the management model (and the financial assets held within that management model) and, in particular, the way in which those risks are managed; and
- (c) how managers are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

**A management model whose objective is to hold assets in order to collect contractual cash flows**

AG4.5 Financial assets that are held within a management model whose objective is to hold assets in order to collect contractual cash flows are managed to realise cash flows by collecting contractual payments over the life of the instrument. That is, the entity manages the assets held within the portfolio to collect those particular contractual cash flows (instead of managing the overall return on the portfolio by both holding and selling assets). In determining whether cash flows are going to be realised by collecting the financial assets' contractual cash flows, it is necessary to consider the frequency, value and timing of sales in prior periods, the reasons for those sales and expectations about future sales activity. However, sales in themselves do not determine the management model and therefore cannot be considered in isolation. Instead, information about past sales and expectations about future sales provide evidence related to how the entity's stated objective for managing the financial assets is achieved and, specifically, how cash flows are realised. An entity must consider information about past sales within the context of the reasons for those sales and the conditions that existed at that time as compared to current conditions.

AG4.6 Although the objective of an entity's management model may be to hold financial assets in order to collect contractual cash flows, the entity need not hold all of those instruments until maturity. Thus an entity's management model can be to hold financial assets to collect contractual cash flows even when sales of financial assets occur or are expected to occur in the future.

- AG4.7 The management model may be to hold assets to collect contractual cash flows even if the entity sells financial assets when there is an increase in the assets' credit risk. To determine whether there has been an increase in the assets' credit risk, the entity considers reasonable and supportable information, including forward looking information. Irrespective of their frequency and value, sales due to an increase in the assets' credit risk are not inconsistent with a management model whose objective is to hold financial assets to collect contractual cash flows because the credit quality of financial assets is relevant to the entity's ability to collect contractual cash flows. Credit risk management activities that are aimed at minimising potential credit losses due to credit deterioration are integral to such a management model. Selling a financial asset because it no longer meets the credit criteria specified in the entity's documented investment policy is an example of a sale that has occurred due to an increase in credit risk. However, in the absence of such a policy, the entity may demonstrate in other ways that the sale occurred due to an increase in credit risk.
- AG4.8 Sales that occur for other reasons, such as sales made to manage credit concentration risk (without an increase in the assets' credit risk), may also be consistent with a management model whose objective is to hold financial assets in order to collect contractual cash flows. In particular, such sales may be consistent with a management model whose objective is to hold financial assets in order to collect contractual cash flows if those sales are infrequent (even if significant in value) or insignificant in value both individually and in aggregate (even if frequent). If more than an infrequent number of such sales are made out of a portfolio and those sales are more than insignificant in value (either individually or in aggregate), the entity needs to assess whether and how such sales are consistent with an objective of collecting contractual cash flows. Whether a third party imposes the requirement to sell the financial assets, or that activity is at the entity's discretion, is not relevant to this assessment. An increase in the frequency or value of sales in a particular period is not necessarily inconsistent with an objective to hold financial assets in order to collect contractual cash flows, if an entity can explain the reasons for those sales and demonstrate why those sales do not reflect a change in the entity's management model. In addition, sales may be consistent with the objective of holding financial assets in order to collect contractual cash flows if the sales are made close to the maturity of the financial assets and the proceeds from the sales approximate the collection of the remaining contractual cash flows.
- AG4.9 The following are examples of when the objective of an entity's management model may be to hold financial assets to collect the contractual cash flows. This list of examples is not exhaustive. Furthermore, the examples are not intended to discuss all factors that may be relevant to the assessment of the entity's management model nor specify the relative importance of the factors.

Example	Analysis
<b>Example 1</b>	
<p>An entity holds investments to collect their contractual cash flows. The funding needs of the entity are predictable and the maturity of its financial assets is matched to the entity's estimated funding needs.</p> <p>The entity performs credit risk management activities with the objective of minimising credit losses. In the past, sales have typically occurred when the financial assets' credit risk has increased such that the assets no longer meet the credit criteria specified in the entity's documented investment policy. In addition, infrequent sales have occurred as a result of unanticipated funding needs.</p> <p>Reports to management focus on the credit quality of the financial assets and the contractual return. The entity also monitors fair values of the financial assets, among other information.</p>	<p>Although the entity considers, among other information, the financial assets' fair values from a liquidity perspective (i.e. the cash amount that would be realised if the entity needs to sell assets), the entity's objective is to hold the financial assets in order to collect the contractual cash flows. Sales would not contradict that objective if they were in response to an increase in the assets' credit risk, for example if the assets no longer meet the credit criteria specified in the entity's documented investment policy. Infrequent sales resulting from unanticipated funding needs (e.g. in a stress case scenario) also would not contradict that objective, even if such sales are significant in value.</p>
<b>Example 2</b>	
<p>An entity's management model is to purchase portfolios of financial assets, such as loans. Those portfolios may or may not include financial assets that are credit impaired.</p> <p>If payment on the loans is not made on a timely basis, the entity attempts to realise the contractual cash flows through various means—for example, by contacting the debtor by mail, telephone or other methods. The entity's objective is to collect the contractual cash flows and the entity does not manage any of the loans in this</p>	<p>The objective of the entity's management model is to hold the financial assets in order to collect the contractual cash flows.</p> <p>The same analysis would apply even if the entity does not expect to receive all of the contractual cash flows (e.g. some of the financial assets are credit impaired at initial recognition).</p> <p>Moreover, the fact that the entity enters into derivatives to modify the cash flows of the portfolio</p>



<p>portfolio with an objective of realising cash flows by selling them.</p> <p>In some cases, the entity enters into interest rate swaps to change the interest rate on particular financial assets in a portfolio from a floating interest rate to a fixed interest rate.</p>	<p>does not in itself change the entity's management model.</p>
<b>Example 3</b>	
<p>An entity has a management model with the objective of originating loans to customers and subsequently selling those loans to a securitisation vehicle. The securitisation vehicle issues instruments to investors.</p> <p>The originating entity controls the securitisation vehicle and thus consolidates it.</p> <p>The securitisation vehicle collects the contractual cash flows from the loans and passes them on to its investors.</p> <p>It is assumed for the purposes of this example that the loans continue to be recognised in the consolidated statement of financial position because they are not derecognised by the securitisation vehicle.</p>	<p>The economic entity originated the loans with the objective of holding them to collect the contractual cash flows.</p> <p>However, the originating entity has an objective of realising cash flows on the loan portfolio by selling the loans to the securitisation vehicle, so for the purposes of its separate financial statements it would not be considered to be managing this portfolio in order to collect the contractual cash flows.</p>

**Other management models**

AG4.10 Financial assets are measured at fair value through surplus or deficit if they are not held within a management model whose objective is to hold assets to collect contractual cash flows. The following management models result in measurement at fair value through surplus or deficit:

- (a) a management model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- (b) a management model whose objective is achieved by realising cash flows through the sale of assets.

*A management model whose objective is achieved by both collecting contractual cash flows and selling financial assets*

AG4.11 An entity may hold financial assets in a management model whose objective is achieved by both collecting contractual cash flows and selling financial assets. In this type of management model, the entity's management personnel have made a decision that both collecting contractual cash flows and selling financial assets are integral to achieving the objective of the management model. There are various objectives that may be consistent with this type of management model. For example, the objective of the management model may be to manage everyday liquidity needs, to maintain a particular interest yield profile or to match the duration of the financial assets to the duration of the liabilities that those assets are funding. To achieve such an objective, the entity will both collect contractual cash flows and sell financial assets.

AG4.12 Compared to a management model whose objective is to hold financial assets to collect contractual cash flows, this management model will typically involve greater frequency and value of sales. This is because selling financial assets is integral to achieving the management model's objective instead of being only incidental to it. However, there is no threshold for the frequency or value of sales that must occur in this management model because both collecting contractual cash flows and selling financial assets are integral to achieving its objective.

AG4.13 The following are examples of when the objective of the entity's management model may be achieved by both collecting contractual cash flows and selling financial assets. This list of examples is not exhaustive. Furthermore, the examples are not intended to describe all the factors that may be relevant to the assessment of the entity's management model nor specify the relative importance of the factors.

Example	Analysis
<b>Example 4</b>	
<p>An entity anticipates capital expenditure in a few years. The entity invests its excess cash in short and long-term financial assets so that it can fund the expenditure when the need arises. Many of the financial assets have contractual lives that exceed the entity's anticipated investment period.</p>	<p>The objective of the management model is achieved by both collecting contractual cash flows and selling financial assets. The entity will make decisions on an ongoing basis about whether collecting contractual cash flows or selling financial assets will maximise the return on the portfolio until the need arises for the invested cash.</p>

<p>The entity will hold financial assets to collect the contractual cash flows and, when an opportunity arises, it will sell financial assets to re-invest the cash in financial assets with a higher return.</p>	<p>In contrast, consider an entity that anticipates a cash outflow in five years to fund capital expenditure and invests excess cash in short-term financial assets. When the investments mature, the entity reinvests the cash in new short-term financial assets. The entity maintains this strategy until the funds are needed, at which time the entity uses the proceeds from the maturing financial assets to fund the capital expenditure. Only sales that are insignificant in value occur before maturity (unless there is an increase in credit risk). The objective of this contrasting management model is to hold financial assets to collect contractual cash flows.</p>
<p><b>Example 5</b></p>	
<p>An entity that pays unemployment benefits holds financial assets in order to fund its liabilities. The entity uses the proceeds from the contractual cash flows on the financial assets to settle its liabilities as they come due. To ensure that the contractual cash flows from the financial assets are sufficient to settle those liabilities, the entity undertakes significant buying and selling activity on a regular basis to rebalance its portfolio of assets and to meet cash flow needs as they arise.</p>	<p>The objective of the management model is to fund the liabilities. To achieve this objective, the entity collects contractual cash flows as they come due and sells financial assets to maintain the desired profile of the asset portfolio. Thus both collecting contractual cash flows and selling financial assets are integral to achieving the management model's objective.</p>

*A management model whose objective is achieved by realising cash flows through the sale of assets*

- AG4.14 A management model that results in measurement at fair value through surplus or deficit is one in which an entity manages the financial assets with the objective of realising cash flows through the sale of the assets. The entity makes decisions based on the assets' fair values and manages the assets to realise those fair values. In this case, the entity's objective will typically result in active buying and selling. Even though the entity will collect contractual cash flows while it holds the financial assets, the objective of such a management model is not achieved by both collecting contractual cash flows and selling financial assets. This is because the collection of contractual cash flows is not integral to achieving the management model's objective; instead, it is incidental to it.
- AG4.15 A portfolio of financial assets that is managed and whose performance is evaluated on a fair value basis (as described in paragraph 4.8(b)) is neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. The entity is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. In addition, a portfolio of financial assets that meets the definition of held for trading is not held to collect contractual cash flows or held both to collect contractual cash flows and to sell financial assets. For such portfolios, the collection of contractual cash flows is only incidental to achieving the management model's objective. Consequently, such portfolios of financial assets must be measured at fair value through surplus or deficit.

#### **Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding**

##### **General approach**

- AG4.16 Paragraph 4.1(b) requires an entity to classify a financial asset on the basis of its contractual cash flow characteristics if the financial asset is held within a management model whose objective is to hold assets to collect contractual cash flows or within a management model whose objective is achieved by both collecting contractual cash flows and selling financial assets, unless paragraph 4.6 applies. To do so, the condition in paragraph 4.2(b) requires an entity to determine whether the asset's contractual cash flows are solely payments of principal and interest on the principal amount outstanding.
- AG4.17 Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement. In a basic lending arrangement, consideration for the time value of money (see paragraphs AG4.23 to AG4.27) and credit risk are typically the most significant elements of interest. However, in such an arrangement, interest can also include consideration for other basic lending risks (for example, liquidity risk) and costs (for example, administrative costs) associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. In extreme economic circumstances, interest can be negative if, for example, the holder of a financial asset either explicitly or implicitly pays for the deposit of its money for a particular period of time (and that fee exceeds the consideration that the holder receives for the time value of money, credit risk and other basic lending risks and costs). However, contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices, or commodity prices, a specific profitability or income threshold being reached by the borrower or lender, or the achievement (or otherwise) of specific financial ratios, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. An originated or a purchased financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

AG4.18 In accordance with paragraph 4.3(a), principal is the fair value of the financial asset at initial recognition. However that principal amount may change over the life of the financial asset (for example, if there are repayments of principal).

AG4.19 An entity shall assess whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding for the currency in which the financial asset is denominated.

AG4.20 Leverage is a contractual cash flow characteristic of some financial assets. Leverage increases the variability of the contractual cash flows with the result that they do not have the economic characteristics of interest. Stand-alone option, forward and swap contracts are examples of financial assets that include such leverage. Thus, such contracts do not meet the condition in paragraph 4.2(b).

#### **Concessionary loans granted by an entity**

AG4.21 Concessionary loans are granted by an entity on below market terms related either to the principal or interest repaid, or both (see paragraph AG5.13). In assessing whether the contractual cash flows of a concessionary loan are solely payments of principal and interest, an entity first applies paragraphs AG5.14 to AG5.24. These paragraphs require an entity to separate a concessionary loan into its relevant components and measure the cash flows using a market related rate of interest for a similar instrument. The effect of applying paragraph AG5.14 to AG5.24 means that the principal appropriately reflects the amounts that will be repaid in the arrangement using a market related rate of interest. An entity then assesses whether the contractual cash flows are solely payments of principal and interest.

AG4.22 As the concessionary loan has effectively been recognised at fair value, the contractual cash flows are likely to reflect solely payments of principal or interest. However, an entity applies judgement to assess if the contractual cash flows after initial recognition are solely payments of principal and interest. Examples of instances when the contractual cash flows may not be solely payments of principal or interest are as follows:

- (a) The borrower has the ability to exercise certain options that mean that the loan will not be fully recovered by the lender and/or will not receive full compensation for the interest due. For example, the borrower may suspend payment of the loan and take payment holidays which may not be recovered in full or in part, or interest will not be charged on such payment holidays.
- (b) The repayment of principal and/or interest is based on factors that are unrelated to a basic lending arrangement. For example, where principal and/or interest are only repayable when certain conditions are met such as the borrower becoming employed, earning a specific level of income, revenue, profitability, defined ratios, production level, etc.

#### **Consideration for the time value of money**

AG4.23 Time value of money is the element of interest that provides consideration for only the passage of time. That is, the time value of money element does not provide consideration for other risks or costs associated with holding the financial asset. In order to assess whether the element provides consideration for only the passage of time, an entity applies judgement and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set.

AG4.24 However, in some cases, the time value of money element may be modified (i.e. imperfect). That would be the case, for example, if a financial asset's interest rate is periodically reset but the frequency of that reset does not match the tenor of the interest rate (for example, the interest rate resets every month to a one-year rate) or if a financial asset's interest rate is periodically reset to an average of particular short- and long-term interest rates. In such cases, an entity must assess the modification to determine whether the contractual cash flows represent solely payments of principal and interest on the principal amount outstanding. In some circumstances, the entity may be able to make that determination by performing a qualitative assessment of the time value of money element whereas, in other circumstances, it may be necessary to perform a quantitative assessment.

AG4.25 When assessing a modified time value of money element, the objective is to determine how different the contractual (undiscounted) cash flows could be from the (undiscounted) cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). For example, if the financial asset under assessment contains a variable interest rate that is reset every month to a one-year interest rate, the entity would compare that financial asset to a financial instrument with identical contractual terms and the identical credit risk except the variable interest rate is reset monthly to a one-month interest rate. If the modified time value of money element could result in contractual (undiscounted) cash flows that are significantly different from the (undiscounted) benchmark cash flows, the financial asset does not meet the condition in paragraph 4.2(b). To make this determination, the entity must consider the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument. The reason for the interest rate being set in this way is not relevant to the analysis. If it is clear, with little or no analysis, whether the contractual (undiscounted) cash flows on the financial asset under the assessment could (or could not) be significantly different from the (undiscounted) benchmark cash flows, an entity need not perform a detailed assessment.

AG4.26 When assessing a modified time value of money element, an entity must consider factors that could affect future contractual cash flows. For example, if an entity is assessing a bond with a five-year term and the variable interest rate is reset every six months to a five-year rate, the entity cannot conclude that the contractual cash flows are solely payments of principal and interest on the principal amount outstanding simply because the interest rate curve at the time of the assessment is such that the difference between a five-year interest rate and a six-month interest rate is

not significant. Instead, the entity must also consider whether the relationship between the five-year interest rate and the six-month interest rate could change over the life of the instrument such that the contractual (undiscounted) cash flows over the life of the instrument could be significantly different from the (undiscounted) benchmark cash flows. However, an entity must consider only reasonably possible scenarios instead of every possible scenario. If an entity concludes that the contractual (undiscounted) cash flows could be significantly different from the (undiscounted) benchmark cash flows, the financial asset does not meet the condition in paragraph 4.2(b) and therefore cannot be measured at amortised cost.

AG4.27 Government or a regulatory authority often sets interest rates. For example, such government regulation of interest rates may be part of a broad macroeconomic policy or it may be introduced to encourage entities to invest in a particular sector of the economy. In some of these cases, the objective of the time value of money element is not to provide consideration for only the passage of time. However, despite paragraphs AG4.23 to AG4.26, a regulated interest rate shall be considered a proxy for the time value of money element for the purpose of applying the condition in paragraph 4.2(b) if that regulated interest rate provides consideration that is broadly consistent with the passage of time and does not provide exposure to risks or volatility in the contractual cash flows that are inconsistent with a basic lending arrangement.

**Contractual terms that change the timing or amount of contractual cash flows**

AG4.28 If a financial asset contains a contractual term that could change the timing or amount of contractual cash flows (for example, if the asset can be prepaid before maturity or its term can be extended), the entity must determine whether the contractual cash flows that could arise over the life of the instrument due to that contractual term are solely payments of principal and interest on the principal amount outstanding. To make this determination, the entity must assess the contractual cash flows that could arise both before, and after, the change in contractual cash flows. The entity may also need to assess the nature of any contingent event (i.e. the trigger) that would change the timing or amount of the contractual cash flows. While the nature of the contingent event in itself is not a determinative factor in assessing whether the contractual cash flows are solely payments of principal and interest, it may be an indicator. For example, compare a financial instrument with an interest rate that is reset to a higher rate if the debtor misses a particular number of payments to a financial instrument with an interest rate that is reset to a higher rate if a specified equity index reaches a particular level. It is more likely in the former case that the contractual cash flows over the life of the instrument will be solely payments of principal and interest on the principal amount outstanding because of the relationship between missed payments and an increase in credit risk. (See also paragraph AG4.26)

AG4.29 The following are examples of contractual terms that result in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding:

- (a) a variable interest rate that consists of consideration for the time value of money, the credit risk associated with the principal amount outstanding during a particular period of time (the consideration for credit risk may be determined at initial recognition only, and so may be fixed) and other basic lending risks and costs, as well as a profit margin;
- (b) a contractual term that permits the issuer (i.e. the debtor) to prepay a debt instrument or permits the holder (i.e. the creditor) to put a debt instrument back to the issuer before maturity and the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for the early termination of the contract; and
- (c) a contractual term that permits the issuer or the holder to extend the contractual term of a debt instrument (i.e. an extension option) and the terms of the extension option result in contractual cash flows during the extension period that are solely payments of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for the extension of the contract.

AG4.30 Despite paragraph AG4.28, a financial asset that would otherwise meet the condition in paragraph 4.2(b) but does not do so only as a result of a contractual term that permits (or requires) the issuer to prepay a debt instrument or permits (or requires) the holder to put a debt instrument back to the issuer before maturity is eligible to be measured at amortised cost (subject to meeting the condition in paragraph 4.2(a) if:

- (a) the entity acquires or originates the financial asset at a premium or discount to the contractual par amount;
- (b) the prepayment amount substantially represents the contractual par amount and accrued (but unpaid) contractual interest, which may include reasonable compensation for the early termination of the contract; and
- (c) when the entity initially recognises the financial asset, the fair value of the prepayment feature is insignificant.

AG4.31 For the purpose of applying paragraphs AG4.29(b) and AG4.30(b), irrespective of the event or circumstance that causes the early termination of the contract, a party may pay or receive reasonable compensation for that early termination. For example, a party may pay or receive reasonable compensation when it chooses to terminate the contract early (or otherwise causes the early termination to occur).

AG4.32 The following examples illustrate contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. This list of examples is not exhaustive.

Instrument	Analysis
<b>Instrument A</b>	
<p>Instrument A is a bond with a stated maturity date. Payments of principal and interest on the principal amount outstanding are linked to an inflation index of the currency in which the instrument is issued. The inflation link is not leveraged and the principal is protected.</p>	<p>The contractual cash flows are solely payments of principal and interest on the principal amount outstanding. Linking payments of principal and interest on the principal amount outstanding to an unleveraged inflation index resets the time value of money to a current level. In other words, the interest rate on the instrument reflects “real” interest. Thus, the interest amounts are consideration for the time value of money on the principal amount outstanding.</p> <p>However, if the interest payments were indexed to another variable such as the debtor’s performance (e.g. the debtor’s net income) or an equity index, the contractual cash flows are not payments of principal and interest on the principal amount outstanding (unless the indexing to the debtor’s performance results in an adjustment that only compensates the holder for changes in the credit risk of the instrument, such that contractual cash flows are solely payments of principal and interest). That is because the contractual cash flows reflect a return that is inconsistent with a basic lending arrangement (see paragraph AG4.17).</p>
<b>Instrument B</b>	
<p>Instrument B is a variable interest rate instrument with a stated maturity date that permits the borrower to choose the market interest rate on an ongoing basis. For example, at each interest rate reset date, the borrower can choose to pay three-month JIBAR for a three-month term or one-month JIBAR for a one-month term.</p>	<p>The contractual cash flows are solely payments of principal and interest on the principal amount outstanding as long as the interest paid over the life of the instrument reflects consideration for the time value of money, for the credit risk associated with the instrument and for other basic lending risks and costs, as well as a profit margin (see paragraph AG4.17). The fact that the JIBAR interest rate is reset during the life of the instrument does not in itself disqualify the instrument.</p> <p>However, if the borrower is able to choose to pay a one-month interest rate that is reset every three months, the interest rate is reset with a frequency that does not match the tenor of the interest rate. Consequently, the time value of money element is modified. Similarly, if an instrument has a contractual interest rate that is based on a term that can exceed the instrument’s remaining life (for example, if an instrument with a five-year maturity pays a variable rate that is reset periodically but always reflects a five-year maturity), the time value of money element is modified. That is because the interest payable in each period is disconnected from the interest period.</p> <p>In such cases, the entity must qualitatively or quantitatively assess the contractual cash flows against those on an instrument that is identical in all respects except the tenor of the interest rate matches the interest period to determine if the cash flows are solely payments of principal and interest on the principal amount outstanding. (See paragraph AG4.27 for guidance on regulated interest rates.)</p> <p>For example, in assessing a bond with a five-year term that pays a variable rate that is reset every six months but always reflects a five-year maturity, an entity considers the contractual cash flows on an instrument that resets every six months to a six-month interest rate but is otherwise identical.</p>

	The same analysis would apply if the borrower is able to choose between the lender's various published interest rates (e.g. the borrower can choose between the lender's published one-month variable interest rate and the lender's published three-month variable interest rate).
<b>Instrument C</b>	
Instrument C is a bond with a stated maturity date and pays a variable market interest rate. That variable interest rate is capped.	<p>The contractual cash flows of both:</p> <p>(a) an instrument that has a fixed interest rate; and</p> <p>(b) an instrument that has a variable interest rate</p> <p>are payments of principal and interest on the principal amount outstanding as long as the interest reflects consideration for the time value of money, for the credit risk associated with the instrument during the term of the instrument and for other basic lending risks and costs, as well as a profit margin. (See paragraph AG4.17).</p> <p>Consequently, an instrument that is a combination of (a) and (b) (e.g. a bond with an interest rate cap) can have cash flows that are solely payments of principal and interest on the principal amount outstanding. Such a contractual term may reduce cash flow variability by setting a limit on a variable interest rate (e.g. an interest rate cap or floor) or increase the cash flow variability because a fixed rate becomes variable.</p>
<b>Instrument D</b>	
Instrument D is a full recourse loan and is secured by collateral.	The fact that a full recourse loan is collateralised does not in itself affect the analysis of whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding.

AG4.33

The following examples illustrate contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding. This list of examples is not exhaustive.

<b>Instrument</b>	<b>Analysis</b>
<b>Instrument E</b>	
Instrument E is a bond that is convertible into a fixed number of equity instruments of the issuer.	<p>The holder would analyse the convertible bond in its entirety.</p> <p>The contractual cash flows are not payments of principal and interest on the principal amount outstanding because they reflect a return that is inconsistent with a basic lending arrangement (see paragraph AG4.17); i.e. the return is linked to the value of the equity of the issuer.</p>
<b>Instrument F</b>	
Instrument F is a loan that pays an inverse floating interest rate (i.e. the interest rate has an inverse relationship to market interest rates).	<p>The contractual cash flows are not solely payments of principal and interest on the principal amount outstanding.</p> <p>The interest amounts are not consideration for the time value of money on the principal amount outstanding.</p>
<b>Instrument G</b>	
Instrument G is a perpetual instrument but the issuer may call the instrument at any point and pay the holder the par amount plus accrued interest due.	The contractual cash flows are not payments of principal and interest on the principal amount outstanding. That is because the issuer may be required to defer interest payments and additional interest does not accrue on those deferred interest amounts. As a result, interest

<p>Instrument G pays a market interest rate but payment of interest cannot be made unless the issuer is able to remain solvent immediately afterwards.</p> <p>Deferred interest does not accrue additional interest.</p>	<p>amounts are not consideration for the time value of money on the principal amount outstanding.</p> <p>If interest accrued on the deferred amounts, the contractual cash flows could be payments of principal and interest on the principal amount outstanding.</p> <p>The fact that Instrument G is perpetual does not in itself mean that the contractual cash flows are not payments of principal and interest on the principal amount outstanding. In effect, a perpetual instrument has continuous (multiple) extension options. Such options may result in contractual cash flows that are payments of principal and interest on the principal amount outstanding if interest payments are mandatory and must be paid in perpetuity.</p> <p>Also, the fact that Instrument G is callable does not mean that the contractual cash flows are not payments of principal and interest on the principal amount outstanding unless it is callable at an amount that does not substantially reflect payment of outstanding principal and interest on that principal amount outstanding. Even if the callable amount includes an amount that reasonably compensates the holder for the early termination of the instrument, the contractual cash flows could be payments of principal and interest on the principal amount outstanding. (See also paragraph AG4.30)</p>
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- AG4.34 In some cases a financial asset may have contractual cash flows that are described as principal and interest but those cash flows do not represent the payment of principal and interest on the principal amount outstanding as described in paragraphs 4.2(b), and 4.3 of this Standard.
- AG4.35 This may be the case if the financial asset represents an investment in particular assets or cash flows and hence the contractual cash flows are not solely payments of principal and interest on the principal amount outstanding. For example, if the contractual terms stipulate that the financial asset's cash flows increase as more automobiles use a particular toll road, those contractual cash flows are inconsistent with a basic lending arrangement. As a result, the instrument would not satisfy the condition in paragraph 4.2(b). This could be the case when a creditor's claim is limited to specified assets of the debtor or the cash flows from specified assets (for example, a "non-recourse" financial asset).
- AG4.36 However, the fact that a financial asset is non-recourse does not in itself necessarily preclude the financial asset from meeting the condition in paragraph 4.2(b). In such situations, the creditor is required to assess ("look through to") the particular underlying assets or cash flows to determine whether the contractual cash flows of the financial asset being classified are payments of principal and interest on the principal amount outstanding. If the terms of the financial asset give rise to any other cash flows or limit the cash flows in a manner inconsistent with payments representing principal and interest, the financial asset does not meet the condition in paragraph 4.2(b). Whether the underlying assets are financial assets or non-financial assets does not in itself affect this assessment.
- AG4.37 A contractual cash flow characteristic does not affect the classification of the financial asset if it could have only a de minimis effect on the contractual cash flows of the financial asset. To make this determination, an entity must consider the possible effect of the contractual cash flow characteristic in each reporting period and cumulatively over the life of the financial instrument. In addition, if a contractual cash flow characteristic could have an effect on the contractual cash flows that is more than de minimis (either in a single reporting period or cumulatively) but that cash flow characteristic is not genuine, it does not affect the classification of a financial asset. A cash flow characteristic is not genuine if it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur.
- AG4.38 In almost every lending transaction the creditor's instrument is ranked relative to the instruments of the debtor's other creditors. An instrument that is subordinated to other instruments may have contractual cash flows that are payments of principal and interest on the principal amount outstanding if the debtor's non-payment is a breach of contract and the holder has a contractual right to unpaid amounts of principal and interest on the principal amount outstanding even in the event of the debtor's bankruptcy. For example, a receivable that ranks its creditor as a general creditor would qualify as having payments of principal and interest on the principal amount outstanding. This is the case even if the debtor issued loans that are collateralised, which in the event of bankruptcy would give that loan holder priority over the claims of the general creditor in respect of the collateral but does not affect the contractual right of the general creditor to unpaid principal and other amounts due.
- Contractually linked instruments**
- AG4.39 In some types of transactions, an issuer may prioritise payments to the holders of financial assets using multiple contractually linked instruments that create concentrations of credit risk (tranches). Each tranche has a subordination

ranking that specifies the order in which any cash flows generated by the issuer are allocated to the tranche. In such situations, the holders of a tranche have the right to payments of principal and interest on the principal amount outstanding only if the issuer generates sufficient cash flows to satisfy higher-ranking tranches.

- AG4.40 In such transactions, a tranche has cash flow characteristics that are payments of principal and interest on the principal amount outstanding only if:
- (a) the contractual terms of the tranche being assessed for classification (without looking through to the underlying pool of financial instruments) give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (e.g. the interest rate on the tranche is not linked to a commodity index);
  - (b) the underlying pool of financial instruments has the cash flow characteristics set out in paragraphs AG4.42 and AG4.43; and
  - (c) the exposure to credit risk in the underlying pool of financial instruments inherent in the tranche is equal to or lower than the exposure to credit risk of the underlying pool of financial instruments (for example, the credit rating of the tranche being assessed for classification is equal to or higher than the credit rating that would apply to a single tranche that funded the underlying pool of financial instruments).
- AG4.41 An entity must look through until it can identify the underlying pool of instruments that are creating (instead of passing through) the cash flows. This is the underlying pool of financial instruments.
- AG4.42 The underlying pool must contain one or more instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.
- AG4.43 The underlying pool of instruments may also include instruments that:
- (a) reduce the cash flow variability of the instruments in paragraph AG4.42 and, when combined with the instruments in paragraph AG4.42, result in cash flows that are solely payments of principal and interest on the principal amount outstanding (e.g. an interest rate cap or floor or a contract that reduces the credit risk on some or all of the instruments in paragraph AG4.42); or
  - (b) align the cash flows of the tranches with the cash flows of the pool of underlying instruments in paragraph AG4.42 to address differences in and only in:
    - (i) whether the interest rate is fixed or floating;
    - (ii) the currency in which the cash flows are denominated, including inflation in that currency; or
    - (iii) the timing of the cash flows.
- AG4.44 If any instrument in the pool does not meet the conditions in either paragraph AG4.42 or paragraph AG4.43, the condition in paragraph AG4.40(b) is not met. In performing this assessment, a detailed instrument-by-instrument analysis of the pool may not be necessary. However, an entity must use judgement and perform sufficient analysis to determine whether the instruments in the pool meet the conditions in paragraphs AG4.42 to AG4.43. (See also paragraph AG4.37 for guidance on contractual cash flow characteristics that have only a de minimis effect.)
- AG4.45 If the holder cannot assess the conditions in paragraph AG4.40 at initial recognition, the tranche must be measured at fair value through surplus or deficit. If the underlying pool of instruments can change after initial recognition in such a way that the pool may not meet the conditions in paragraphs AG4.42 to AG4.43, the tranche does not meet the conditions in paragraph AG4.40 and must be measured at fair value through surplus or deficit. However, if the underlying pool includes instruments that are collateralised by assets that do not meet the conditions in paragraphs AG4.42 to AG4.43, the ability to take possession of such assets shall be disregarded for the purposes of applying this paragraph unless the entity acquired the tranche with the intention of controlling the collateral.

#### **Option to designate a financial asset or financial liability as at fair value through surplus or deficit (Paragraphs 4.1 to 4.8)**

- AG4.46 Subject to the conditions in paragraphs 4.6 and 4.8 of this Standard allows an entity to designate a financial asset, a financial liability, or a group of financial instruments (financial assets, financial liabilities or both) as at fair value through surplus or deficit provided that doing so results in more relevant information.
- AG4.47 The decision of an entity to designate a financial asset or financial liability as at fair value through surplus or deficit is similar to an accounting policy choice (although, unlike an accounting policy choice, it is not required to be applied consistently to all similar transactions). When an entity has such a choice, paragraph .13(b) of GRAP 3 requires the chosen policy to result in the financial statements providing reliable and more relevant information about the effects of transactions, other events and conditions on the entity's financial position, financial performance or cash flows. For example, in the case of designation of a financial liability as at fair value through surplus or deficit, paragraph 4.8 sets out the two circumstances when the requirement for more relevant information will be met. Accordingly, to choose such designation in accordance with paragraph 4.8, the entity needs to demonstrate that it falls within one (or both) of these two circumstances.

#### **Designation eliminates or significantly reduces an accounting mismatch**

- AG4.48 Measurement of a financial asset or financial liability and classification of recognised changes in its value are determined by the item's classification. Those requirements can create a measurement or recognition inconsistency



(sometimes referred to as an "accounting mismatch") when, for example, in the absence of designation as at fair value through surplus or deficit, a financial asset would be classified as subsequently measured at fair value through surplus or deficit and a liability the entity considers related would be subsequently measured at amortised cost (with changes in fair value not recognised). In such circumstances, an entity may conclude that its financial statements would provide more relevant information if both the asset and the liability were measured as at fair value through surplus or deficit.

AG4.49 The following example shows when this condition could be met. In all cases, an entity may use this condition to designate financial assets or financial liabilities as at fair value through surplus or deficit only if it meets the principle in paragraph 4.6 or 4.8(a):

An entity has financial assets, financial liabilities or both that share a risk, such as interest rate risk, and that gives rise to opposite changes in fair value that tend to offset each other. However, only some of the instruments would be measured at fair value through surplus or deficit (for example, those that are derivatives, or are classified as held for trading).

AG4.50 In cases such as those described in the preceding paragraph, to designate, at initial recognition, the financial assets and financial liabilities not otherwise so measured as at fair value through surplus or deficit may eliminate or significantly reduce the measurement or recognition inconsistency and produce more relevant information. For practical purposes, the entity need not enter into all of the assets and liabilities giving rise to the measurement or recognition inconsistency at exactly the same time. A reasonable delay is permitted provided that each transaction is designated as at fair value through surplus or deficit at its initial recognition and, at that time, any remaining transactions are expected to occur.

AG4.51 It would not be acceptable to designate only some of the financial assets and financial liabilities giving rise to the inconsistency as at fair value through surplus or deficit if to do so would not eliminate or significantly reduce the inconsistency and would therefore not result in more relevant information. However, it would be acceptable to designate only some of a number of similar financial assets or similar financial liabilities if doing so achieves a significant reduction (and possibly a greater reduction than other allowable designations) in the inconsistency. For example, assume an entity has a number of similar financial liabilities that sum to R100 and a number of similar financial assets that sum to R50 but are measured on a different basis. The entity may significantly reduce the measurement inconsistency by designating at initial recognition all of the assets but only some of the liabilities (for example, individual liabilities with a combined total of R45) as at fair value through surplus or deficit. However, because designation as at fair value through surplus or deficit can be applied only to the whole of a financial instrument, the entity in this example must designate one or more liabilities in their entirety. It could not designate either a component of a liability (e.g. changes in value attributable to only one risk, such as changes in a benchmark interest rate) or a proportion (i.e. percentage) of a liability.

**A group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis**

AG4.52 An entity may manage and evaluate the performance of a group of financial liabilities or financial assets and financial liabilities in such a way that measuring that group at fair value through surplus or deficit results in more relevant information. The focus in this instance is on the way the entity manages and evaluates performance, instead of on the nature of its financial instruments.

AG4.53 For example, an entity may use this condition to designate financial liabilities as at fair value through surplus or deficit if it meets the principle in paragraph 4.8(b) and the entity has financial assets and financial liabilities that share one or more risks and those risks are managed and evaluated on a fair value basis in accordance with a documented policy of asset and liability management.

AG4.54 As noted above, this condition relies on the way the entity manages and evaluates performance of the group of financial instruments under consideration. Accordingly, (subject to the requirement of designation at initial recognition) an entity that designates financial liabilities as at fair value through surplus or deficit on the basis of this condition shall so designate all eligible financial liabilities that are managed and evaluated together.

AG4.55 Documentation of the entity's strategy need not be extensive but should be sufficient to demonstrate compliance with paragraph 4.8(b). Such documentation is not required for each individual item, but may be on a portfolio basis. For example, if the performance management system for an entity's Treasury function—as approved by the entity's management—clearly demonstrates that its performance is evaluated on this basis, no further documentation is required to demonstrate compliance with paragraph 4.8(b)

**Embedded derivatives (Paragraphs 4.9 to 4.15)**

AG4.56 When an entity becomes a party to a hybrid contract with a host that is not an asset within the scope of this Standard, paragraph 4.11 requires the entity to identify any embedded derivative, assess whether it is required to be separated from the host contract and, for those that are required to be separated, measure the derivatives at fair value at initial recognition and subsequently at fair value through surplus or deficit.

AG4.57 If a host contract has no stated or predetermined maturity and represents an interest in the net assets of an entity, then its economic characteristics and risks are those of a residual interest, and an embedded derivative would then need to possess characteristics of a residual interest related to the same entity to be regarded as closely related. If the host contract is not a residual interest and meets the definition of a financial instrument, then its economic characteristics and risks are those of a debt instrument.

- AG4.58 An embedded non-option derivative (such as an embedded forward or swap) is separated from its host contract on the basis of its stated or implied substantive terms, so as to result in it having a fair value of zero at initial recognition. An embedded option-based derivative (such as an embedded put, call, cap, floor or swaption) is separated from its host contract on the basis of the stated terms of the option feature. The initial carrying amount of the host instrument is the residual amount after separating the embedded derivative.
- AG4.59 Generally, multiple embedded derivatives in a single hybrid contract are treated as a single compound embedded derivative. However, embedded derivatives that are classified as residual interests (see paragraphs 3.3 to 3.14) are accounted for separately from those classified as assets or liabilities. In addition, if a hybrid contract has more than one embedded derivative and those derivatives relate to different risk exposures and are readily separable and independent of each other, they are accounted for separately from each other.
- AG4.60 The economic characteristics and risks of an embedded derivative are not closely related to the host contract in the following examples. In these examples, assuming the conditions in paragraph 4.11(b) and (c) are met, an entity accounts for the embedded derivative separately from the host contract.
- (a) A put option embedded in an instrument that enables the holder to require the issuer to reacquire the instrument for an amount of cash or other assets that varies on the basis of the change in an equity, commodity price or index is not closely related to a host debt instrument.
  - (b) An option or automatic provision to extend the remaining term to maturity of a debt instrument is not closely related to the host debt instrument unless there is a concurrent adjustment to the approximate current market rate of interest at the time of the extension. If an entity issues a debt instrument and the holder of that debt instrument writes a call option on the debt instrument to a third party, the issuer regards the call option as extending the term to maturity of the debt instrument provided the issuer can be required to participate in or facilitate the remarketing of the debt instrument as a result of the call option being exercised.
  - (c) Equity-indexed interest or principal payments embedded in a host debt instrument or insurance contract – by which the amount of interest or principal is indexed to the value of equity instruments — are not closely related to the host instrument because the risks inherent in the host and the embedded derivative are dissimilar.
  - (d) Commodity-indexed interest or principal payments embedded in a host debt instrument or insurance contract - by which the amount of interest or principal is indexed to the price of a commodity - are not closely related to the host instrument because the risks inherent in the host and the embedded derivative are dissimilar.
  - (e) A call, put, or prepayment option embedded in a host debt contract or host insurance contract is not closely related to the host contract unless:
    - (i) the option's exercise price is approximately equal on each exercise date to the amortised cost of the host debt instrument or the carrying amount of the host insurance contract; or
    - (ii) the exercise price of a prepayment option reimburses the lender for an amount up to the approximate present value of the lost interest for the remaining term of the host contract. Lost interest is the product of the principal amount prepaid multiplied by the interest differential. The interest rate differential is in excess of the effective interest rate of the host contract over the effective interest rate the entity would receive at the prepayment date if it reinvested the principal amount prepaid in a similar contract for the remaining term of the host contract.

The assessment of whether the call or put option is closely related to the host debt contract is made before separating the residual interest component of a convertible debt instrument in accordance with this Standard.
  - (f) Credit derivatives that are embedded in a host debt instrument and allow one party (the "beneficiary") to transfer the credit risk of a particular reference asset, which it may not own, to another party (the "guarantor") are not closely related to the host debt instrument. Such credit derivatives allow the guarantor to assume the credit risk associated with the reference asset without directly owning it.
- AG4.61 An example of a hybrid instrument is a financial instrument that gives the holder a right to put the financial instrument back to the issuer in exchange for an amount of cash or other financial assets that varies on the basis of the change in an equity or commodity index that may increase or decrease (a "puttable instrument"). Unless the issuer on initial recognition designates the puttable instrument as a financial liability at fair value through surplus or deficit, it is required to separate an embedded derivative (i.e. the indexed principal payment) under paragraph 4.11 because the host contract is a debt instrument under paragraph AG4.57 and the indexed principal payment is not closely related to a host debt instrument under paragraph AG4.60(a). Because the principal payment can increase and decrease, the embedded derivative is a non-option derivative whose value is indexed to the underlying variable.
- AG4.62 In the case of a puttable instrument that can be put back at any time for cash equal to a proportionate share of the net asset value of an entity, the effect of separating an embedded derivative and accounting for each component is to measure the hybrid contract at the redemption amount that is payable at the end of the reporting period if the holder exercised its right to put the instrument back to the issuer.
- AG4.63 The economic characteristics and risks of an embedded derivative are closely related to the economic characteristics and risks of the host contract in the following examples. In these examples, an entity does not account for the embedded derivative separately from the host contract.

- (a) An embedded derivative in which the underlying is an interest rate or interest rate index that can change the amount of interest that would otherwise be paid or received on an interest-bearing host debt contract or insurance contract is closely related to the host contract unless the hybrid contract can be settled in such a way that the holder would not recover substantially all of its recognised investment or the embedded derivative could at least double the holder's initial rate of return on the host contract and could result in a rate of return that is at least twice what the market return would be for a contract with the same terms as the host contract.
- (b) An embedded floor or cap on the interest rate on a debt contract or insurance contract is closely related to the host contract, provided the cap is at or above the market rate of interest and the floor is at or below the market rate of interest when the contract is issued, and the cap or floor is not leveraged in relation to the host contract. Similarly, provisions included in a contract to purchase or sell an asset (e.g. a commodity) that establish a cap and a floor on the price to be paid or received for the asset are closely related to the host contract if both the cap and floor were out of the money at inception and are not leveraged.
- (c) An embedded foreign currency derivative that provides a stream of principal or interest payments that are denominated in a foreign currency and is embedded in a host debt instrument (e.g. a dual currency bond) is closely related to the host debt instrument. Such a derivative is not separated from the host instrument because the Standard of GRAP on *The Effects of Changes in Foreign Exchange Rates* (GRAP 4) requires foreign currency gains and losses on monetary items to be recognised in surplus or deficit.
- (d) An embedded foreign currency derivative in a host contract that is an insurance contract or not a financial instrument (such as a contract for the purchase or sale of a non-financial item where the price is denominated in a foreign currency) is closely related to the host contract provided it is not leveraged, does not contain an option feature, and requires payments denominated in one of the following currencies:
  - (i) the functional currency of any substantial party to that contract;
  - (ii) the currency in which the price of the related good or service that is acquired or delivered is routinely denominated in commercial transactions around the world (such as the US dollar for crude oil transactions); or
  - (iii) a currency that is commonly used in contracts to purchase or sell non-financial items in the economic environment in which the transaction takes place (e.g. a relatively stable and liquid currency that is commonly used in local business transactions or external trade).
- (e) An embedded prepayment option in an interest-only or principal-only strip is closely related to the host contract provided the host contract (i) initially resulted from separating the right to receive contractual cash flows of a financial instrument that, in and of itself, did not contain an embedded derivative, and (ii) does not contain any terms not present in the original host debt contract.
- (f) An embedded derivative in a host lease contract is closely related to the host contract if the embedded derivative is (i) an inflation-related index such as an index of lease payments to a consumer price index (provided that the lease is not leveraged and the index relates to inflation in the entity's own economic environment), (ii) contingent rentals based on related sales or (iii) contingent rentals based on variable interest rates.
- (g) A unit-linking feature embedded in a host financial instrument or host insurance contract is closely related to the host instrument or host contract if the unit-denominated payments are measured at current unit values that reflect the fair values of the assets of the fund. A unit-linking feature is a contractual term that requires payments denominated in units of an internal or external investment fund.
- (h) A derivative embedded in an insurance contract is closely related to the host insurance contract if the embedded derivative and host insurance contract are so interdependent that an entity cannot measure the embedded derivative separately (i.e. without considering the host contract).

#### **Instruments containing embedded derivatives**

AG4.64 As noted in paragraph AG4.56, when an entity becomes a party to a hybrid (contract with a host that is not an asset within the scope of this Standard and with one or more embedded derivatives, paragraph 4.11 requires the entity to identify any such embedded derivative, assess whether it is required to be separated from the host contract and, for those that are required to be separated, measure the derivatives at fair value at initial recognition and subsequently. These requirements can be more complex, or result in less reliable measures, than measuring the entire instrument at fair value. For that reason this Standard permits entities to designate the entire instrument to be measured at fair value.

AG4.65 Such designation may be used whether paragraph 4.11 requires the embedded derivatives to be separated from the host contract or prohibits such separation. However, paragraph 4.13 would not justify designating the hybrid contract as at fair value in the cases set out in paragraph 4.13(a) and (b) because doing so would not reduce complexity or increase reliability.

#### **Reassessment of embedded derivatives**

AG4.66 In accordance with paragraph 4.11, an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly

modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. An entity determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed and whether the change is significant relative to the previously expected cash flows on the contract.

AG4.67 Paragraph AG4.66 does not apply to embedded derivatives in contracts acquired in:

- (a) a transfer of functions between entities not under common control (as defined in GRAP 106);
- (b) transfer of functions between entities under common control as described in the Standard of GRAP on *Transfers of Functions Between Entities Under Common Control*;
- (c) a merger as described in the Standard of GRAP on *Mergers*; or
- (d) the formation of a joint venture as defined in the Standard of GRAP on *Interests in Joint Ventures* or their possible reassessment at the date of transfer.

#### Reclassification of financial assets

##### Change in management model

AG4.68 Paragraph 4.16 requires an entity to reclassify financial assets if the entity changes its management model for managing those financial assets. Such changes are expected to be very infrequent. Such changes are determined by the entity's management as a result of external or internal changes and must be significant to the entity's operations and demonstrable to external parties. Accordingly, a change in an entity's management model will occur only when an entity either begins or ceases to perform an activity that is significant to its operations; for example, when the entity has acquired, disposed of or terminated an activity or function. Examples of a change in management model include the following:

- (a) A government agency extends loans to small business owners and has a management model to sell the loan portfolios to private entities at a discount due to the long collection cycle of these loans. The entity enters into a long term contract with a third party collection service provider, and the loan portfolios are no longer for sale, and are held to collect the contractual cash flows with the aid of the collections service provider.
- (b) A municipality held a portfolio of longer term fixed income securities to collect cash flows in order to finance a planned infrastructure project in the foreseeable future. A change in the municipality's plan resulted in the cancellation of the project and the portfolio is grouped into the regular investment portfolio that is regularly sold to meet its everyday liquidity needs in funding various programmes.

AG4.69 A change in the objective of the entity's management model must be effected before the reclassification date. Using the example in (a) above, if the entity decides on the 15<sup>th</sup> of February to no longer sell its loan portfolios to private entities it must reclassify all affected financial assets on 1 April (i.e. the first day of the entity's next reporting period). The entity must not sell any of its loans or otherwise engage in activities consistent with its former management model after the 15<sup>th</sup> of February.

AG4.70 The following are not changes in management model:

- (a) A change in intention related to particular financial assets (even in circumstances of significant changes in market conditions).
- (b) The temporary disappearance of a particular market for financial assets.
- (c) A transfer of financial assets between parts of the entity with different management models.

##### Investments in residual interests

AG4.71 A reclassification of an investment in residual interests between the fair value through surplus or deficit and cost categories is permitted, but only when an entity can no longer reliably measure the fair value of an investment in a residual interest.

AG4.72 An entity may also reclassify an instrument from cost to fair value through surplus or deficit, because the fair value of the instrument is now available. For example, an entity may not have been able to determine the fair value of an investment in a controlled entity because the controlled entity's objectives were to provide services rather than generate profits. If the objectives of the controlled entity change to provide goods and services at a commercial return, the entity could now determine a fair value based on a valuation technique using the cash flows generated by the entity.

**Chapter 5 – Measurement****Initial measurement****Initial measurement of financial assets and financial liabilities****Transaction costs (Paragraph 5.1)**

AG5.1 Where an entity subsequently measures financial assets and financial liabilities at fair value, it excludes transaction costs from the amount initially recognised. Where an entity subsequently measures financial assets and financial liabilities at amortised cost or cost, it includes transaction costs in the amount initially recognised.

**Determining fair value on initial recognition (Paragraph 5.1)**

AG5.2 The fair value of a financial instrument on initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received, see also paragraph AG5.52). However, if part of the consideration given or received is for something other than the financial instrument, the fair value of the financial instrument is estimated, using a valuation technique (see paragraphs AG5.40 to AG5.46). For example, the fair value of a long-term loan or similar receivable that carries no interest can be estimated as the present value of all future cash receipts discounted at the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating. Any additional amount lent is an expense, unless it qualifies for recognition as some other type of asset.

AG5.3 If an entity originates a loan that bears an off-market interest rate (e.g. 5% when the market rate for similar loans is 8%), and receives an up-front fee as compensation, the entity recognises the loan at its fair value, i.e. net of the fee it receives. The entity accretes the discount to surplus or deficit using the effective interest rate method.

AG5.4 The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received). If an entity determines that the fair value at initial recognition differs from the transaction price as mentioned in paragraph 5.2, the entity shall account for that instrument at that date as follows:

- (a) At the measurement required by paragraph 5.1 if that fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets. An entity shall recognise the difference between the fair value at initial recognition and the transaction price as a gain or loss.
- (b) In all other cases, at the measurement required by paragraph 5.1, adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the entity shall recognise that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

The requirements of this paragraph do not apply to concessionary loans or concessionary investments as outlined in paragraphs AG5.12 to AG5.27.

**Determining market interest rates (Paragraph 5.1)**

AG5.5 An entity determines a market related interest rate by considering the type of transaction and the counterparty involved. This means that an entity would use a rate for a similar transaction with similar terms, adjusted for the credit risk of the counterparty involved.

AG5.6 As a practical expedient, an entity may consider using the prime lending rate as a basis for determining a market related rate for a group of loans or receivables. For example, the prime lending rate could be used as a basis for determining a market related interest rate for consumer debtors. The prime lending rate would, however, need to be adjusted for any risks specific to those debtors.

AG5.7 Similarly it may be appropriate to use the government bond rate as a basis for determining a market related rate for debts owing to or from other government entities. The government bond rate should, however, match the maturity of the asset or liability, and should be adjusted for any other risk.

**Determining material financing transactions (Paragraph 5.1)**

AG5.8 The fair value of a short-term receivable or payable on initial recognition is the transaction price unless the terms of the arrangement are not market related, e.g. no interest or a below market rate of interest is charged for any initial credit period granted or received (i.e. the period between the date the receivable or payable is originated and the due date for payment).

AG5.9 Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation. For example, it is common practice for municipalities to allow consumers a period of time, after issuing an invoice, to settle their water and electricity accounts. Specific legislation may also prescribe credit terms for specific types of transactions or entities, which provide an indication of what appropriate credit terms are for certain transactions and events. Where the initial credit period granted is not in line with practices or legislation in the public sector, the effect of discounting is considered if it is material.

AG5.10 Once the due date for short-term receivables has elapsed and payment is not received, an entity shall consider whether there is any indication that the receivable may be impaired, either because interest is not levied on outstanding amounts (using a market related rate of interest), or because the principal amount may not be collected (see paragraphs 5.17 to 5.35 and AG 5.40 to AG5.115).

AG5.11 The following example illustrate the application of these requirements:

An entity provides goods and services to the public. Payment for these goods and services should be received within 30 days after the invoice date in accordance with legislation. Assume that the value of goods and services provided in one month is R1-million and that, based on past history,

- only 30% of the debtors pay within the 30 days,
- 50% of the debtors pay within 120 days of invoice date,
- 15% of the debtors pay after 120 days but before 210 days of the invoice date, and
- 5% will never pay.

Analysis:

The entity has provided interest free credit to its customers for a period of 30 days. This 30 day credit period is deemed to be appropriate for the entity's operations based on prevailing legislation. It therefore initially recognises R1-million as revenue and a receivable.

After the 30 day interest free credit period has elapsed, an entity shall consider whether late or non-payment by customers is an indication of impairment. The entity shall also consider whether an impairment loss exists if it does not charge a market related rate of interest on the outstanding balance.

### Concessionary loans (Paragraphs 5.4 to 5.6)

#### Overview

AG5.12 Concessionary loans are granted to or received by an entity at below market terms for a number of social or economic reasons. Examples of concessionary loans granted by entities include loans to other countries, emerging businesses to promote economic growth, student loans granted to qualifying students for tertiary education and housing loans granted to low income families. Entities may receive concessionary loans, for example, from development agencies and other government entities.

AG5.13 The terms of concessionary loans are not market-related for a number of reasons:

- (a) The loans often provide flexible repayment terms, or contingent repayment terms which are linked to the achievement of certain outcomes, e.g. earning a certain level of income, finding employment, attaining certain financial ratios, etc.
- (b) The loans may permit the taking of payment holidays, which are often exercised at the option of the borrower. Interest may or may not be levied during these periods.
- (c) The lender may not require the repayment of part or all of the capital advanced.
- (d) The interest charged may not be market related, if interest is charged at all.

#### Analysing the substance of concessionary loans

AG5.14 An entity assesses whether the substance of the concessionary loan is a loan by applying the principles in paragraphs 3.3 to 3.4. If an entity has determined that the transaction is a loan, it assesses whether the transaction price represents the fair value of the loan on initial recognition.

AG5.15 Where an entity grants concessionary loans it shall consider whether part of the consideration granted is a social benefit. Social benefits are defined broadly as cash transfers paid to individuals and households in a non-exchange transaction to protect them against certain social risks. An entity accounts for the components of a concessionary loan granted separately. The loan is recognised as a financial asset, while any social benefit is accounted for in accordance with the *Framework for the Preparation and Presentation of Financial Statements*<sup>2</sup>.

AG5.16 Where an entity receives a concessionary loan, it assesses on initial recognition whether part of the consideration received as a concessionary loan comprises a contribution from owners or non-exchange revenue. The entity accounts for the loan as a financial liability and contributions from owners and non-exchange revenue in accordance with GRAP 23.

#### Determining the fair value of concessionary loans

AG5.17 As concessionary loans are granted or received at below market terms, the transaction price on initial recognition of the loan may not be its fair value. An entity determines the fair value of the loan by using the principles in paragraphs AG5.5 to AG5.7 and paragraphs AG5.37 to AG5.46. Where an entity cannot determine fair value by reference to an active market, it uses a valuation technique. Fair value using a valuation technique would be determined by discounting all future contractual cash receipts using a market related rate of interest for a similar debt instrument with the same terms, maturity, currency and credit risk profile. An entity applies paragraph AG5.18 to determine the fair value of a purchased or originated credit impaired concessionary loan. At initial recognition, an entity analyses the substance of the loan granted or received into its component parts, and accounts for those components separately.

AG5.18 In measuring the fair value of a concessionary loan, an entity considers if the loan is credit impaired on initial recognition (see paragraphs AG2.24, and 5.28 to 5.29). If the loan is credit impaired, an entity measures the instrument at the fair value using the contractual cash flows of the instrument, including the expected credit losses

<sup>2</sup> 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*.

over the life of the instrument, and discounts the cash flows using the credit adjusted effective interest rate. An entity applies paragraph AG5.15 to account for the component parts and recognises the credit losses and social benefit together using the principles in the *Framework for the Preparation and Presentation of Financial Statements*<sup>1</sup>.

AG5.19 There is usually a high degree of judgement involved in determining the fair value of concessionary loans because they are often provided to further particular government policies, and as a result, there may be no equivalent market. As a result, an entity applies a valuation technique as outlined in paragraph AG5.40 to AG5.46. These valuation techniques make use of market-inputs as far as possible. When concessionary loans are credit impaired on purchase or origination, the existence of an equivalent market and market data may be unlikely. When a reliable measure of fair value cannot be determined using the techniques in paragraph AG5.40 to AG5.46 for such loans, an entity may apply a practical expedient. An entity may determine the fair value of a purchased or originated credit impaired concessionary loan by estimating the expected cash flows, including credit losses, and discounting the cash flows using a rate that best represents the time value of money.

AG5.20 The granting or receiving of a concessionary loan is distinguished from the waiver of debt owing to or by an entity. This distinction is important because it affects whether the below market conditions are considered in the initial recognition or measurement of the loan rather than as part of the subsequent measurement or derecognition.

AG5.21 The intention of a concessionary loan at the outset is to provide or receive resources at below market terms. A waiver of debt results from loans initially granted or received at market related terms where the intention of either party to the loan has changed subsequent to its initial issue or receipt. For example, a government may lend money to a not-for-profit entity with the intention that the loan be repaid in full on market terms. However, the government may subsequently write off part of the loan. This is not a concessionary loan as the intention of the loan at the outset was to provide credit to an entity at market related rates. An entity would treat the subsequent write-off of the loan as a waiver of debt and apply the derecognition requirements of this Standard.

#### **Commitments to provide concessionary loans**

AG5.22 Where an entity commits to provide a loan on concessionary terms to another party, it initially measures the loan commitment at fair value in accordance with paragraph 5.1. Where there is no reliable measure of fair value on initial recognition (and subsequently), the entity measures the loan commitment at the value of the loss allowance plus the value of any social benefit provided and is recognised as a social benefit in accordance with the Framework (see paragraphs 5.4 and AG5.33). An entity recognises the loan once it is drawn down (in whole or in part) by the borrower.

AG5.23 When an entity measures a commitment to provide a concessionary loan on the basis described in paragraph AG5.22, it determines the effective interest rate (or credit adjusted effective interest rate) on initial recognition. Subject to paragraphs AG5.54 to AG5.56, this rate is not changed each time there is a draw down on the commitment.

AG5.24 After initial recognition, an entity subsequently measures concessionary loans by applying the classification principles in paragraphs 4.1 to 4.8 as well as the impairment principles in paragraphs AG5.60 to AG5.115.

#### **Concessionary investments**

AG5.25 In the public sector, investments in residual interests can be used as a way for an entity to provide financing or subsidised funding to another public sector entity. In such a transaction, there is generally a lack of an active market for such investments (i.e. the investment is often not in any unitised capital of the entity, and if it is, the instruments are generally unquoted), and there are no or minimal future cash flow expectations from the investment besides a potential redemption by the issuing entity. Cash is provided by the investing entity to the investee generally to further the investee's economic or social objectives. Examples of such investments could include membership in a development bank, or equity investment in another public sector or other entity that provides certain social programmes or services (e.g. subsidised housing, small business assistance, promoting innovation in certain industries, etc.).

AG5.26 At initial recognition of such transactions, an entity analyses the substance of the arrangement and assesses whether the cash provided in full or in part, is in substance a grant or other transfer of resources, with the intention at the outset being provision or receipt of resources by way of a non-exchange transaction. Where the terms of the arrangement are unclear, the transaction is treated as an investment in the residual interest of another entity. However, to the extent that the transaction is a non-exchange transaction, any assets, revenue and/or contribution from owners arising from the transaction is accounted for in accordance with GRAP 23. The entity providing the grant or other transfer of resources recognises any social benefit in accordance with the *Framework for the Preparation and Presentation of Financial Statements*<sup>1</sup>.

AG5.27 To the extent that an investment gives rise to a residual interest in the other entity that is in the scope of this Standard, it is recognised initially at fair value in accordance with paragraph 5.1. The investment is measured subsequently in accordance with paragraphs 5.7 to 5.8. If the instrument does not have an active market, the entity shall consider valuation techniques and inputs in AG5.40 to AG5.46 in determining the fair value, and if no reliable measure of fair value is available, at cost in accordance with paragraph 4.5

#### **Valuing financial guarantees issued in a non-exchange transaction**

AG5.28 In terms of the requirements of this Standard, financial guarantee contracts issued by an entity, like other financial liabilities, are required to be initially recognised at fair value. The subsequent measurement of financial guarantee contracts is the higher of the amount of the loss allowance determined in accordance with paragraph 4.7 and the amount initially recognised less, when appropriate, cumulative revenue recognised in accordance with GRAP 9.

AG5.29 In the public sector, guarantees are frequently issued in non-exchange transactions, i.e., at no or nominal consideration. This type of guarantee is provided generally to further the entity's economic and social objectives.

Such purposes include supporting infrastructure projects, public-private partnerships, supporting corporate entities at times of economic distress, and guaranteeing the bond issues or debt of entities in other spheres of government or within economic entities. Where there is consideration for a financial guarantee, an entity should determine whether that consideration arises from an exchange transaction and whether the consideration represents a fair value. If the consideration represents a fair value, an entity recognises the financial guarantee at the amount of the consideration (see paragraph AG1.6(a)). Where an entity concludes that the consideration is not a fair value, an entity measures the financial guarantee contract at initial recognition in the same way as if no consideration had been paid.

AG5.30 At initial recognition, where no fee is charged or where the fee charged does not represent fair value, an entity firstly considers whether there are quoted prices available in an active market for directly equivalent financial guarantee contracts. Evidence of an active market includes recent arm's length market transactions between knowledgeable willing parties, and reference to the current fair value of another financial guarantee contract that is substantially the same as that provided at no or nominal consideration by the issuer. The fact that a financial guarantee contract has been entered into at no consideration by the debtor to the issuer is not, of itself, conclusive evidence of the absence of an active market. Guarantees may be available from commercial issuers, but a public sector entity may agree to enter into a financial guarantee contract for a number of non-commercial reasons. For example, if a debtor is unable to afford a commercial fee, and initiation of a project in fulfilment of one of the entity's social or policy objectives would be put at risk unless a financial guarantee contract is issued, it may approach a public sector entity or government to issue a financial guarantee contract.

AG5.31 Where there is no active market for a directly equivalent guarantee contract; the entity considers whether a valuation technique other than observation of an active market is available and provides a reliable measure of fair value. Such a valuation technique may rely on mathematical models which consider financial risk. For example, National Government guarantees a bond issue of Agency X. As Agency X has a government guarantee backing its bond issue, its bonds have a lower coupon than if they were not secured by a government guarantee. This is because the guarantee lowers the risk profile of the bonds for investors. The guarantee fee could be determined by using the credit spread between what the coupon rate would have been had the issue not been backed by a government guarantee and the rate with the guarantee in place. Where a fair value is obtainable either by observation of an active market or through another valuation technique, the entity recognises the financial guarantee at that fair value in the statement of financial position and recognises an expense of an equivalent amount in the statement of financial performance. When using a valuation technique that is not based on observation of an active market an entity needs to satisfy itself that the output of any model is reliable and understandable.

AG5.32 If no reliable measure of fair value can be determined, either by direct observation of an active market or through another valuation technique, an entity measures the financial guarantee contract issued initially at the loss allowance in accordance with paragraph 4.7(c).

#### Valuing loan commitments

AG5.33 In terms of paragraph 5.1, an entity measures loan commitments initially at their fair value. This is most likely to equal any commitment fee charged. As with financial guarantee contracts, if an entity is unable to determine a reliable measure of fair value of the loan commitment on initial recognition, an entity recognises the loan commitment at the loss allowance (see paragraphs AG5.89 and AG5.91). However, if an entity commits to provide a concessionary loan to another party and the fair value of the loan commitment cannot be measured reliably, an entity measures the loan commitment initially at the loss allowance plus the value of the social benefit provided and recognises this amount in accordance with paragraph 5.4.

#### Subsequent measurement

AG5.34 If a financial instrument that was previously recognised as a financial asset is measured at fair value and its fair value falls below zero, it is a financial liability measured in accordance with paragraph 5.9. However, hybrid contracts with hosts that are assets within the scope of this Standard are always measured in accordance with paragraph 4.10.

#### Fair value measurement considerations (Paragraphs 5.10 to 5.12)

AG5.35 Underlying the definition of fair value is a presumption that an entity is a going concern without any intention or need to liquidate, to curtail materially the scale of its operations or to undertake a transaction on adverse terms. Fair value is not, therefore, the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale. However, fair value reflects the credit quality of the instrument.

AG5.36 This Standard uses the terms "bid price" and "asking price" (sometimes referred to as "current offer price") in the context of quoted market prices, and the term "the bid-ask spread" to include only transaction costs. Other adjustments to arrive at fair value (e.g. for counterparty credit risk) are not included in the term "bid-ask spread".

#### Active market: quoted price

AG5.37 A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. Fair value is defined in terms of a price agreed by a willing buyer and a willing seller in an arm's length transaction. The objective of determining fair value for a financial instrument that is traded in an active market is to arrive at the price at which a transaction would occur at the end of the reporting period in that instrument (i.e. without modifying or repackaging the instrument) in the most advantageous active market to which the entity has immediate access. However, the entity adjusts the price in the more advantageous market to reflect any differences in counterparty credit risk between instruments traded in that market and the one being valued. The existence of published price quotations in an active market is the best evidence of fair value. When they exist they are used to measure the financial asset or financial liability.



- AG5.38 The appropriate quoted market price for an asset held or liability to be issued is usually the current bid price and, for an asset to be acquired or liability held, the asking price. When an entity has assets and liabilities with offsetting market risks, it may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. When current bid and asking prices are unavailable, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. If conditions have changed since the time of the transaction (e.g. a change in the risk-free interest rate following the most recent price quote for a government bond), the fair value reflects the change in conditions by reference to current prices or rates for similar financial instruments, as appropriate. Similarly, if the entity can demonstrate that the last transaction price is not fair value (e.g. because it reflected the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted. The fair value of a portfolio of financial instruments is the product of the number of units of the instrument and its quoted market price. If a published price quotation in an active market does not exist for a financial instrument in its entirety, but active markets exist for its component parts, fair value is determined on the basis of the relevant market prices for the component parts.
- AG5.39 If a rate (rather than a price) is quoted in an active market, the entity uses that market-quoted rate as an input into a valuation technique to determine fair value. If the market-quoted rate does not include credit risk or other factors that market participants would include in valuing the instrument, the entity adjusts for those factors.
- No active market: valuation technique**
- AG5.40 If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique.
- AG5.41 The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Fair value is estimated on the basis of the results of a valuation technique that makes maximum use of market inputs, and relies as little as possible on entity-specific inputs. A valuation technique would be expected to arrive at a realistic estimate of the fair value if:
- (a) it reasonably reflects how the market could be expected to price the instrument; and
  - (b) the inputs to the valuation technique reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.
- AG5.42 Therefore, a valuation technique (a) incorporates all factors that market participants would consider in setting a price and (b) is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data. An entity obtains market data consistently in the same market where the instrument was originated or purchased. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is shown by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging), or based on a valuation technique whose variables include only data from observable markets.
- AG5.43 The subsequent measurement of the financial asset or financial liability and the subsequent recognition of gains and losses shall be consistent with the requirements of this Standard. The application of paragraph AG5.42 may result in no gain or loss being recognised on the initial recognition of a financial asset or financial liability. In such a case, this Standard requires that a gain or loss shall be recognised after initial recognition only to the extent that it arises from a change in a factor (including time) that market participants would consider in setting a price.
- AG5.44 The initial acquisition or origination of a financial asset or incurrence of a financial liability is a market transaction that provides a foundation for estimating the fair value of the financial instrument. In particular, if the financial instrument is a debt instrument (such as a loan), its fair value can be determined by reference to the market conditions that existed at its acquisition or origination date and current market conditions or interest rates currently charged by the entity or by others for similar debt instruments (i.e. similar remaining maturity, cash flow pattern, currency, credit risk, collateral and interest basis). Alternatively, provided there is no change in the credit risk of the debtor and applicable credit spreads after the origination of the debt instrument, an estimate of the current market interest rate may be derived by using a benchmark interest rate reflecting a better credit quality than the underlying debt instrument, holding the credit spread constant, and adjusting for the change in the benchmark interest rate from the origination date. If conditions have changed since the most recent market transaction, then the corresponding change in the fair value of the financial instrument being valued is determined by reference to current prices or rates for similar financial instruments, adjusted as appropriate, for any differences from the instrument being valued.
- AG5.45 The same information may not be available at each measurement date. For example, at the date that an entity makes a loan or acquires a debt instrument that is not actively traded, the entity has a transaction price that is also a market price. However, no new transaction information may be available at the next measurement date and, although the entity can determine the general level of market interest rates, it may not know what level of credit or other risk market participants would consider in pricing the instrument on that date. An entity may not have information from recent transactions to determine the appropriate credit spread over the basic interest rate to use in determining a discount rate for a present value computation. It would be reasonable to assume, in the absence of evidence to the contrary, that no changes have taken place in the spread that existed at the date the loan was made. However, the entity would be expected to make reasonable efforts to determine whether there is evidence that there has been a change in such

factors. When evidence of a change exists, the entity would consider the effects of the change in determining the fair value of the financial instrument.

- AG5.46 In applying discounted cash flow analysis, an entity uses one or more discount rates equal to the prevailing rates of return for financial instruments having substantially the same terms and characteristics, including the credit quality of the instrument, the remaining term over which the contractual interest rate is fixed, the remaining term to repayment of the principal and the currency in which payments are to be made. Short-term receivables and payables with no stated interest rate may be measured at the original invoice amount if the effect of discounting is immaterial (see paragraphs AG5.8 to AG5.11).

**No active market: investments in residual interests**

- AG5.47 The fair value of investments in residual interests that do not have a quoted market price in an active market is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that instrument or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

- AG5.48 There are situations in which the variability in the range of reasonable fair value estimates of investments in residual interests that do not have a quoted market price is likely not to be significant. It may, however, be particularly difficult to determine the fair value of a residual interest of an entity whose main objective is to provide a public service rather than generate cash flows or make a profit. If a fair value cannot be determined for an investment in a residual interest because the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, as a practical expedient, an entity measures such instruments at cost.

**Inputs to valuation techniques**

- AG5.49 An appropriate technique for estimating the fair value of a particular financial instrument would incorporate observable market data about the market conditions and other factors that are likely to affect the instrument's fair value. The fair value of a financial instrument will be based on one or more of the following factors (and perhaps others).

- (a) *The time value of money (i.e. interest at the basic or risk-free rate)*. Basic interest rates can usually be derived from observable government bond prices and are often quoted in financial publications. These rates typically vary with the expected dates of the projected cash flows along a yield curve of interest rates for different time horizons. For practical reasons, an entity may use a well-accepted and readily observable general rate, such as an interbank rate or prime lending rate, as the benchmark rate. (Since these rates are not the risk-free interest rate, the credit risk adjustment appropriate to the particular financial instrument is determined on the basis of its credit risk in relation to the credit risk in this benchmark rate.)
- (b) *Credit risk*. The effect on fair value of credit risk (i.e. the premium over the basic interest rate for credit risk) may be derived from observable market prices for traded instruments of different credit quality or from observable interest rates charged by lenders for loans of various credit ratings.
- (c) *Foreign currency exchange prices*. Active currency exchange markets exist for most major currencies, and prices are quoted daily in financial publications.
- (d) *Commodity prices*. There are observable market prices for many commodities.
- (e) *Prices of equity instruments*. Prices (and indexes of prices) of traded equity instruments are readily observable in some markets. Present value based techniques may be used to estimate the current market price of equity instruments for which there are no observable prices.
- (f) *Volatility (i.e. magnitude of future changes in price of the financial instrument or other item)*. Measures of the volatility of actively traded items can normally be reasonably estimated on the basis of historical market data or by using volatilities implied in current market prices.
- (g) *Prepayment risk and surrender risk*. Expected prepayment patterns for financial assets and expected surrender patterns for financial liabilities can be estimated on the basis of historical data. (The fair value of a financial liability that can be surrendered by the counterparty cannot be less than the present value of the surrender amount - see paragraph 5.12.)
- (h) *Servicing costs for a financial asset or a financial liability*. Costs of servicing can be estimated using comparisons with current fees charged by other market participants. If the costs of servicing a financial asset or financial liability are significant and other market participants would face comparable costs, the issuer would consider them in determining the fair value of that financial asset or financial liability. It is likely that the fair value at inception of a contractual right to future fees equals the origination costs paid for them, unless future fees and related costs are out of line with market comparables.

**Amortised cost measurement (Paragraphs 5.13 to 5.16)**

**Effective interest method**

- AG5.50 In applying the effective interest method, an entity identifies fees that are an integral part of the effective interest rate of a financial instrument. The description of fees for financial services may not be indicative of the nature and substance of the services provided. Fees that are an integral part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate, unless the financial instrument is measured at fair value, with the change in fair value being recognised in surplus or deficit. In those cases, the fees are recognised as revenue or expense when the instrument is initially recognised.

- AG5.51 Fees that are an integral part of the effective interest rate of a financial instrument include:

- (a) Origination fees received by the entity relating to the creation or acquisition of a financial asset. Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and

recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction. These fees are an integral part of generating an involvement with the resulting financial instrument.

- (b) Commitment fees received by the entity to originate a loan and it is probable that the entity will enter into a specific lending arrangement. These fees are regarded as compensation for an ongoing involvement with the acquisition of a financial instrument. If the commitment expires without the entity making the loan, the fee is recognised as revenue on expiry.
- (c) Origination fees paid on issuing financial liabilities measured at amortised cost. These fees are an integral part of generating an involvement with a financial liability. An entity distinguishes fees and costs that are an integral part of the effective interest rate for the financial liability from origination fees and transaction costs relating to the right to provide services, such as investment management services.

AG5.52 Fees that are not an integral part of the effective interest rate of a financial instrument and are accounted for in accordance with GRAP 9 include:

- (a) fees charged for servicing a loan;
- (b) commitment fees to originate a loan when it is unlikely that a specific lending arrangement will be entered into; and
- (c) loan syndication fees received by an entity that arranges a loan and retains no part of the loan package for itself (or retains a part at the same effective interest rate for comparable risk as other participants).

AG5.53 When applying the effective interest method, an entity generally amortises any fees, points paid or received, transaction costs and other premiums or discounts that are included in the calculation of the effective interest rate over the expected life of the instrument. However, a shorter period is used if this is the period to which the fees, points paid or received, transaction costs, premiums or discounts relate. This will be the case when the variable to which the fees, points paid or received, transaction costs, premiums or discounts relate is repriced to market rates before the expected maturity of the financial instrument. In such a case, the appropriate amortisation period is the period to the next such repricing date. For example, if a premium or discount on a floating rate instrument reflects the interest that has accrued on that financial instrument since interest was last paid, or changes in market rates since the floating interest rate was reset to market rates, it will be amortised to the next date when the floating interest is reset to market rates. This is because the premium or discount relates to the period to the next interest reset date because, at that date, the variable to which the premium or discount relates (i.e. interest rates) is reset to market rates. If, however, the premium or discount results from a change in the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates, it is amortised over the expected life of the financial instrument.

AG5.54 For floating rate financial assets and floating rate financial liabilities, periodic re-estimation of cash flows to reflect movements in market rates of interest alters the effective interest rate. If a floating rate financial asset or floating rate financial liability is recognised initially at an amount equal to the principal receivable or payable on maturity, re-estimating the future interest payments normally has no significant effect on the carrying amount of the asset or liability.

AG5.55 If an entity revises its estimates of payments or receipts (excluding modifications in accordance with paragraph 5.15 and changes in estimates of credit losses), it shall adjust the gross carrying amount of the financial asset or amortised cost of a financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows. The entity recalculates the gross carrying amount of the financial asset or amortised cost of the financial liability as the present value of the estimated future contractual cash flows that are discounted at the financial instrument's original effective interest rate (or credit adjusted effective interest rate for purchased or originated credit impaired financial assets). The adjustment is recognised in surplus or deficit as revenue or expense.

AG5.56 In some cases a financial asset is considered credit-impaired at initial recognition because the credit risk is very high, and in the case of a purchase it is acquired at a deep discount. An entity is required to include the initial expected credit losses in the estimated cash flows when calculating the credit-adjusted effective interest rate for financial assets that are considered to be purchased or originated credit-impaired at initial recognition. However, this does not mean that a credit-adjusted effective interest rate should be applied solely because the financial asset has high credit risk at initial recognition.

#### Transaction costs

AG5.57 Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

#### Write-off

AG5.58 The legal write-off of debt is usually governed by legislation, regulation or similar means in the public sector. Debts owing to the state are generally written off when all reasonable steps have been taken to recover the debt and it is irrecoverable, or recovery of the debt would be uneconomical, cause undue hardship, or it would be to the advantage of the state to settle the claim. An entity considers substance over form when recognising write-offs.

AG5.59 Write-offs can relate to a financial asset in its entirety or to a portion of it. For example, an entity plans to enforce the collateral on a financial asset and expects to recover no more than 30 percent of the financial asset from the collateral. If the entity has no reasonable prospects of recovering any further cash flows from the financial asset, it should write off the remaining 70 per cent of the financial asset.

#### Impairment

#### Collective and individual assessment basis

- AG5.60 In order to meet the objective of recognising lifetime expected credit losses for significant increases in credit risk since initial recognition, it may be necessary to perform the assessment of significant increases in credit risk on a collective basis by considering information that is indicative of significant increases in credit risk on, for example, a group or subgroup of financial instruments. This is to ensure that an entity meets the objective of recognising lifetime expected credit losses when there are significant increases in credit risk, even if evidence of such significant increases in credit risk at the individual instrument level is not yet available.
- AG5.61 Lifetime expected credit losses are generally expected to be recognised before a financial instrument becomes past due. Typically, credit risk increases significantly before a financial instrument becomes past due or other lagging borrower-specific factors (for example, a modification or restructuring) are observed. Consequently when reasonable and supportable information that is more forward-looking than past due information is available without undue cost or effort, it must be used to assess changes in credit risk.
- AG5.62 However, depending on the nature of the financial instruments and the credit risk information available for particular groups of financial instruments, an entity may not be able to identify significant changes in credit risk for individual financial instruments before the financial instrument becomes past due. This may be the case for financial instruments, such as concessionary loans to small businesses in a particular sector, for which there is little or no updated credit risk information that is routinely obtained and monitored on an individual instrument until the borrower breaches the contractual terms. If changes in the credit risk for individual financial instruments are not captured before they become past due, a loss allowance based only on credit information at an individual financial instrument level would not faithfully represent the changes in credit risk since initial recognition.
- AG5.63 In some circumstances an entity does not have reasonable and supportable information that is available without undue cost or effort to measure lifetime expected credit losses on an individual instrument basis. In that case, lifetime expected credit losses shall be recognised on a collective basis that considers comprehensive credit risk information. This comprehensive credit risk information must incorporate not only past due information but also all relevant credit information, including forward-looking macroeconomic information, in order to approximate the result of recognising lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition on an individual instrument level.
- AG5.64 For the purpose of determining significant increases in credit risk and recognising a loss allowance on a collective basis, an entity can group financial instruments on the basis of shared credit risk characteristics with the objective of facilitating an analysis that is designed to enable significant increases in credit risk to be identified on a timely basis. The entity should not obscure this information by grouping financial instruments with different risk characteristics. Examples of shared credit risk characteristics may include, but are not limited to, the:
- (a) instrument type;
  - (b) credit risk ratings;
  - (c) collateral type;
  - (d) date of initial recognition;
  - (e) remaining term to maturity;
  - (f) industry;
  - (g) geographical location of the borrower; and
  - (h) the value of collateral relative to the financial asset if it has an impact on the probability of a default occurring.
- AG5.65 Paragraph 5.19 requires that lifetime expected credit losses are recognised on all financial instruments for which there has been significant increases in credit risk since initial recognition. In order to meet this objective, if an entity is not able to group financial instruments for which the credit risk is considered to have increased significantly since initial recognition based on shared credit risk characteristics, the entity should recognise lifetime expected credit losses on a portion of the financial assets for which credit risk is deemed to have increased significantly. The aggregation of financial instruments to assess whether there are changes in credit risk on a collective basis may change over time as new information becomes available on groups of, or individual, financial instruments.

#### Timing of recognising lifetime expected credit losses

- AG5.66 The assessment of whether lifetime expected credit losses should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition (irrespective of whether a financial instrument has been repriced to reflect an increase in credit risk) instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring. Generally, there will be a significant increase in credit risk before a financial asset becomes credit-impaired or an actual default occurs.
- AG5.67 For loan commitments, an entity considers changes in the risk of a default occurring on the loan to which a loan commitment relates. For financial guarantee contracts, an entity considers the changes in the risk that the specified debtor will default on the contract.
- AG5.68 The significance of a change in the credit risk since initial recognition depends on the risk of a default occurring as at initial recognition. Thus, a given change, in absolute terms, in the risk of a default occurring will be more significant for a financial instrument with a lower initial risk of a default occurring compared to a financial instrument with a higher initial risk of a default occurring.
- AG5.69 The risk of a default occurring on financial instruments that have comparable credit risk is higher the longer the expected life of the instrument; for example, the risk of a default occurring on an AAA-rated bond with an expected life of 10 years is higher than that on an AAA-rated bond with an expected life of 5 years.

- AG5.70 Because of the relationship between the expected life and the risk of a default occurring, the change in credit risk cannot be assessed simply by comparing the change in the absolute risk of a default occurring over time. For example, if the risk of a default occurring for a financial instrument with an expected life of 10 years at initial recognition is identical to the risk of a default occurring on that financial instrument when its expected life in a subsequent period is only 5 years, that may indicate an increase in credit risk. This is because the risk of a default occurring over the expected life usually decreases as time passes if the credit risk is unchanged and the financial instrument is closer to maturity. However, for financial instruments that only have significant payment obligations close to the maturity of the financial instrument the risk of a default occurring may not necessarily decrease as time passes. In such a case, an entity should also consider other qualitative factors that would demonstrate whether credit risk has increased significantly since initial recognition.
- AG5.71 An entity may apply various approaches when assessing whether the credit risk on a financial instrument has increased significantly since initial recognition or when measuring expected credit losses. An entity may apply different approaches for different financial instruments. An approach that does not include an explicit probability of default as an input per se, such as a credit loss rate approach, can be consistent with the requirements in this Standard, provided that an entity is able to separate the changes in the risk of a default occurring from changes in other drivers of expected credit losses, such as collateral, and considers the following when making the assessment:
- (a) the change in the risk of a default occurring since initial recognition;
  - (b) the expected life of the financial instrument; and
  - (c) reasonable and supportable information that is available without undue cost or effort that may affect credit risk.
- AG5.72 The methods used to determine whether credit risk has increased significantly on a financial instrument since initial recognition should consider the characteristics of the financial instrument (or group of financial instruments) and the default patterns in the past for comparable financial instruments. Despite the requirement in paragraph 5.24, for financial instruments for which default patterns are not concentrated at a specific point during the expected life of the financial instrument, changes in the risk of a default occurring over the next 12 months may be a reasonable approximation of the changes in the lifetime risk of a default occurring. In such cases, an entity may use changes in the risk of a default occurring over the next 12 months to determine whether credit risk has increased significantly since initial recognition, unless circumstances indicate that a lifetime assessment is necessary.
- AG5.73 However, for some financial instruments, or in some circumstances, it may not be appropriate to use changes in the risk of a default occurring over the next 12 months to determine whether lifetime expected credit losses should be recognised. For example, the change in the risk of a default occurring in the next 12 months may not be a suitable basis for determining whether credit risk has increased on a financial instrument with a maturity of more than 12 months when:
- (a) the financial instrument only has significant payment obligations beyond the next 12 months;
  - (b) changes in relevant macroeconomic or other credit-related factors occur that are not adequately reflected in the risk of a default occurring in the next 12 months; or
  - (c) changes in credit-related factors only have an impact on the credit risk of the financial instrument (or have a more pronounced effect) beyond 12 months.

#### **Determining whether credit risk has increased significantly since initial recognition**

- AG5.74 When determining whether the recognition of lifetime expected credit losses is required, an entity shall consider reasonable and supportable information that is available without undue cost or effort and that may affect the credit risk on a financial instrument in accordance with paragraph 5.32(c). An entity need not undertake an exhaustive search for information when determining whether credit risk has increased significantly since initial recognition.
- AG5.75 Credit risk analysis is a multifactor and holistic analysis; whether a specific factor is relevant, and its weight compared to other factors, will depend on the type of product, characteristics of the financial instruments and the borrower as well as the geographical region. An entity shall consider reasonable and supportable information that is available without undue cost or effort and that is relevant for the particular financial instrument being assessed. However, some factors or indicators may not be identifiable on an individual financial instrument level. In such a case, the factors or indicators should be assessed for appropriate portfolios, groups of portfolios or portions of a portfolio of financial instruments to determine whether the requirement in paragraph 5.18 for the recognition of lifetime expected credit losses has been met.
- AG5.76 The following non-exhaustive list of information may be relevant in assessing changes in credit risk:
- (a) Significant changes in internal price indicators of credit risk as a result of a change in credit risk since inception, including, but not limited to, the credit spread that would result if a particular financial instrument or similar financial instrument with the same terms and the same counterparty were newly originated or issued at the reporting date.
  - (b) Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated or issued at the reporting date (such as more stringent covenants, increased amounts of collateral or guarantees, or higher income coverage) because of changes in the credit risk of the financial instrument since initial recognition.
  - (c) Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instruments with the same expected life. Changes in market indicators of credit risk include, but are not limited to:
    - (i) the credit spread;

- (ii) the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost; and
  - (iii) other market information related to the borrower, such as changes in the price of a borrower's debt and equity instruments.
- (d) An actual or expected significant change in the financial instrument's external credit rating.
  - (e) An actual or expected internal credit rating downgrade for the borrower or decrease in behavioural scoring used to assess credit risk internally. Internal credit ratings and internal behavioural scoring are more reliable when they are mapped to external ratings or supported by default studies.
  - (f) Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its debt obligations, such as an actual or expected increase in interest rates or an actual or expected significant increase in unemployment rates.
  - (g) An actual or expected significant change in the operating results of the borrower. Examples include actual or expected declining revenues or margins, increasing operating risks, working capital deficiencies, decreasing asset quality, increased leverage, liquidity, management problems or changes in the scope of operations or organisational structure (such as the discontinuance of a segment) that results in a significant change in the borrower's ability to meet its debt obligations.
  - (h) Significant increases in credit risk on other financial instruments of the same borrower.
  - (i) An actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations, such as a decline in the demand for the borrower's goods or services because of a shift in technology.
  - (j) Significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements, which are expected to reduce the borrower's economic incentive to make scheduled contractual payments or to otherwise have an effect on the probability of a default occurring. For example, if the value of collateral declines because house prices decline, borrowers may have a greater incentive to default on their mortgages.
  - (k) A significant change in the quality of the guarantee provided by an owner (or an individual's guarantors) if the owner or guarantors have an incentive and financial ability to prevent default by capital or cash infusion.
  - (l) Significant changes, such as reductions in financial support from a controlling entity or other affiliate or an actual or expected significant change in the quality of credit enhancement, that are expected to reduce the borrower's economic incentive to make scheduled contractual payments. Credit quality enhancements or support include the consideration of the financial condition of the guarantor and/or, for interests issued in securitisations, whether subordinated interests are expected to be capable of absorbing expected credit losses (for example, on the loans underlying the security).
  - (m) Expected changes in the loan documentation including an expected breach of contract that may lead to covenant waivers or amendments, interest payment holidays, interest rate step-ups, requiring additional collateral or guarantees, or other changes to the contractual framework of the instrument.
  - (n) Significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the economic entity (for example, an increase in the expected number or extent of delayed contractual payments).
  - (o) Changes in the entity's credit management approach in relation to the financial instrument; i.e. based on emerging indicators of changes in the credit risk of the financial instrument, the entity's credit risk management practice is expected to become more active or to be focused on managing the instrument, including the instrument becoming more closely monitored or controlled, or the entity specifically intervening with the borrower.
  - (p) Past due information, including the rebuttable presumption as set out in paragraph 5.26.

AG5.77 In some cases, the qualitative and non-statistical quantitative information available may be sufficient to determine that a financial instrument has met the criterion for the recognition of a loss allowance at an amount equal to lifetime expected credit losses. That is, the information does not need to flow through a statistical model or credit ratings process in order to determine whether there has been a significant increase in the credit risk of the financial instrument. In other cases, an entity may need to consider other information, including information from its statistical models or credit ratings processes. Alternatively, the entity may base the assessment on both types of information, i.e. qualitative factors that are not captured through the internal ratings process and a specific internal rating category at the reporting date, taking into consideration the credit risk characteristics at initial recognition, if both types of information are relevant.

**More than 30 days past due rebuttable presumption**

AG5.78 The rebuttable presumption in paragraph 5.26 is not an absolute indicator that lifetime expected credit losses should be recognised, but is presumed to be the latest point at which lifetime expected credit losses should be recognised even when using forward-looking information (including macroeconomic factors on a portfolio level).

AG5.79 An entity can rebut this presumption. However, it can do so only when it has reasonable and supportable information available that demonstrates that even if contractual payments become more than 30 days past due, this does not represent a significant increase in the credit risk of a financial instrument. For example when non-payment was an administrative oversight, instead of resulting from financial difficulty of the borrower, or the entity has access to historical evidence that demonstrates that there is no correlation between significant increases in the risk of a default

occurring and financial assets on which payments are more than 30 days past due, but that evidence does identify such a correlation when payments are more than 60 days past due.

AG5.80 An entity cannot align the timing of significant increases in credit risk and the recognition of lifetime expected credit losses to when a financial asset is regarded as credit-impaired or an entity's internal definition of default.

**Financial instruments that have low credit risk at the reporting date**

AG5.81 The credit risk on a financial instrument is considered low for the purposes of paragraph 5.25, if the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and operational conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. Financial instruments are not considered to have low credit risk when they are regarded as having a low risk of loss simply because of the value of collateral and the financial instrument without that collateral would not be considered low credit risk. Financial instruments are also not considered to have low credit risk simply because they have a lower risk of default than the entity's other financial instruments or relative to the credit risk of the environment within which an entity operates.

AG5.82 To determine whether a financial instrument has low credit risk, an entity may use its internal credit risk ratings or other methodologies that are consistent with a globally understood definition of low credit risk and that consider the risks and the type of financial instruments that are being assessed. An external rating of 'investment grade' is an example of a financial instrument that may be considered as having low credit risk. However, financial instruments are not required to be externally rated to be considered to have low credit risk. They should, however, be considered to have low credit risk from a market participant perspective taking into account all of the terms and conditions of the financial instrument.

AG5.83 Lifetime expected credit losses are not recognised on a financial instrument simply because it was considered to have low credit risk in the previous reporting period and is not considered to have low credit risk at the reporting date. In such a case, an entity shall determine whether there has been a significant increase in credit risk since initial recognition and thus whether lifetime expected credit losses are required to be recognised in accordance with paragraph 5.18.

**Modifications**

AG5.84 In some circumstances, the renegotiation or modification of the contractual cash flows of a financial asset can lead to the derecognition of the existing financial asset in accordance with this Standard. When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a "new" financial asset for the purposes of this Standard.

AG5.85 Accordingly the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset. This typically means measuring the loss allowance at an amount equal to 12-month expected credit losses until the requirements for the recognition of lifetime expected credit losses in paragraph 5.18 are met. However, in some unusual circumstances following a modification that results in derecognition of the original financial asset, there may be evidence that the modified financial asset is credit-impaired at initial recognition, and thus, the financial asset should be recognised as an originated credit-impaired financial asset. This might occur, for example, in a situation in which there was a substantial modification of a distressed asset that resulted in the derecognition of the original financial asset. In such a case, it may be possible for the modification to result in a new financial asset which is credit-impaired at initial recognition.

AG5.86 If the contractual cash flows on a financial asset have been renegotiated or otherwise modified, but the financial asset is not derecognised, that financial asset is not automatically considered to have lower credit risk. An entity shall assess whether there has been a significant increase in credit risk since initial recognition on the basis of all reasonable and supportable information that is available without undue cost or effort. This includes historical and forward-looking information and an assessment of the credit risk over the expected life of the financial asset, which includes information about the circumstances that led to the modification. Evidence that the criteria for the recognition of lifetime expected credit losses are no longer met may include a history of up-to-date and timely payment performance against the modified contractual terms. Typically a borrower would need to demonstrate consistently good payment behaviour over a period of time before the credit risk is considered to have decreased. For example, a history of missed or incomplete payments would not typically be erased by simply making one payment on time following a modification of the contractual terms.

**Measurement of expected credit losses**

**Expected credit losses**

AG5.87 Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. Because expected credit losses consider the amount and timing of payments, a credit loss arises even if the entity expects to be paid in full but later than when contractually due.

AG5.88 For financial assets, a credit loss is the present value of the difference between:

- (a) the contractual cash flows that are due to an entity under the contract; and
- (b) the cash flows that the entity expects to receive.

AG5.89 For undrawn loan commitments, a credit loss is the present value of the difference between:

- (a) the contractual cash flows that are due to the entity if the holder of the loan commitment draws down the loan; and
- (b) the cash flows that the entity expects to receive if the loan is drawn down.

- AG5.90 An entity's estimate of expected credit losses on loan commitments shall be consistent with its expectations of drawdowns on that loan commitment, i.e. it shall consider the expected portion of the loan commitment that will be drawn down within 12 months of the reporting date when estimating 12-month expected credit losses, and the expected portion of the loan commitment that will be drawn down over the expected life of the loan commitment when estimating lifetime expected credit losses.
- AG5.91 Where a loan commitment is provided for a concessionary loan, an entity also considers the requirements in paragraph AG5.33.
- AG5.92 For a financial guarantee contract, the entity is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, cash shortfalls are the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the entity expects to receive from the holder, the debtor or any other party. If the asset is fully guaranteed, the estimation of cash shortfalls for a financial guarantee contract would be consistent with the estimations of cash shortfalls for the asset subject to the guarantee.
- AG5.93 For a financial asset that is credit-impaired at the reporting date, but that is not a purchased or originated credit-impaired financial asset, an entity shall measure the expected credit losses as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Any adjustment is recognised in surplus or deficit as an impairment gain or loss.
- AG5.94 When measuring a loss allowance for a lease receivable, the cash flows used for determining the expected credit losses should be consistent with the cash flows used in measuring the lease receivable in accordance with GRAP 13.
- AG5.95 An entity may use practical expedients when measuring expected credit losses if they are consistent with the principles in paragraph 5.32. An example of a practical expedient is the calculation of the expected credit losses on receivables using a provision matrix. The entity would use its historical credit loss experience (adjusted as appropriate in accordance with paragraphs AG5.60 to AG5.114) for receivables to estimate the 12-month expected credit losses or the lifetime expected credit losses on the financial assets as relevant. A provision matrix might, for example, specify fixed provision rates depending on the number of days that a receivable is past due (for example, 1 per cent if not past due, 2 per cent if less than 30 days past due, 3 per cent if more than 30 days but less than 90 days past due, 20 per cent if 90–180 days past due etc.). Depending on the diversity of its customer base, the entity would use appropriate groupings if its historical credit loss experience shows significantly different loss patterns for different customer segments. Examples of criteria that might be used to group assets include geographical region, product type, customer rating, collateral and type of customer (such as industrial or households).

**Definition of default**

- AG5.96 Paragraph 5.24 requires that when determining whether the credit risk on a financial instrument has increased significantly, an entity shall consider the change in the risk of a default occurring since initial recognition.
- AG5.97 When defining default for the purposes of determining the risk of a default occurring, an entity shall apply a default definition that is consistent with the definition used for internal credit risk management purposes for the relevant financial instrument and consider qualitative indicators (for example, financial covenants) when appropriate. However, there is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless an entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. The definition of default used for these purposes shall be applied consistently to all financial instruments unless information becomes available that demonstrates that another default definition is more appropriate for a particular financial instrument.

**Period over which to estimate expected credit losses**

- AG5.98 In accordance with paragraph 5.34, the maximum period over which expected credit losses shall be measured is the maximum contractual period over which the entity is exposed to credit risk. For loan commitments and financial guarantee contracts, this is the maximum contractual period over which an entity has a present contractual obligation to extend credit.
- AG5.99 However, in accordance with paragraph 5.35, some financial instruments include both a loan and an undrawn commitment component and the entity's contractual ability to demand repayment and cancel the undrawn commitment does not limit the entity's exposure to credit losses to the contractual notice period. In practice lenders continue to extend credit for a longer period and may only withdraw the facility after the credit risk of the borrower increases, which could be too late to prevent some or all of the expected credit losses. These financial instruments generally have the following characteristics as a result of the nature of the financial instrument, the way in which the financial instruments are managed, and the nature of the available information about significant increases in credit risk:
- (a) the financial instruments do not have a fixed term or repayment structure and usually have a short contractual cancellation period (for example, one day);
  - (b) the contractual ability to cancel the contract is not enforced in the normal day-to-day management of the financial instrument and the contract may only be cancelled when the entity becomes aware of an increase in credit risk at the facility level; and
  - (c) the financial instruments are managed on a collective basis.
- AG5.100 When determining the period over which the entity is expected to be exposed to credit risk, but for which expected credit losses would not be mitigated by the entity's normal credit risk management actions, an entity should consider factors such as historical information and experience about:
- (a) the period over which the entity was exposed to credit risk on similar financial instruments;



- (b) the length of time for related defaults to occur on similar financial instruments following a significant increase in credit risk; and
- (c) the credit risk management actions that an entity expects to take once the credit risk on the financial instrument has increased, such as the reduction or removal of undrawn limits.

**Probability weighted outcome**

- AG5.101 The purpose of estimating expected credit losses is neither to estimate a worst-case scenario nor to estimate the best-case scenario. Instead, an estimate of expected credit losses shall always reflect the possibility that a credit loss occurs and the possibility that no credit loss occurs even if the most likely outcome is no credit loss.
- AG5.102 Paragraph 5.32(a) requires the estimate of expected credit losses to reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. In practice, this may not need to be a complex analysis. In some cases, relatively simple modelling may be sufficient, without the need for a large number of detailed simulations of scenarios. For example, the average credit losses of a large group of financial instruments with shared risk characteristics may be a reasonable estimate of the probability-weighted amount. In other situations, the identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes will probably be needed. In those situations, the expected credit losses shall reflect at least two outcomes in accordance with paragraph 5.33.
- AG5.103 For lifetime expected credit losses, an entity shall estimate the risk of a default occurring on the financial instrument during its expected life. 12-month expected credit losses are a portion of the lifetime expected credit losses and represent the lifetime cash shortfalls that will result if a default occurs in the 12 months after the reporting date (or a shorter period if the expected life of a financial instrument is less than 12 months), weighted by the probability of that default occurring. Thus, 12-month expected credit losses are neither the lifetime expected credit losses that an entity will incur on financial instruments that it predicts will default in the next 12 months nor the cash shortfalls that are predicted over the next 12 months.

**Time value of money**

- AG5.104 Expected credit losses shall be discounted to the reporting date, not to the expected default or some other date, using the effective interest rate determined at initial recognition or an approximation thereof. If a financial instrument has a variable interest rate, expected credit losses shall be discounted using the current effective interest rate determined in accordance with paragraph AG5.54.
- AG5.105 For purchased or originated credit-impaired financial assets (which excludes receivables), expected credit losses shall be discounted using the credit-adjusted effective interest rate determined at initial recognition.
- AG5.106 Expected credit losses on lease receivables shall be discounted using the same discount rate used in the measurement of the lease receivable in accordance with GRAP 13.
- AG5.107 The expected credit losses on a loan commitment shall be discounted using the effective interest rate, or an approximation thereof, that will be applied when recognising the financial asset resulting from the loan commitment. This is because for the purpose of applying the impairment requirements, a financial asset that is recognised following a draw down on a loan commitment shall be treated as a continuation of that commitment instead of as a new financial instrument. The expected credit losses on the financial asset shall therefore be measured considering the initial credit risk of the loan commitment from the date that the entity became a party to the irrevocable commitment.
- AG5.108 Expected credit losses on financial guarantee contracts or on loan commitments for which the effective interest rate cannot be determined shall be discounted by applying a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

**Reasonable and supportable information**

- AG5.109 For the purpose of this Standard, reasonable and supportable information is that which is reasonably available at the reporting date without undue cost or effort, including information about past events, current conditions and forecasts of future economic conditions. Information that is available for financial reporting purposes is considered to be available without undue cost or effort.
- AG5.110 An entity is not required to incorporate forecasts of future conditions over the entire expected life of a financial instrument. The degree of judgement that is required to estimate expected credit losses depends on the availability of detailed information. As the forecast horizon increases, the availability of detailed information decreases and the degree of judgement required to estimate expected credit losses increases. The estimate of expected credit losses does not require a detailed estimate for periods that are far in the future — for such periods, an entity may extrapolate projections from available, detailed information.
- AG5.111 An entity need not undertake an exhaustive search for information but shall consider all reasonable and supportable information that is available without undue cost or effort and that is relevant to the estimate of expected credit losses, including the effect of expected prepayments. The information used shall include factors that are specific to the borrower, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. An entity may use various sources of data, that may be both internal (entity-specific) and external. Possible data sources include internal historical credit loss experience, internal ratings, credit loss experience of other entities and external ratings, reports and statistics. Entities that have no, or insufficient, sources of entity-specific data may use peer group experience for the comparable financial instrument (or groups of financial instruments).
- AG5.112 Historical information is an important anchor or base from which to measure expected credit losses. However, an entity shall adjust historical data, such as credit loss experience, on the basis of current observable data to reflect the effects

of the current conditions and its forecasts of future conditions that did not affect the period on which the historical data is based, and to remove the effects of the conditions in the historical period that are not relevant to the future contractual cash flows. In some cases, the best reasonable and supportable information could be the unadjusted historical information, depending on the nature of the historical information and when it was calculated, compared to circumstances at the reporting date and the characteristics of the financial instrument being considered. Estimates of changes in expected credit losses should reflect, and be directionally consistent with, changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of credit losses on the financial instrument or in the group of financial instruments and in the magnitude of those changes). An entity shall regularly review the methodology and assumptions used for estimating expected credit losses to reduce any differences between estimates and actual credit loss experience.

AG5.113 When using historical credit loss experience in estimating expected credit losses, it is important that information about historical credit loss rates is applied to groups that are defined in a manner that is consistent with the groups for which the historical credit loss rates were observed. Consequently, the method used shall enable each group of financial assets to be associated with information about past credit loss experience in groups of financial assets with similar risk characteristics and with relevant observable data that reflects current conditions.

AG5.114 Expected credit losses reflect an entity's own expectations of credit losses. However, when considering all reasonable and supportable information that is available without undue cost or effort in estimating expected credit losses, an entity should also consider observable market information about the credit risk of the particular financial instrument or similar financial instruments.

#### **Collateral**

AG5.115 For the purposes of measuring expected credit losses, the estimate of expected cash shortfalls shall reflect the cash flows expected from collateral and other credit enhancements that are part of the contractual terms and are not recognised separately by the entity, except if management does not intend to call the collateral. For example, an entity may have collateral for debts owing to it, but may choose not to use the collateral if it is likely to cause economic hardship. Where management's intention is not to call the collateral, it is not included in the calculation of the expected shortfalls. When management intends to use the collateral, the estimate of expected cash shortfalls on a collateralised financial instrument reflects the amount and timing of cash flows that are expected from foreclosure on the collateral less the costs of obtaining and selling the collateral (i.e. the estimate of expected cash flows considers the probability of a foreclosure and the cash flows that would result from it). Any cash flows that are expected from the realisation of the collateral beyond the contractual maturity of the contract should be included in this analysis. Any collateral obtained as a result of foreclosure is not recognised as an asset that is separate from the collateralised financial instrument unless it meets the relevant recognition criteria for an asset in this or other Standards.

#### **Reclassifications of financial assets (Paragraphs 5.37 to 5.41)**

AG5.116 If an entity reclassifies financial assets in accordance with paragraph 4.16, paragraph 5.37 requires that the reclassification is applied prospectively from the reclassification date.

AG5.117 An entity is not required to separately recognise interest revenue or impairment gains or losses for a financial asset measured at fair value through surplus or deficit. Consequently, when an entity reclassifies a financial asset out of the fair value through surplus or deficit measurement category, the effective interest rate is determined on the basis of the fair value of the asset at the reclassification date. In addition, for the purposes of applying paragraphs 5.17 to 5.35 to the financial asset from the reclassification date, the date of the reclassification is treated as the date of initial recognition.

#### **Gains and losses (Paragraphs 5.42 to 5.46)**

AG5.118 An entity applies GRAP 4 to financial assets and financial liabilities that are monetary items in accordance with that Standard and denominated in a foreign currency. GRAP 4 requires any foreign exchange gains and losses on monetary assets and monetary liabilities to be recognised in surplus or deficit.

#### **Liabilities designated as at fair value through surplus or deficit**

AG5.119 When an entity designates a financial liability as at fair value through surplus or deficit, it must determine whether presenting in the statement of changes in net assets the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch in surplus or deficit. An accounting mismatch would be created or enlarged if presenting the effects of changes in the liability's credit risk in the statement of changes in net assets would result in a greater mismatch in surplus or deficit than if those amounts were presented in surplus or deficit.

AG5.120 To make that determination, an entity must assess whether it expects that the effects of changes in the liability's credit risk will be offset in surplus or deficit by a change in the fair value of another financial instrument measured at fair value through surplus or deficit. Such an expectation must be based on an economic relationship between the characteristics of the liability and the characteristics of the other financial instrument.

AG5.121 That determination is made at initial recognition and is not reassessed. For practical purposes the entity need not enter into all of the assets and liabilities giving rise to an accounting mismatch at exactly the same time. A reasonable delay is permitted provided that any remaining transactions are expected to occur. An entity must apply consistently its methodology for determining whether presenting in the statement of changes in net assets the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch in surplus or deficit. However, an entity may use different methodologies when there are different economic relationships between the characteristics of the liabilities designated as at fair value through surplus or deficit and the characteristics of the other financial instruments. An entity is required to provide qualitative disclosures in the notes to the financial statements about its methodology for making that determination.

AG5.122 If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in surplus or deficit. If such a mismatch would not be created or

enlarged, the entity is required to present the effects of changes in the liability's credit risk in the statement of changes in net assets.

AG5.123 Amounts presented in the statement of changes in net assets shall not be subsequently transferred to surplus or deficit. However, the entity may transfer the cumulative gain or loss within net assets.

AG5.124 The following example describes a situation in which an accounting mismatch would be created in surplus or deficit if the effects of changes in the credit risk of the liability were presented in the statement of changes in net assets. A development finance institution provides loans to customers and funds those loans by selling bonds with matching characteristics (e.g. amount outstanding, repayment profile, term and currency) in the market. The contractual terms of the loan permit the customer to prepay its loan (i.e. satisfy its obligation to the institution) by buying the corresponding bond at fair value in the market and delivering that bond to the institution. As a result of that contractual prepayment right, if the credit quality of the bond worsens (and, thus, the fair value of the institution's liability decreases), the fair value of the institution's loan asset also decreases. The change in the fair value of the asset reflects the customer's contractual right to prepay the mortgage loan by buying the underlying bond at fair value (which, in this example, has decreased) and delivering the bond to the institution. Consequently, the effects of changes in the credit risk of the liability (the bond) will be offset in surplus or deficit by a corresponding change in the fair value of a financial asset (the loan). If the effects of changes in the liability's credit risk were presented in the statement of changes in net assets there would be an accounting mismatch in surplus or deficit. Consequently, the institution is required to present all changes in fair value of the liability (including the effects of changes in the liability's credit risk) in surplus or deficit.

AG5.125 In the example in paragraph AG5.124, there is a contractual linkage between the effects of changes in the credit risk of the liability and changes in the fair value of the financial asset (i.e. as a result of the customer's contractual right to prepay the loan by buying the bond at fair value and delivering the bond to the institution). However, an accounting mismatch may also occur in the absence of a contractual linkage.

AG5.126 For the purposes of applying the requirements in paragraphs 5.44 and 5.45, an accounting mismatch is not caused solely by the measurement method that an entity uses to determine the effects of changes in a liability's credit risk. An accounting mismatch in surplus or deficit would arise only when the effects of changes in the liability's credit risk are expected to be offset by changes in the fair value of another financial instrument. A mismatch that arises solely as a result of the measurement method (i.e. because an entity does not isolate changes in a liability's credit risk from some other changes in its fair value) does not affect the determination required by paragraphs 5.44 and 5.45. For example, an entity may not isolate changes in a liability's credit risk from changes in liquidity risk. If the entity presents the combined effect of both factors in the statement of changes in net assets, a mismatch may occur because changes in liquidity risk may be included in the fair value measurement of the entity's financial assets and the entire fair value change of those assets is presented in surplus or deficit. However, such a mismatch is caused by measurement imprecision, not the offsetting relationship described in paragraph AG5.120 and, therefore, does not affect the determination required by paragraphs 5.44 and 5.45.

#### **The meaning of "credit risk"**

AG5.127 This Standard defines credit risk as "the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation". The requirement in paragraph 5.44(a) relates to the risk that the issuer will fail to perform on that particular liability. It does not necessarily relate to the creditworthiness of the issuer. For example, if an entity issues a collateralised liability and a non-collateralised liability that are otherwise identical, the credit risk of those two liabilities will be different, even though they are issued by the same entity. The credit risk on the collateralised liability will be less than the credit risk of the non-collateralised liability. The credit risk for a collateralised liability may be close to zero.

AG5.128 For the purposes of applying the requirement in paragraph 5.44(a), credit risk is different from asset-specific performance risk. Asset-specific performance risk is not related to the risk that an entity will fail to discharge a particular obligation but instead it is related to the risk that a single asset or a group of assets will perform poorly (or not at all).

AG5.129 The following are examples of asset-specific performance risk:

- (a) A liability with a unit-linking feature whereby the amount due to investors is contractually determined on the basis of the performance of specified assets. The effect of that unit-linking feature on the fair value of the liability is asset-specific performance risk, not credit risk.
- (b) A liability issued by a structured (special purpose) entity with the following characteristics. The entity is legally isolated so the assets in the entity are ring-fenced solely for the benefit of its investors, even in the event of bankruptcy. The entity enters into no other transactions and the assets in the entity cannot be hypothecated. Amounts are due to the entity's investors only if the ring-fenced assets generate cash flows. Thus, changes in the fair value of the liability primarily reflect changes in the fair value of the assets. The effect of the performance of the assets on the fair value of the liability is asset-specific performance risk, not credit risk.

#### **Determining the effects of changes in credit risk**

AG5.130 For the purposes of applying the requirement in paragraph 5.44(a), an entity shall determine the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability either:

- (a) as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk (see paragraphs AG5.131 and AG5.132); or
- (b) using an alternative method the entity believes more faithfully represents the amount of change in the liability's fair value that is attributable to changes in its credit risk.

AG5.131 Changes in market conditions that give rise to market risk include changes in a benchmark interest rate, the price of another entity's financial instrument, a commodity price, a foreign exchange rate or an index of prices or rates.

AG5.132 If the only significant relevant changes in market conditions for a liability are changes in an observed (benchmark) interest rate, the amount in paragraph AG5.130(a) can be estimated as follows:

- (a) First, the entity computes the liability's internal rate of return at the start of the period using the fair value of the liability and the liability's contractual cash flows at the start of the period. It deducts from this rate of return the observed (benchmark) interest rate at the start of the period, to arrive at an instrument-specific component of the internal rate of return.
- (b) Next, the entity calculates the present value of the cash flows associated with the liability using the liability's contractual cash flows at the end of the period and a discount rate equal to the sum of (i) the observed (benchmark) interest rate at the end of the period and (ii) the instrument-specific component of the internal rate of return as determined in (a).

The difference between the fair value of the liability at the end of the period and the amount determined in (b) is the change in fair value that is not attributable to changes in the observed (benchmark) interest rate. This is the amount to be presented in the statement of changes in net assets in accordance with paragraph 5.44(a).

AG5.133 The example in paragraph AG5.132 assumes that changes in fair value arising from factors other than changes in the instrument's credit risk or changes in observed (benchmark) interest rates are not significant. This method would not be appropriate if changes in fair value arising from other factors are significant. In those cases, an entity is required to use an alternative method that more faithfully measures the effects of changes in the liability's credit risk (see paragraph AG5.130(b)). For example, if the instrument in the example contains an embedded derivative, the change in fair value of the embedded derivative is excluded in determining the amount to be presented in the statement of changes in net assets in accordance with paragraph 5.44(a).

AG5.134 As with all fair value measurements, an entity's measurement method for determining the portion of the change in the liability's fair value that is attributable to changes in its credit risk must make maximum use of relevant observable inputs and minimum use of unobservable inputs.

## Chapter 6 - Derecognition

### Derecognition of financial assets (Paragraphs 6.1 to 6.15)

AG6.1 Decision tree A-illustrates the evaluation of whether a financial asset is derecognised.

#### Waiver of rights

AG6.2 An entity may waive its contractual rights to receive cash or other financial assets under existing agreements. Where an entity waives its rights, it shall assess whether or not the waiver is the provision of a social benefit, e.g. to reduce poverty among a certain group of people. Where this waiver results in the provision of a social benefit, an entity classifies and recognises any resulting loss on derecognition of the asset in accordance with paragraph 5.4(a).

AG6.3 The waiver of debts should be distinguished from debt write-offs in paragraph 5.16 for purposes of disclosure in the financial statements. Debts owing to the entity that cannot be collected, usually after following legal processes are often written off; whereas the waiver of debt is the eradication of debt to achieve specific objectives such as to provide free or subsidised water and electricity to low income households.

#### Evaluation of the transfer of risks and rewards of ownership

AG6.4 Examples of when an entity has transferred substantially all of the risks and rewards of ownership are:

- (a) an unconditional sale of a financial asset;
- (b) a sale of a financial asset together with an option to repurchase the financial asset at its fair value at the time of repurchase; and
- (c) a sale of a financial asset together with a put or call option that is deeply out of the money (i.e. an option that is so far out of the money it is highly unlikely to go into the money before expiry).

AG6.5 Examples of when an entity has retained substantially all of the risks and rewards of ownership are:

- (a) a sale and repurchase transaction where the repurchase price is a fixed price or the sale price plus a lender's return;
- (b) a securities lending agreement;
- (c) a sale of a financial asset together with a total return swap that transfers the market risk exposure back to the entity;
- (d) a sale of a financial asset together with a deep in-the-money put or call option (i.e. an option that is so far in the money that it is highly unlikely to go out of the money before expiry); and
- (e) a sale of short-term receivables in which the entity guarantees to compensate the transferee for credit losses that are likely to occur.

AG6.6 If an entity determines that as a result of the transfer, it has transferred substantially all the risks and rewards of ownership of the transferred asset, it does not recognise the transferred asset again in a future period, unless it reacquires the transferred asset in a new transaction.

#### Evaluation of the transfer of control

- AG6.7 An entity has not retained control of a transferred asset if the transferee has the practical ability to sell the transferred asset. An entity has retained control of a transferred asset if the transferee does not have the practical ability to sell the transferred asset. A transferee has the practical ability to sell the transferred asset if it is traded in an active market because the transferee could repurchase the transferred asset in the market if it needs to return the asset to the entity. For example, a transferee may have the practical ability to sell a transferred asset if the transferred asset is subject to an option that allows the entity to repurchase it, but the transferee can readily obtain the transferred asset in the market if the option is exercised. A transferee does not have the practical ability to sell the transferred asset if the entity retains such an option and the transferee cannot readily obtain the transferred asset in the market if the entity exercises its option.
- AG6.8 The transferee has the practical ability to sell the transferred asset only if the transferee can sell the transferred asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer. The critical question is what the transferee is able to do in practice, not what contractual rights the transferee has concerning what it can do with the transferred asset or what contractual prohibitions exist. In particular:
- (a) a contractual right to dispose of the transferred asset has little practical effect if there is no market for the transferred asset; and
  - (b) an ability to dispose of the transferred asset has little practical effect if it cannot be exercised freely. For that reason:
    - (i) the transferee's ability to dispose of the transferred asset must be independent of the actions of others (i.e. it must be a unilateral ability); and
    - (ii) the transferee must be able to dispose of the transferred asset without needing to attach restrictive conditions or "strings" to the transfer (e.g. conditions about how a loan asset is serviced or an option giving the transferee the right to repurchase the asset).
- AG6.9 That the transferee is unlikely to sell the transferred asset does not, of itself, mean that the transferor has retained control of the transferred asset. If a put option or guarantee constrains the transferee from selling the transferred asset, however, then the transferor has retained control of the transferred asset. For example, if a put option or guarantee is sufficiently valuable it constrains the transferee from selling the transferred asset because the transferee would, in practice, not sell the transferred asset to a third party without attaching a similar option or other restrictive conditions. Instead, the transferee would hold the transferred asset so as to obtain payments under the guarantee or put option. Under these circumstances the transferor has retained control of the transferred asset.

#### **Transfers that qualify for derecognition**

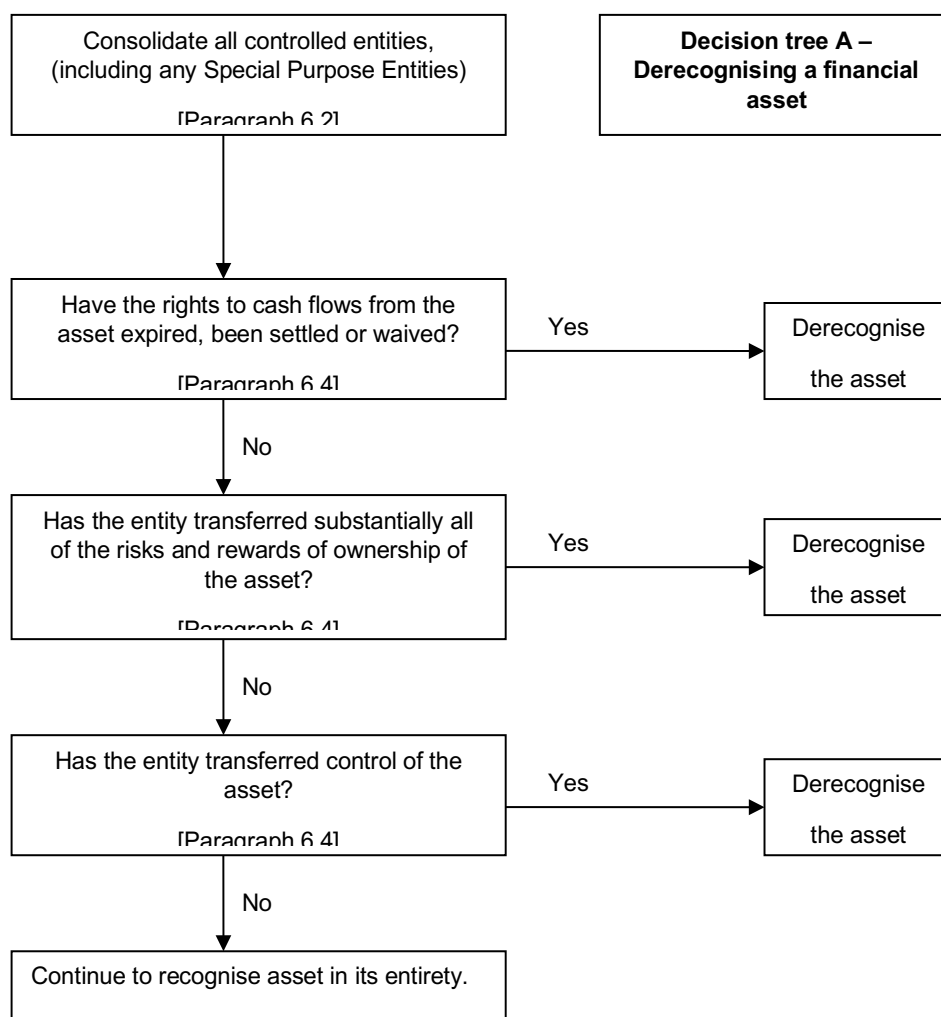
- AG6.10 An entity may retain the right to a part of the interest payments on transferred assets as compensation for servicing those assets. The part of the interest payments that the entity would give up on termination or transfer of the servicing contract is allocated to the servicing asset or servicing liability. The part of the interest payments that the entity would not give up is an interest-only strip receivable. For example, if the entity would not give up any interest upon termination or transfer of the servicing contract, the entire interest spread is an interest-only strip receivable. For the purposes of applying paragraph 6.12, the fair values of the servicing asset and interest-only strip receivable are used to allocate the carrying amount of the receivable between the part of the asset that is derecognised and the part that continues to be recognised. If there is no servicing fee specified or the fee to be received is not expected to compensate the entity adequately for performing the servicing, a liability for the servicing obligation is recognised at fair value.
- AG6.11 In estimating the fair values of the part that continues to be recognised and the part that is derecognised for the purposes of applying paragraph 6.12, an entity applies the fair value measurement requirements in paragraphs 5.10 to 5.12 and AG5.35 to AG5.46 in addition to paragraph 6.12.

#### **Transfers that do not qualify for derecognition**

- AG6.12 The following is an application of the principle outlined in paragraph 6.14. If a guarantee provided by the entity for default losses on the transferred asset prevents a transferred asset from being derecognised because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the transferred asset continues to be recognised in its entirety and the consideration received is recognised as a liability.

#### **All transfers**

- AG6.13 To the extent that a transfer of a financial asset does not qualify for derecognition, the transferor's contractual rights or obligations related to the transfer are not accounted for separately as derivatives if recognising both the derivative and either the transferred asset or the liability arising from the transfer would result in recognising the same rights or obligations twice. For example, a call option retained by the transferor may prevent a transfer of financial assets from being accounted for as a sale. In that case, the call option is not separately recognised as a derivative asset.
- AG6.14 To the extent that a transfer of a financial asset does not qualify for derecognition, the transferee does not recognise the transferred asset as its asset. The transferee derecognises the cash or other consideration paid and recognises a receivable from the transferor. If the transferor has both a right and an obligation to reacquire control of the entire transferred asset for a fixed amount (such as under a repurchase agreement), the transferee may account for its receivable as a loan or receivable.



#### Derecognition of financial liabilities (Paragraphs 6.16 to 6.19)

- AG6.15 A financial liability (or part of it) is extinguished when the debtor either:
- discharges the liability (or part of it) by paying the creditor, normally with cash, other financial assets, goods or services;
  - is legally released from primary responsibility for the liability (or part of it) either by process of law or by the creditor (if the debtor has given a guarantee this condition may still be met); or
  - waives the debt or it is assumed by another entity by way of a non-exchange transaction. These transactions are accounted for by considering the requirements of this Standard as well as GRAP 23.
- AG6.16 If an issuer of a debt instrument repurchases that instrument, the debt is extinguished even if the issuer is a market maker in that instrument or intends to resell it in the near term.
- AG6.17 Payment to a third party, including a trust (sometimes called "in-substance defeasance"), does not, by itself, relieve the debtor of its primary obligation to the creditor, in the absence of legal release.
- AG6.18 If a debtor pays a third party to assume an obligation and notifies its creditor that the third party has assumed its debt obligation, the debtor does not derecognise the debt obligation unless the condition in paragraph AG6.15(b) is met. If the debtor pays a third party to assume an obligation and obtains a legal release from its creditor, the debtor has extinguished the debt. However, if the debtor agrees to make payments on the debt to the third party or direct to its original creditor, the debtor recognises a new debt obligation to the third party.
- AG6.19 Although legal release, whether judicially or by the creditor, results in derecognition of a liability, the entity may recognise a new liability if the derecognition criteria in paragraphs 6.1 to 6.15 are not met for the financial assets transferred. If those criteria are not met, the transferred assets are not derecognised, and the entity recognises a new liability relating to the transferred assets.
- AG6.20 For the purpose of paragraph 6.17, the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or

modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

- AG6.21 In some cases, a creditor releases a debtor from its present obligation to make payments, but the debtor assumes a guarantee obligation to pay if the party assuming primary responsibility defaults. In this circumstance the debtor:
- (a) recognises a new financial liability based on the fair value (or where applicable, the loss allowance) of its obligation for the guarantee; and
  - (b) recognises a gain or loss based on the difference between (i) any proceeds paid and (ii) the carrying amount of the original financial liability less the fair value of the new financial liability.

## Chapter 7 - Presentation

### Interest, dividends or similar distributions, losses and gains (Paragraph 7.1 to 7.8)

- AG7.1 The following example illustrates the application of paragraph 7.1 to a compound financial instrument. Assume that a non-cumulative preference share is mandatorily redeemable for cash in five years, but that dividends or similar distributions are payable at the discretion of the entity before the redemption date. Such an instrument is a compound financial instrument, with the liability component being the present value of the redemption amount. The unwinding of the discount on this component is recognised in surplus or deficit and classified as interest expense. Any dividends or similar distributions paid relate to the residual interest component and, accordingly, are recognised as a distribution of any surplus. A similar treatment would apply if the redemption was not mandatory but at the option of the holder, or if the share was mandatorily convertible into a variable number of ordinary shares calculated to equal a fixed amount or an amount based on changes in an underlying variable (e.g. commodity). If any unpaid dividends or similar distributions are added to the redemption amount, however, then the entire instrument is a liability. In such a case, any dividends or similar distributions are classified as interest expense.

### Offsetting a financial asset and a financial liability (Paragraph 7.9 to 7.17)

#### Criterion that an entity “currently has a legally enforceable right to set off the recognised amounts” (paragraph 7.9(a))

- AG7.2 A right of set off may be currently available or it may be contingent on a future event (for example, the right may be triggered or exercisable only on the occurrence of some future event, such as the default, insolvency or bankruptcy of one of the counterparties). Even if the right of set off is not contingent on a future event, it may only be legally enforceable in the normal course of operations, or in the event of default, or in the event of insolvency or bankruptcy, of one or all of the counterparties.
- AG7.3 To meet the criterion in paragraph 7.9(a), an entity must currently have a legally enforceable right of set-off. This means that the right of set-off:
- (a) must not be contingent on a future event; and
  - (b) must be legally enforceable in all of the following circumstances:
    - (i) the normal course of operations;
    - (ii) the event of default; and
    - (iii) the event of insolvency or bankruptcy

of the entity and all of the counterparties.

- AG7.4 The nature and extent of the right of set-off, including any conditions attached to its exercise and whether it would remain in the event of default or insolvency or bankruptcy, may vary. Consequently, it cannot be assumed that the right of set-off is automatically available outside of the normal course of operations. For example, the bankruptcy or insolvency laws may prohibit, or restrict, the right of set-off in the event of bankruptcy or insolvency in some circumstances.
- AG7.5 The laws applicable to the relationships between the parties (for example, contractual provisions, the laws governing the contract, or the default, insolvency or bankruptcy laws applicable to the parties) need to be considered to ascertain whether the right of set-off is enforceable in the normal course of operations, in an event of default, and in the event of insolvency or bankruptcy, of the entity and all of the counterparties (as specified in paragraph AG7.3(b)).

#### Criterion that an entity “intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously” (paragraph 7.9(b))

- AG7.6 To meet the criterion in paragraph 7.9(b) an entity must intend either to settle on a net basis or to realise the asset and settle the liability simultaneously. Although the entity may have a right to settle net, it may still realise the asset and settle the liability separately.
- AG7.7 If an entity can settle amounts in a manner such that the outcome is, in effect, equivalent to net settlement, the entity will meet the net settlement criterion in paragraph 7.9(b). This will occur if, and only if, the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and that will process receivables and payables in a single settlement process or cycle. For example, a gross settlement system that has all of the following characteristics would meet the net settlement criterion in paragraph 7.9(b):
- (a) financial assets and financial liabilities eligible for set-off are submitted at the same point in time for processing;
  - (b) once the financial assets and financial liabilities are submitted for processing, the parties are committed to fulfil the settlement obligation;
  - (c) there is no potential for the cash flows arising from the assets and liabilities to change once they have been submitted for processing (unless the processing fails—see (d) below);

- (d) assets and liabilities that are collateralised with securities will be settled on a securities transfer or similar system (for example, delivery versus payment), so that if the transfer of securities fails, the processing of the related receivable or payable for which the securities are collateral will also fail (and vice versa);
- (e) any transactions that fail, as outlined in (d), will be re-entered for processing until they are settled;
- (f) settlement is carried out through the same settlement institution (for example, a settlement bank, a central bank or a central securities depository); and
- (g) an intraday credit facility is in place that will provide sufficient overdraft amounts to enable the processing of payments at the settlement date for each of the parties, and it is virtually certain that the intraday credit facility will be honoured if called upon.

AG7.8 This Standard does not provide special treatment for so-called "synthetic instruments", which are groups of separate financial instruments acquired and held to emulate the characteristics of another instrument. For example, a floating rate long-term debt combined with an interest rate swap that involves receiving floating payments and making fixed payments synthesises a fixed rate long-term debt. Each of the individual financial instruments that together constitute a "synthetic instrument" represents a contractual right or obligation with its own terms and conditions. Each may be transferred or settled separately. Each financial instrument is exposed to risks that may differ from the risks to which other financial instruments are exposed. Accordingly, when one financial instrument in a "synthetic instrument" is an asset and another is a liability, they are not offset and presented in an entity's statement of financial position on a net basis unless they meet the criteria for offsetting in paragraph 7.9.

## Chapter 8 – Disclosure

### Accounting policies (paragraph 8.3)

AG8.1 Paragraph 8.3 requires disclosure of the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements. For financial instruments, such disclosure may include:

- (a) for financial liabilities designated at fair value:
  - (i) the nature of the financial assets or financial liabilities the entity has designated at fair value through surplus or deficit;
  - (ii) the criteria for so designating financial liabilities on initial recognition; and
  - (iii) how the entity satisfied the conditions in paragraph 4.8 for such designation;
- (b) for financial assets designated as measured at fair value through surplus or deficit:
  - (i) the nature of the financial assets the entity has designated as measured at fair value through surplus or deficit; and
  - (ii) how the entity has satisfied the criteria in paragraph 4.6 for such designation;
- (c) how net gains or net losses on each category of financial instrument are determined (see paragraph 8.30), for example, whether the net gains or net losses on items at fair value include interest revenue or income from dividends or similar distributions;

Paragraph .132 of GRAP 1 also requires entities to disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

### Classes of financial instruments and level of disclosure (paragraph 8.4)

AG8.2 Paragraph 8.4 requires an entity to group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. The classes described in paragraph 8.4 are determined by the entity and are thus distinct from the categories of financial instruments specified in this Standard (which determine how financial instruments are measured).

AG8.3 In determining classes of financial instrument, an entity shall, at a minimum:

- (a) distinguish instruments measured at amortised cost and cost from those measured at fair value; and
- (b) treat as a separate class or classes those financial instruments outside the scope of this Standard.

AG8.4 An entity decides, in the light of its circumstances, how much detail it provides to satisfy the requirements of this Standard, how much emphasis it places on different aspects of the requirements and how it aggregates information to display the overall picture without combining information with different characteristics. It is necessary to strike a balance between overburdening financial statements with excessive detail that may not assist users of financial statements and obscuring important information as a result of too much aggregation. For example, an entity shall not obscure important information by including it among a large amount of insignificant detail. Similarly, an entity shall not disclose information that is so aggregated that it obscures important differences between individual transactions or associated risks.

## Significance of financial instruments for financial position and performance

### Nature and extent of risks arising from financial instruments (paragraphs 8.36 to 8.60)



AG8.5 The disclosures required by paragraphs 8.39 to 8.60 shall be either given in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

**Quantitative disclosures (paragraph 8.40)**

AG8.6 Paragraph 8.40(a) requires disclosures of summary quantitative data about an entity's exposure to risks based on the information provided internally to management of the entity. When an entity uses several methods to manage a risk exposure, the entity shall disclose information using the method or methods that provide the most relevant and reliable information. GRAP 3 discusses relevance and reliability.

AG8.7 Paragraph 8.40(c) requires disclosures about concentrations of risk. Concentrations of risk arise from financial instruments that have similar characteristics and are affected similarly by changes in economic or other conditions. The identification of concentrations of risk requires judgement taking into account the circumstances of the entity. Disclosure of concentrations of risk shall include:

- (a) a description of how management determines concentrations;
- (b) a description of the shared characteristic that identifies each concentration (e.g. counterparty, geographical area, currency or market); and
- (c) the amount of the risk exposure associated with all financial instruments sharing that characteristic.

**Credit risk management practices**

AG8.8 Paragraph 8.47(b) requires the disclosure of information about how an entity has defined default for different financial instruments and the reasons for selecting those definitions. In accordance with paragraph 5.24, the determination of whether lifetime expected credit losses should be recognised is based on the increase in the risk of a default occurring since initial recognition. Information about an entity's definitions of default that will assist users of financial statements in understanding how an entity has applied the expected credit loss requirements may include:

- (a) the qualitative and quantitative factors considered in defining default;
- (b) whether different definitions have been applied to different types of financial instruments; and
- (c) assumptions about the cure rate (i.e. the number of financial assets that return to a performing status) after a default occurred on the financial asset.

AG8.9 To assist users of financial statements in evaluating an entity's restructuring and modification policies, paragraph 8.47(f)(ii) requires the disclosure of information about how an entity monitors the extent to which the loss allowance on financial assets previously disclosed in accordance with paragraph 8.47(f)(i) are subsequently measured at an amount equal to lifetime expected credit losses in accordance with paragraph 5.18. Quantitative information that will assist users in understanding the subsequent increase in credit risk of modified financial assets may include information about modified financial assets meeting the criteria in paragraph 8.47(f)(i) for which the loss allowance has reverted to being measured at an amount equal to lifetime expected credit losses (i.e. a deterioration rate).

AG8.10 Paragraph 8.48(a) requires the disclosure of information about the basis of inputs and assumptions and the estimation techniques used to apply the impairment requirements. An entity's assumptions and inputs used to measure expected credit losses or determine the extent of increases in credit risk since initial recognition may include information obtained from internal historical information or rating reports and assumptions about the expected life of financial instruments and the timing of the sale of collateral.

**Changes in the loss allowance**

AG8.11 In accordance with paragraph 8.49, an entity is required to explain the reasons for the changes in the loss allowance during the period. In addition to the reconciliation from the opening balance to the closing balance of the loss allowance, it may be necessary to provide a narrative explanation of the changes. This narrative explanation may include an analysis of the reasons for changes in the loss allowance during the period, including:

- (a) the portfolio composition;
- (b) the volume of financial instruments purchased or originated; and
- (c) the severity of the expected credit losses.

AG8.12 For loan commitments and financial guarantee contracts the loss allowance is recognised as a provision. An entity should disclose information about the changes in the loss allowance for financial assets separately from those for loan commitments and financial guarantee contracts. However, if a financial instrument includes both a loan (i.e. financial asset) and an undrawn commitment (i.e. loan commitment) component and the entity cannot separately identify the expected credit losses on the loan commitment component from those on the financial asset component, the expected credit losses on the loan commitment should be recognised together with the loss allowance for the financial asset. To the extent that the combined expected credit losses exceed the gross carrying amount of the financial asset, the expected credit losses should be recognised as a provision.

**Collateral**

AG8.13 Paragraph 8.52 requires the disclosure of information that will enable users of financial statements to understand the effect of collateral and other credit enhancements on the amount of expected credit losses. An entity is neither required to disclose information about the fair value of collateral and other credit enhancements nor is it required to quantify the exact value of the collateral that was included in the calculation of expected credit losses (i.e. the loss given default).

- AG8.14 A narrative description of collateral and its effect on amounts of expected credit losses might include information about:
- the main types of collateral held as security and other credit enhancements (examples of the latter being guarantees, credit derivatives and netting agreements that do not qualify for offset);
  - the volume of collateral held and other credit enhancements and its significance in terms of the loss allowance;
  - the policies and processes for valuing and managing collateral and other credit enhancements;
  - the main types of counterparties to collateral and other credit enhancements and their creditworthiness; and
  - information about risk concentrations within the collateral and other credit enhancements.

**Credit risk exposure**

- AG8.15 Paragraph 8.54 requires the disclosure of information about an entity's credit risk exposure and significant concentrations of credit risk at the reporting date. A concentration of credit risk exists when a number of counterparties are located in a geographical region or are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. An entity should provide information that enables users of financial statements to understand whether there are groups or portfolios of financial instruments with particular features that could affect a large portion of that group of financial instruments such as concentration to particular risks. This could include, for example, geographical, industry or issuer-type concentrations.
- AG8.16 The number of credit risk rating grades used to disclose the information in accordance with paragraph 8.54 shall be consistent with the number that the entity reports to management for credit risk management purposes. If past due information is the only borrower-specific information available and an entity uses past due information to assess whether credit risk has increased significantly since initial recognition in accordance with paragraph 5.26, an entity shall provide an analysis by past due status for those financial assets.
- AG8.17 When an entity has measured expected credit losses on a collective basis, the entity may not be able to allocate the gross carrying amount of individual financial assets or the exposure to credit risk on loan commitments and financial guarantee contracts to the credit risk rating grades for which lifetime expected credit losses are recognised. In that case, an entity should apply the requirement in paragraph 8.54 to those financial instruments that can be directly allocated to a credit risk rating grade and disclose separately the gross carrying amount of financial instruments for which lifetime expected credit losses have been measured on a collective basis.

**Maximum credit risk exposure (paragraphs 8.52(a) and 8.56(a))**

- AG8.18 Paragraph 8.52(a) and 8.56(a) requires disclosure of the amount that best represents the entity's maximum exposure to credit risk. For a financial asset, this is typically the gross carrying amount, net of:
- any amounts offset; and
  - any loss allowance recognised.
- AG8.19 Activities that give rise to credit risk and the associated maximum exposure to credit risk include, but are not limited to:
- granting loans and receivables to customers and placing deposits with other entities. In these cases, the maximum exposure to credit risk is the carrying amount of the related financial assets;
  - entering into derivative contracts, e.g. foreign exchange contracts, interest rate swaps and credit derivatives. When the resulting asset is measured at fair value, the maximum exposure to credit risk at the end of the reporting period will equal the carrying amount;
  - granting financial guarantees. In this case, the maximum exposure to credit risk is the maximum amount the entity could have to pay if the guarantee is called on, which may be significantly greater than the amount recognised as a liability; and
  - making a loan commitment that is irrevocable over the life of the facility or is revocable only in response to a material adverse change. If the issuer cannot settle the loan commitment net in cash or another financial instrument, the maximum credit exposure is the full amount of the commitment. This is because it is uncertain whether the amount of any undrawn portion may be drawn upon in the future. This may be significantly greater than the amount recognised as a liability.

**Quantitative liquidity disclosures (paragraph 8.58(a))**

- AG8.20 In accordance with paragraph 8.40(a) an entity discloses summary quantitative data about its exposure to liquidity risk on the basis of the information provided internally to management. An entity shall explain how those data are determined. If the outflows of cash (or another financial asset) included in those data could either:
- occur significantly earlier than indicated in the data; or
  - be for significantly different amounts from those indicated in the data (e.g. for a derivative that is included in the data on a net settlement basis but for which the counterparty has the option to require gross settlement),
- the entity shall state that fact and provide quantitative information that enables users of its financial statements to evaluate the extent of this risk unless that information is included in the contractual maturity analyses required by paragraph 8.58(a) or (b).

- AG8.21 In preparing the maturity analyses required by paragraph 8.58(a), an entity uses its judgement to determine an appropriate number of time bands. For example, an entity might determine that the following time bands are appropriate:
- (a) not later than one month;
  - (b) later than one month and not later than three months;
  - (c) later than three months and not later than one year; and
  - (d) later than one year and not later than five years.
- AG8.22 In complying with paragraph 8.58(a) and (b), an entity shall not separate an embedded derivative from a hybrid contract. For such an instrument, an entity shall apply paragraph 8.58(a).
- AG8.23 Paragraph 8.58(b) requires an entity to disclose a quantitative maturity analysis for derivative financial liabilities that shows remaining contractual maturities if the contractual maturities are essential for an understanding of the timing of the cash flows. For example, this would be the case for:
- (a) an interest rate swap with a remaining maturity of five years in a cash flow hedge of a variable rate financial asset or liability; and
  - (b) all loan commitments.
- AG8.24 Paragraph 8.58(a) and (b) requires an entity to disclose maturity analyses for financial liabilities that show the remaining contractual maturities for some financial liabilities. In this disclosure:
- (a) when a counterparty has a choice of when an amount is paid, the liability is allocated to the earliest period in which the entity can be required to pay. For example, financial liabilities that an entity can be required to repay on demand (e.g. demand deposits) are included in the earliest time band;
  - (b) when an entity is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the entity can be required to pay. For example, an undrawn loan commitment is included in the time band containing the earliest date it can be drawn down; and
  - (c) for issued financial guarantee contracts the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.
- AG8.25 The contractual amounts disclosed in the maturity analyses as required by paragraph 8.58(a) and (b) are the contractual undiscounted cash flows e.g.:
- (a) gross finance lease obligations (before deducting finance charges);
  - (b) prices specified in forward agreements to purchase financial assets for cash;
  - (c) net amounts for pay-floating/receive-fixed interest rate swaps for which net cash flows are exchanged;
  - (d) contractual amounts to be exchanged in a derivative financial instrument (e.g. a currency swap) for which gross cash flows are exchanged; and
  - (e) gross loan commitments.
- Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in that statement is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the period.
- AG8.26 Paragraph 8.58(c) requires an entity to describe how it manages the liquidity risk inherent in the items disclosed in the quantitative disclosures required in paragraph 8.58(a) and (b). An entity shall disclose a maturity analysis of financial assets it holds for managing liquidity risk (e.g. financial assets that are readily saleable or expected to generate cash inflows to meet cash outflows on financial liabilities), if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk.
- AG8.27 Other factors that an entity might consider in providing the disclosure required in paragraph 8.58(c) include, but are not limited to, whether the entity:
- (a) has committed borrowing facilities (e.g. commercial paper facilities) or other lines of credit (e.g. stand-by credit facilities) that it can access to meet liquidity needs;
  - (b) has very diverse funding sources;
  - (c) has significant concentrations of liquidity risk in either its assets or its funding sources;
  - (d) has internal control processes and contingency plans for managing liquidity risk;
  - (e) has instruments that include accelerated repayment terms (e.g. on the downgrade of the entity's credit rating);
  - (f) has instruments that could require the posting of collateral (e.g. margin calls for derivatives);
  - (g) has instruments that allows the entity to choose whether it settles its financial liabilities by delivering cash (or another financial asset) or by delivering its own shares; or
  - (h) has instruments that are subject to master netting agreements.

**Market risk (Paragraph 8.59 to 8.60)**

- AG8.28 Paragraph 8.59 requires an entity to disclose a sensitivity analysis for each significant type of market risk to which the entity is exposed. An entity decides how it aggregates information to display the overall picture without combining information with different characteristics about exposures to risks from significantly different economic environments. For example:
- an entity that trades financial instruments might disclose this information separately for financial instruments held for trading and those not held for trading; and
  - an entity would not aggregate its exposure to market risks from areas of hyperinflation with its exposure to the same market risks from areas of very low inflation.
- If an entity has exposure to only one type of market risk in only one economic environment, it would not show disaggregated information.
- AG8.29 When an entity prepares a sensitivity analysis, it should show the effect on surplus or deficit of reasonably possible changes in the relevant risk variable (e.g. prevailing market interest rates, currency rates, equity prices or commodity prices). For this purpose:
- entities do not need to determine what the surplus or deficit for the period would have been if relevant risk variables had been different. Instead, entities disclose the effect on surplus or deficit at the end of the reporting period assuming that a reasonably possible change in the relevant risk variable had occurred at the end of the reporting period and had been applied to the risk exposures in existence at that date. For example, if an entity has a floating rate liability at the end of the year, the entity would disclose the effect on surplus or deficit (i.e. interest expense) for the current year if interest rates had varied by reasonably possible amounts; and
  - entities do not need to disclose the effect on surplus or deficit for each change within a range of reasonably possible changes of the relevant risk variable. Disclosure of the effects of the changes at the limits of the reasonably possible range would be sufficient.
- AG8.30 In determining what a reasonably possible change in the relevant risk variable is, an entity should consider:
- the economic environments in which it operates. A reasonably possible change should not include remote or "worst case" scenarios or "stress tests". Moreover, if the rate of change in the underlying risk variable is stable, the entity need not alter the chosen reasonably possible change in the risk variable. For example, assume that interest rates are 5% and an entity determines that a fluctuation in interest rates of  $\pm 50$  basis points is reasonably possible. It would disclose the effect on surplus or deficit if interest rates were to change to 4.5% or 5.5%. In the next period, interest rates have increased to 5.5%. The entity continues to believe that interest rates may fluctuate by  $\pm 50$  basis points (i.e. that the rate of change in interest rates is stable). The entity would disclose the effect on surplus or deficit if interest rates were to change to 5% or 6%. The entity would not be required to revise its assessment that interest rates might reasonably fluctuate by  $\pm 50$  basis points, unless there is evidence that interest rates have become significantly more volatile; and
  - the time frame over which it is making the assessment. The sensitivity analysis shall show the effects of changes that are considered to be reasonably possible over the period until the entity will next present these disclosures, which is usually its next annual reporting period.
- AG8.31 Where an entity presents a sensitivity analysis, it should provide sensitivity analyses for the whole of its operations, but may provide different types of sensitivity analysis for different classes of financial instruments.
- Interest rate risk*
- AG8.32 Interest rate risk arises on interest-bearing financial instruments recognised in the statement of financial position (e.g. loans and receivables and debt instruments issued) and on some financial instruments not recognised in the statement of financial position (e.g. some loan commitments).
- Currency risk*
- AG8.33 Currency risk (or foreign exchange risk) arises on financial instruments that are denominated in a foreign currency, i.e. in a currency other than the functional currency in which they are measured. For the purpose of this Standard, currency risk does not arise from financial instruments that are non-monetary items or from financial instruments denominated in the functional currency.
- AG8.34 A sensitivity analysis is disclosed for each currency to which an entity has significant exposure.
- Other price risk*
- AG8.35 Other price risk arises on financial instruments because of changes in, for instance, commodity prices or equity prices. An entity might disclose the effect of a decrease in a specified stock market index, commodity price, or other risk variable. For example, if an entity gives residual value guarantees that are financial instruments, the entity discloses an increase or decrease in the value of the assets to which the guarantee applies.
- AG8.36 Two examples of financial instruments that give rise to equity price risk are (a) a holding of equity instruments in another entity and (b) an investment in a trust that in turn holds investments in equity instruments. Other examples include forward contracts and options to buy or sell specified quantities of an equity instrument and swaps that are indexed to equity prices. The fair values of such financial instruments are affected by changes in the market price of the underlying equity instruments.
- AG8.37 Financial instruments that an entity classifies as residual interests are not remeasured. Surplus or deficit is not affected by the equity price risk of those instruments. Accordingly, no sensitivity analysis is required.

**Offsetting financial assets and financial liabilities****Scope**

AG8.38 The disclosures in paragraphs 8.16 to 8.19 are required for all recognised financial instruments that are set off in accordance with paragraph 7.9. In addition, financial instruments are within the scope of the disclosure requirements in paragraphs 8.16 to 8.19 if they are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with paragraph 7.9.

AG8.39 The similar agreements referred to in paragraphs 8.15 and AG8.38 include derivative clearing agreements, global master repurchase agreements, global master securities lending agreements, and any related rights to financial collateral. The similar financial instruments and transactions referred to in paragraph AG8.38 include derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, securities borrowing, and securities lending agreements. Examples of financial instruments that are not within the scope of paragraph 8.15 are loans and customer deposits at the same institution (unless they are set off in the statement of financial position), and financial instruments that are subject only to a collateral agreement.

**Disclosure of quantitative information for recognised financial assets and recognised financial liabilities within the scope of paragraph 8.15 (paragraph 8.17)**

AG8.40 Financial instruments disclosed in accordance with paragraph 8.17 may be subject to different measurement requirements (for example, a payable related to a repurchase agreement may be measured at amortised cost, while a derivative will be measured at fair value). An entity shall include instruments at their recognised amounts and describe any resulting measurement differences in the related disclosures.

**Disclosure of the gross amounts of recognised financial assets and recognised financial liabilities within the scope of paragraph 8.15 (paragraph 8.17(a))**

AG8.41 The amounts required by paragraph 8.17(a) relate to recognised financial instruments that are set off in accordance with paragraph 7.9. The amounts required by paragraph 8.17(a) also relate to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement irrespective of whether they meet the offsetting criteria. However, the disclosures required by paragraph 8.17(a) do not relate to any amounts recognised as a result of collateral agreements that do not meet the offsetting criteria in paragraph 7.9. Instead, such amounts are required to be disclosed in accordance with paragraph 8.17(d).

**Disclosure of the amounts that are set off in accordance with the criteria in paragraph 7.9 (paragraph 8.17(b))**

AG8.42 Paragraph 8.17(b) requires that entities disclose the amounts set off in accordance with paragraph 7.9 when determining the net amounts presented in the statement of financial position. The amounts of both the recognised financial assets and the recognised financial liabilities that are subject to set-off under the same arrangement will be disclosed in both the financial asset and financial liability disclosures. However, the amounts disclosed (in, for example, a table) are limited to the amounts that are subject to set-off. For example, an entity may have a recognised derivative asset and a recognised derivative liability that meet the offsetting criteria in paragraph 7.9. If the gross amount of the derivative asset is larger than the gross amount of the derivative liability, the financial asset disclosure table will include the entire amount of the derivative asset (in accordance with paragraph 8.17(a)) and the entire amount of the derivative liability (in accordance with paragraph 8.17(b)). However, while the financial liability disclosure table will include the entire amount of the derivative liability (in accordance with paragraph 8.17(a)), it will only include the amount of the derivative asset (in accordance with paragraph 8.17(b)) that is equal to the amount of the derivative liability.

**Disclosure of the net amounts presented in the statement of financial position (paragraph 8.17(c))**

AG8.43 If an entity has instruments that meet the scope of these disclosures (as specified in paragraph 8.15), but that do not meet the offsetting criteria in paragraph 7.9, the amounts required to be disclosed by paragraph 8.17(c) would equal the amounts required to be disclosed by paragraph 8.17(a).

AG8.44 The amounts required to be disclosed by paragraph 8.17(c) must be reconciled to the individual line item amounts presented in the statement of financial position. For example, if an entity determines that the aggregation or disaggregation of individual financial statement line item amounts provides more relevant information, it must reconcile the aggregated or disaggregated amounts disclosed in paragraph 8.17(c) back to the individual line item amounts presented in the statement of financial position.

**Disclosure of the amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in paragraph 8.17(b) (paragraph 8.17(d))**

AG8.45 Paragraph 8.17(d) requires that entities disclose amounts that are subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in paragraph 8.17(b). Paragraph 8.17(d)(i) refers to amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria in paragraph 7.9 (for example, current rights of set-off that do not meet the criterion in paragraph 7.9(b), or conditional rights of set-off that are enforceable and exercisable only in the event of default, or only in the event of insolvency or bankruptcy of any of the counterparties).

AG8.46 Paragraph 8.17(d)(ii) refers to amounts related to financial collateral, including cash collateral, both received and pledged. An entity shall disclose the fair value of those financial instruments that have been pledged or received as collateral. The amounts disclosed in accordance with paragraph 8.17(d)(ii) should relate to the actual collateral received or pledged and not to any resulting payables or receivables recognised to return or receive back such collateral.

**Limits on the amounts disclosed in paragraph 8.17(d) (paragraph 8.17)**

AG8.47 When disclosing amounts in accordance with paragraph 8.17(d), an entity must take into account the effects of over-collateralisation by financial instrument. To do so, the entity must first deduct the amounts disclosed in accordance with paragraph 8.17(d)(i) from the amount disclosed in accordance with paragraph 8.17(c). The entity shall then limit the amounts disclosed in accordance with paragraph 8.17(d)(ii) to the remaining amount in paragraph 8.17(c) for the related financial instrument. However, if rights to collateral can be enforced across financial instruments, such rights can be included in the disclosure provided in accordance with paragraph 8.18.

**Description of the rights of set-off subject to enforceable master netting arrangements and similar agreements (paragraph 8.19)**

AG8.48 An entity shall describe the types of rights of set-off and similar arrangements disclosed in accordance with paragraph 8.17(d), including the nature of those rights. For example, an entity shall describe its conditional rights. For instruments subject to rights of set-off that are not contingent on a future event but that do not meet the remaining criteria in paragraph 7.9, the entity shall describe the reason(s) why the criteria are not met. For any financial collateral received or pledged, the entity shall describe the terms of the collateral agreement (for example, when the collateral is restricted).

**Disclosure by type of financial instrument or by counterparty**

AG8.49 The quantitative disclosures required by paragraph 8.17(a) to (e) may be grouped by type of financial instrument or transaction (for example, derivatives, repurchase and reverse repurchase agreements or securities borrowing and securities lending agreements).

AG8.50 Alternatively, an entity may group the quantitative disclosures required by paragraph 8.17 (a) to (c) by type of financial instrument, and the quantitative disclosures required by paragraph 8.17 (c) to (e) by counterparty. If an entity provides the required information by counterparty, the entity is not required to identify the counterparties by name. However, designation of counterparties (Counterparty A, Counterparty B, Counterparty C, etc.) shall remain consistent from year to year for the years presented to maintain comparability. Qualitative disclosures shall be considered so that further information can be given about the types of counterparties. When disclosure of the amounts in paragraph 8.17(c) to (e) is provided by counterparty, amounts that are individually significant in terms of total counterparty amounts shall be separately disclosed and the remaining individually insignificant counterparty amounts shall be aggregated into one line item.

**Other**

AG8.51 The specific disclosures required by paragraphs 8.17 to 8.19 are minimum requirements. To meet the objective in paragraph 8.16 an entity may need to supplement them with additional (qualitative) disclosures, depending on the terms of the enforceable master netting arrangements and related agreements, including the nature of the rights of set-off, and their effect or potential effect on the entity's financial position.

**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. GRAP 1 Presentation of Financial Statements**

Amend, or insert into, the following paragraphs in GRAP 1:

**Definitions**

**Net assets are the residual interest in the assets of the entity after deducting all its liabilities.**

...

Insert the following heading and paragraph after .07:

**Net assets**

.07A The components of net assets include:

- (a) changes in revaluation surplus (see the Standards of GRAP on *Property, Plant and Equipment* (GRAP 17) and *Intangible Assets* (GRAP 31));
- (b) gains and losses arising from translating the financial statements of a foreign operation (see the Standard of GRAP on *The Effects of Changes in Foreign Exchange Rates* (GRAP 4)); and
- (c) for particular liabilities designated as at fair value through surplus or deficit, the amount of the change in fair value that is attributable to changes in the liability's credit risk (see paragraph 5.42 of GRAP 104).

**Statement of financial position**

...

**Current assets**

.70 The operating cycle of an entity is the time taken to convert inputs or resources into outputs. For instance, governments transfer resources to entities so that they can convert those resources into goods and services, or outputs, to meet the government's desired social, political and economic outcomes. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months. Current assets include assets (such as taxes receivable, user charges receivable, fines and regulatory fees receivable, inventories and accrued investment revenue) that are either

realised, consumed or sold, as part of the normal operating cycle even when they are not expected to be realised within twelve months of the reporting date. Current assets also include assets primarily held for the purpose of being traded trading, for example, some financial assets that meet the definition of held for trading in GRAP 104 provides guidance on the classification of financial assets), and the current portion of non-current financial assets.

...

#### Current liabilities

- .73 Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting date or held primarily for the purpose of being traded. Examples are some financial liabilities that meet the definition classified as of held for trading in (GRAP 104 provides guidance on the classification of financial liabilities), bank overdrafts, and the current portion of non-current financial liabilities, dividends or similar distributions payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (i.e. are not part of the working capital used in the entity's normal operating cycle), and are not due for settlement within twelve months after the reporting date, are non-current liabilities, subject to paragraphs .76 and .77.

...

#### Statement of financial performance

##### Information to be presented on the face of the statement of financial performance

...

- .96 **As a minimum, the face of the statement of financial performance shall include line items that present the following amounts for the period:**
- (a) **revenue, presenting separately:**
    - (i) **interest revenue; and**
    - (ii) **gains and losses arising from the derecognition of financial assets measured at amortised cost;**
  - (b) **finance costs;**
  - (b)(a) **impairment losses (including reversals of impairment losses and impairment gains) determined in accordance with paragraphs 5.17 to 5.35 of GRAP 104;**
  - (c) **share of the surpluses or deficits of associates and joint ventures accounted for using the equity method;**
  - (c)(a) **if a financial asset is reclassified out of the amortised cost measurement category so that it is measured at fair value through surplus or deficit, any gain or loss arising from the difference between the previous amortised cost of the financial asset and its fair value at the reclassification date (as defined in GRAP 104);**
  - (d) **tax expense (where applicable);**
  - (e) **a single amount comprising:**
    - (i) **the post-tax surplus or deficit of discontinued operations and**
    - (ii) **the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and**
  - (f) **surplus or deficit.**

#### Statement of changes in net assets

Insert the following paragraphs after paragraph 120:

.120A Other Standards of GRAP specify whether and when amounts previously recognised in net assets are reclassified to surplus or deficit. Such reclassifications are referred to in this Standard as reclassification adjustments. A reclassification adjustment is included with the related component of net assets in the period that the adjustment is reclassified to surplus or deficit. These amounts may have been recognised in net assets as unrealised gains in the current or previous periods. Those unrealised gains must be deducted from net assets in the period in which the realised gains are reclassified to surplus or deficit to avoid including them in the statement of changes in net assets twice.

.120B. Reclassification adjustments arise, for example, on disposal of a foreign operation (see GRAP 4).

.120C. Reclassification adjustments do not arise on changes in revaluation surplus recognised in accordance with GRAP 17 or GRAP 31. These components are recognised in net assets and are not reclassified to surplus or deficit in subsequent periods. Changes in revaluation surplus may be transferred to accumulated surpluses or deficits in subsequent periods as the asset is used or when it is derecognised (see GRAP 17 or GRAP 31).

...

#### Notes

...

#### Disclosure of accounting policies

.133 In the process of applying the entity's accounting policies, management makes various judgements, apart from those involving estimations, that can significantly affect the amounts of items recognised in the financial statements. For example, management makes judgements in determining:

- (a) whether assets are investment properties;
- (b) when substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to other entities;
- (c) whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue; ~~and~~
- (d) whether the substance of the relationship between the entity and a special purpose entity indicates that the special purpose entity is controlled by the entity; and
- (e) whether the contractual terms of a financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding.

...

#### Transitional provisions

#### Amendments to the Standards of GRAP

...

Insert the following paragraph after paragraph .148:

**.148A Paragraphs .07A, .70, .73, .96, .120A to .120C, .133 were amended by the revision of GRAP 104 Financial Instruments issued in Month Year. An entity shall apply these amendments for annual financial statements covering periods beginning on or after Day Month Year. An entity shall apply these amendments retrospectively.**

#### B2. GRAP 9 Revenue from Exchange Transactions

Amend the following paragraphs in GRAP 9:

#### Appendix

#### A8. Financial service fees

The recognition of revenue for financial service fees depends on the purposes for which the fees are assessed and the basis of accounting for any associated financial instrument. The description of fees for financial services may not be indicative of the nature and substance of the services provided. Therefore, it is necessary to distinguish between fees that are an integral part of the effective yield of a financial instrument, fees that are earned as services are provided, and fees that are earned on the execution of a significant act.

- (a) *Fees that are an integral part of the effective interest rate of a financial instrument*

Such fees are generally treated as an adjustment to the effective interest rate. However, when the financial instrument is measured at fair value with the change in fair value recognised in surplus or deficit, the fees are recognised as revenue when the instrument is initially recognised.

- ~~(i)~~ *Origination fees received by the entity relating to the creation or acquisition of a financial asset other than one whose changes in fair value are recognised in surplus or deficit*

~~Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction. These fees are an integral part of generating an involvement with the resulting financial instrument and, together with the related transaction costs (as defined in GRAP 104), are deferred and recognised as an adjustment to the effective interest rate.~~

- ~~(i)(i)~~ *Commitment fees received by the entity to originate a loan*

~~If it is probable that the entity will enter into a specific lending arrangement and the (loan commitment) is not within the scope of GRAP 104, the commitment fee received is regarded as compensation for an ongoing involvement with the acquisition of a financial instrument and, together with the related transaction costs (as defined in GRAP 104), is deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the entity making the loan, the fee is recognised as revenue on expiry. Loan commitments that are within the scope of GRAP 104 are accounted for as derivatives and measured at fair value.~~

- ~~(i)(ii)~~ *Origination fees received on issuing financial liabilities measured at amortised cost*

~~These fees are an integral part of generating an involvement with a financial liability. When a financial liability is not classified "at fair value through surplus or deficit" subsequently measured at amortised cost, the origination fees received are included, with the related transaction costs (as defined in GRAP 104) incurred, in the initial carrying amount of the financial liability and recognised as an adjustment to the effective interest rate. An entity distinguishes fees and costs that are an integral part of the effective~~



interest rate for the financial liability from origination fees and transaction costs relating to the right to provide services, such as investment management services.

(b) *Fees earned as services are provided*

(i) *Fees charged for servicing a loan*

Fees charged by an entity for servicing a loan are recognised as revenue as the services are provided.

(ii) *Commitment fees to originate a loan commitment that is outside the scope of GRAP 104*

If it is unlikely that a specific lending arrangement will be entered into and the loan commitment is outside GRAP 104, the commitment fee is recognised as revenue on a time proportion basis over the commitment period. Loan commitments that are within the scope of GRAP 104 are accounted for as derivatives at fair value.

...

### B3. GRAP 14 Events After the Reporting Date

Amend the following paragraphs in GRAP 14:

#### Adjusting events after the reporting date

...

.08 The following are examples of adjusting events after the reporting date that require an entity to adjust the amounts recognised in its financial statements, or to recognise items that were not previously recognised:

- (a) The settlement after the reporting date of a court case that confirms that the entity had a present obligation at the reporting date. The entity adjusts any previously recognised provision related to this court case in accordance with the Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets* (GRAP 19) or recognises a new provision. The entity does not merely disclose a contingent liability because the settlement provides additional evidence that would be considered in accordance with GRAP 19.
- (b) The receipt of information after the reporting date indicating that an asset was impaired at the reporting date, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted. For example:
  - (i) the insolvency of a debtor that occurs after the reporting date usually confirms that the debtor was credit-impaired at the end of the reporting period a loss existed at the reporting date on a receivable account and that the entity needs to adjust the carrying amount of the receivable account; and
  - (ii) the sale of inventories after the reporting date may give evidence about their net realisable value at the reporting date.
- (c) The determination after the reporting date of the cost of assets purchased, or the proceeds from assets sold, before the reporting date.
- (d) The determination after the reporting date of the amount of revenue collected during the reporting period to be shared with another entity under a revenue sharing agreement in place during the reporting period.
- (e) The determination after the reporting date of the amount of bonus, incentive and performance related payments to be made to staff if the entity had a present legal or constructive obligation at the reporting date to make such payments as a result of events before that date (see the Standard of GRAP on *Employee Benefits*).
- (f) The discovery of fraud or errors that show that the financial statements are incorrect.

...

#### Effective date

#### Entities already applying accrual accounting

...

Insert the following paragraph after paragraph .30:

**.30A Paragraph .08 was amended by the revision of GRAP 104 Financial Instruments issued in Month Year. An entity shall apply these amendments for annual financial statements covering periods beginning on or after Day Month Year. An entity shall apply these amendments retrospectively.**

### B4. GRAP 19 Provisions, Contingent Liabilities and Contingent Assets

Amend the following paragraphs in GRAP 19:

#### Scope

...

.04 This Standard does not apply to financial instruments (including guarantees) that are within the scope of the Standard of GRAP on *Financial Instruments*. An entity, other than an insurer, that issues financial guarantee contracts initially recognises, measures and/or discloses such guarantees in accordance with this Standard. An entity also applies the derecognition and disclosure requirements of the Standard of GRAP on *Financial Instruments* to financial guarantee contracts.

~~.05 An entity, other than an insurer, that issues other guarantees, such as performance guarantees, also applies the recognition, measurement and disclosure requirements of this Standard to such guarantees.~~

~~.06 This Standard applies to provisions, contingent liabilities and contingent assets that arise from loan commitments. An entity initially recognises, measures and/or discloses loan commitments in accordance with this Standard.~~

...

#### Definitions

~~.17 ***A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.***~~

~~***Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.***~~

...

#### Application of the recognition and measurement rules

...

#### Financial guarantees and loan commitments

~~.04 ***An entity recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.***~~

~~.05 Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:~~

- ~~• financial difficulty of the debtor;~~
- ~~• defaults or delinquencies in interest and capital repayments by the debtor;~~
- ~~• breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and~~
- ~~• a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.~~

~~.06 ***Where a fee is received by an entity for issuing a financial guarantee, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and an entity considers that an outflow of economic resources is probable, an entity recognises the obligation at the higher of:***~~

~~(a) ***the amount determined using this Standard; and***~~

~~(b) ***the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with GRAP 9.***~~

~~.07 ***An entity would also apply the requirements in paragraph .06 to loan commitments where a fee is charged.***~~

...

#### Transitional provisions

...

#### Amendments to Standards of GRAP

Insert the following paragraph after paragraph .113:

~~***.113A Paragraphs .04, .05, .06, .17 were amended by the revision of GRAP 104 Financial Instruments issued in Month Year. An entity shall apply these amendments for annual financial statements covering periods beginning on or after Day Month Year. An entity shall apply these amendments retrospectively.***~~

...

#### Comparison with International Public Sector Accounting Standard on Provisions, Contingent Liabilities and Contingent Assets (October 2002)

This Standard is drawn primarily from the International Public Sector Accounting Standard on *Provisions, Contingent Liabilities and Contingent Assets* (IPSAS 19) (October 2002). The main differences between this Standard and IPSAS 19 are as follows:

- ~~• ...~~
- ~~• The Standard requires entities to initially recognise, measure and/or disclose financial guarantee contracts and other guarantees in accordance with this Standard (except if the entity is primarily engaged in insurance activities). No similar requirement exists in IPSAS 19.~~
- ~~• The Standard requires entities to initially recognise, measure and/or disclose loan commitments in accordance with this Standard. No similar requirement exists in IPSAS 19.~~
- ~~• This Standard includes definitions for loan commitments and financial guarantees contracts.~~

• ...

**B5. GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers)**

The following paragraphs are amended or inserted into GRAP 23:

**Scope**

...

.04 This Standard addresses revenue arising from non-exchange transactions. Revenue arising from exchange transactions is addressed in the Standard of GRAP on *Revenue from Exchange Transactions* (GRAP 9). While revenues received by entities arise from exchange and non-exchange transactions, the majority of revenue of entities is typically derived from non-exchange transactions such as:

- (a) taxes; and
- (b) transfers (whether cash or non-cash), including grants, debt forgiveness, fines, bequests, gifts, donations, goods and services in-kind, ~~and concessionary loans received~~ and concessionary investments.

...

**Contributions from owners**

.36 Contributions from owners are defined in the *Framework for the Preparation and Presentation of Financial Statements*. For a transaction to qualify as a contribution from owners, it will be necessary to satisfy the characteristics identified in that definition. In determining whether a transaction satisfies the definition of a contribution from owners, the substance rather than the form of the transaction is considered. Paragraph .37 indicates the form that contributions from owners may take. If, despite the form of the transaction, the substance is clearly that of a loan or another kind of liability, or revenue, the entity recognises it as such and makes an appropriate disclosure in the notes to the financial statements, if material. For example, if a transaction purports to be a contribution from owners, but specifies that the entity will pay fixed distributions to the transferor, with a return of the transferor's investment at a specified future time, the transaction is more characteristic of a loan. An entity also considers the requirements of paragraphs .3.1 to 3.14 ~~23 to 33~~, and paragraphs 5.4 to 5.6 on concessionary investments, of the Standard of GRAP on *Financial Instruments* (GRAP 104) where the transaction meets the definition of a financial instrument.

...

**Measurement of assets on initial recognition**

...

.42 Consistent with the Standards of GRAP on *Inventories* (GRAP 12), *Investment Property* (GRAP 16), GRAP 17, *Intangible Assets* (GRAP 31) and *Heritage Assets* (GRAP 103), assets acquired through non-exchange transactions are measured at their fair value as at the date of acquisition. Assets arising out of contractual arrangements that otherwise meet the definition of a financial instrument (see paragraph ~~AG26-AG2.11 to AG2.16~~ of GRAP 104), such as cash and transfers receivable, are measured in accordance with paragraph .41 of this Standard as well as paragraphs .51 and AG5.2 to AG5.11 ~~.34 and AG77. to AG86.~~ of GRAP 104.

...

**Transfers**

...

.78 Transfers include grants, debt forgiveness, fines, bequests, gifts, donations, goods and services in-kind, ~~and concessionary loans received~~ and concessionary investments. All these items have the common attribute that they transfer resources from one entity to another without providing approximately equal value in exchange and are not taxes as defined in this Standard.

...

**Measurement of transferred assets**

.84 As required by paragraph .42, transferred assets are measured at their fair value as at the date of acquisition. Entities develop accounting policies for the recognition and measurement of assets that are consistent with Standards of GRAP. As noted previously, inventories, investment property, property, plant, equipment, intangible assets or heritage assets acquired through non-exchange transactions are to be initially measured at their fair value as at the date of acquisition in accordance with the requirements of GRAP 12, GRAP 16, GRAP 17, GRAP 31 and GRAP 103. Assets arising out of contractual arrangements, such as cash and transfers receivable that satisfy the definition of a financial instrument are measured at fair value as at the date of acquisition in accordance with paragraph .41 of this Standard as well as paragraphs .51 and AG5.2 to AG5.11 ~~.34 and AG77. to AG86.~~ of GRAP 104.

...

#### Concessionary loans

...

- .113 The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with GRAP 104. The off-market portion of the loan is a non-exchange transaction and is accounted for in accordance with this Standard. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest (paragraphs AG5.5 to AG5.7 ~~AG80. to AG82.~~ of GRAP 104 provides guidance on determining a market related interest rate).

...

#### Disclosures

...

- .115 An entity shall disclose either on the face of, or in the notes to, the financial statements:**

...

**(d) the amount of liabilities recognised in respect of the off-market portion of concessionary loans that are subject to conditions;**

**(d)(e) the amount of liabilities recognised in respect of the off-market portion of concessionary investments that are subject to conditions;**

...

#### Effective date

- .125B Paragraphs .04, .36, .42, .78, .84, .113, .115 were amended by the revision of GRAP 104 Financial Instruments issued in Month Year. An entity shall apply these amendments for annual financial statements covering periods beginning on or after Day Month Year. An entity shall apply these amendments retrospectively.**

**B6. GRAP 32 Service Concession Arrangements: Grantor**

Delete the following paragraphs in GRAP 32:

**Basis for conclusions**

...

**~~Accounting for a financial guarantee contract~~**

~~BC22. IPSAS 32 requires the grantor to apply the principles in the IPSASs dealing with financial instruments in accounting for guarantees made by the grantor when it meets the definition of a financial guarantee contract.~~

~~BC23. The basis for conclusions to GRAP 104 (see GRAP 104 BC 11. to BC 16.) sets out the Boards' view on why an entity should account for a guarantee, that meets the definition of a financial guarantee contract, using GRAP 19 and not in terms of GRAP 104. Based on this conclusion, this Standard requires the grantor to account for financial guarantee contracts in terms of GRAP 19 and not in terms of GRAP 104.~~

...

**B7. GRAP 36 Investments in Associates and Joint Ventures**

Insert amendments to GRAP 36 *Investments in Associates and Joint Ventures*

Insert the following paragraph after GRAP 36.18

**Equity method**

~~.18A An entity also applies GRAP 104 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture (see paragraph .39). An entity applies GRAP 104 to such long-term interests before it applies paragraph .39 and paragraphs .41 to .46~~

Delete paragraph .42

**Application of the equity method**

~~.42 [Delete]~~

~~The entity also applies GRAP 104 to determine whether any additional impairment loss is recognised with respect to its interest in the associate or joint venture that does not constitute part of the net investment and the amount of that impairment loss.~~

Insert the following paragraphs

**Effective date and transition**

...

**Entities already applying Standards of GRAP**

~~**.49A Paragraph .18A was inserted and paragraph .42 deleted as a result of the revision of GRAP 104 Financial Instruments issued in Month Year. These amendments are effective for annual financial statements covering periods beginning on or after Day Month Year. An entity shall apply these amendments retrospectively. The entity is not required to restate prior periods to reflect the application of the amendments. The entity may restate prior periods only if it is possible without the use of hindsight.**~~

~~**.49B If an entity does not restate prior periods, at the date of initial application of the amendments it shall recognise in the opening accumulated surplus or deficit any difference between:**~~

~~**(a) the previous carrying amount of long-term interests described in paragraph .18A at that date; and**~~

~~**(b) the carrying amount of those long-term interests at that date.**~~

...

**B8. IGRAP 1 Applying the Probability Test on Initial Recognition of Revenue**

Inset the following paragraph in IGRAP 1:

**Scope**

.04 This Interpretation of the Standards of GRAP addresses the manner in which an entity applies the probability test on initial recognition of:

(a) exchange revenue in accordance with GRAP 9, and

(b) non-exchange revenue in accordance with GRAP 23.

.04A The recognition of interest revenue is not within the scope of this Interpretation. Interest revenue is recognised in accordance with the Standards of GRAP on *Financial Instruments* and *Statutory Receivables*.

...

#### **Application guidance**

...

#### **Definitions**

#### **Statutory receivables**

...

AG5. Receivables that arise from contractual arrangements differ from statutory receivables because they are entered into voluntarily by entities and are not entered into as a result of specific legislative requirements (refer to GRAP 104 paragraph ~~AG2.11 to AG2.15~~ ~~AG28. to AG32.~~). Contractual receivables, to the extent that they otherwise meet the definition of a financial asset, are within the scope of GRAP 104. In assessing whether an arrangement is statutory or contractual in nature, an entity considers only the legal form of the arrangement. If the arrangement is governed by specific legislation rather than a contract concluded between the relevant parties, then it is statutory in nature.

...

**ANNEXURE B**

**ACCOUNTING STANDARDS BOARD**

**IMPROVEMENTS TO STANDARDS OF GRAP**

**Contents****Improvements to Standards of Generally Recognised Accounting Practice (GRAP) (2020)**

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### Amendments to the Standard of GRAP on *Borrowing Costs*

Amended text is shown with new text underlined and deleted text struck through. The following paragraphs in GRAP 5 have been amended:

#### Borrowing costs – allowed alternative treatment

...

#### Borrowing costs eligible for capitalisation

...

- .18** *To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to all the borrowings of the entity that are outstanding during the period; ~~However, an entity shall exclude from this calculation borrowing costs applicable to other than~~ borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare the asset for its intended use or sale are complete. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.*

#### Effective date

...

#### Entities already applying Standards of GRAP

- .39A** *Paragraph .18 was amended by the Improvements to the Standards of GRAP (2020) issued on Month Year. These amendments are effective for annual periods beginning on or after Day Month Year [proposed as 1 April 2021]. 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.*

### Amendments to the Standard of GRAP on *Leases*

Amended text is shown with new text underlined and deleted text struck through. The following paragraphs in GRAP 13 have been amended:

#### Operating leases

...

- .64** To determine whether a leased asset has become impaired, an entity applies GRAP 21 or GRAP 26.

...

#### Disclosures

- .67** In addition, the disclosure requirements of GRAP 16, GRAP 17, GRAP 21, GRAP 26, GRAP 27 and GRAP 31 apply to lessors for assets provided under operating leases.

#### Sale and leaseback transactions

- .74** For finance leases, no such adjustment is necessary unless there has been an impairment in value and that impairment is required to be recognised in accordance with the requirements of GRAP 21 or GRAP 26.

#### Effective date

...

#### Entities already applying Standards of GRAP

**.81B Paragraphs .64, .67, and .74 were amended by the Improvements to the Standards of GRAP (2020) issued on Month Year. These amendments are effective for annual periods beginning on or after Day Month Year [proposed as 1 April 2021]. 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.**

#### Amendments to the Standard of GRAP on *Investment Property*

Amended text is shown with new text underlined and deleted text struck through. The following paragraphs in GRAP 16 have been amended:

#### Classification of property as investment property

##### ~~Property interest held by a lessee under an operating lease~~

**.06** *A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property if, and only if, the property would otherwise meet the definition of an investment property and the lessee uses the fair value model set out in paragraphs .46 to .70 for the asset recognised. This classification alternative is available on a property-by-property basis. However, once this classification alternative is selected for one such property interest held under an operating lease, all property classified as investment property shall be accounted for using the fair value model. When this classification alternative is selected, any interest so classified is included in the disclosures required by paragraphs .90 to .95.*

#### Investment property

**.07** Entities in the public sector often own a significant number of properties. While the properties are most often used to deliver goods or services in accordance with each entity's respective mandated functions, some entities use them to provide additional sources of revenue, e.g. through rental, or through the value that could be realised if the properties are sold.

...

#### Transfers

**.72** ~~*An entity shall transfer a property*~~ *Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by: A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. Examples of a change in use include:*

- (a)** *commencement of owner-occupation, or development with a view to owner-occupation, for a transfer from investment property to owner-occupied property;*
- (b)** *commencement of development with a view to sale, for a transfer from investment property to inventories;*
- (c)** *end of owner-occupation, for a transfer from owner-occupied property to investment property; ~~or~~ and*
- (d)** ~~*commencement*~~ *inception of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property*

...

**.74** ~~Paragraph .72(b) requires an entity to transfer a property from investment property to inventories when, and only when, there is a change in use, evidenced by commencement of development with a view to sale. When an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognised (eliminated from the statement of financial position) and does not ~~reclassify~~ reclassify it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the entity remains an investment property and is not reclassified as owner-occupied property during the redevelopment.~~

...

#### Guidance on initially measuring self-constructed investment property at fair value

- .82** *When an entity completes the construction or development of a self-constructed investment property that will be carried at fair value, or when its fair value becomes reliably measurable (whichever is earlier), any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in surplus or deficit.*

...

#### Disposals

...

- .89** Impairments or losses of investment property, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:
- (a) impairments of investment property are recognised in accordance with GRAP 21 or GRAP 26;

....

#### Disclosure

##### Cost model

- .96** *In addition to the disclosures required by paragraph .91, an entity that applies the cost model in paragraph .71 shall disclose:*

....

- (d) *a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:*

....

- (iv) *the amount of impairment losses recognised, and the amount of impairment losses reversed, during the period in accordance with GRAP 21 or GRAP 26;*

...

#### Effective date

...

#### Entities already applying Standards of GRAP

- .105B** *The following paragraphs were amended by the Improvements to the Standards of GRAP (2020) issued on Month Year. These amendments are effective for annual periods beginning on or after Day Month Year [proposed as 1 April 2021]. Earlier application is permitted. If an entity elects to apply these amendments earlier, it shall disclose this fact. An entity shall apply these amendments as follows:*

- (a) *paragraphs .72 and .74 shall be applied prospectively for property held on Day Month Year [proposed as 1 April 2021] and, if applicable, reclassify property applying paragraphs .07 to .24 to reflect the conditions that exist at that date.*
- (b) *paragraph .82 shall be applied retrospectively in accordance with GRAP 3; and*
- (c) *paragraphs .89 and .96 shall be applied prospectively in accordance with GRAP 3.*

- .105C** *If, in accordance with paragraph .105B(a) an entity reclassifies property on or after the beginning of the reporting period in which the entity first applies the amendments ("the date of initial application"), the entity shall:*

- (a) *account for the reclassification applying the requirements in paragraphs .76 to .81. In applying paragraphs .76 to .81, and entity shall:*
- (i) *read any difference to the date of change in use as the date of initial application; and*
- (ii) *recognise any amount that, in accordance with paragraphs .76 to .78, would have been recognised in surplus or deficit as an adjustment to the opening balance of accumulated surplus or deficit at the date of initial application; and*

- (b) disclose the amounts reclassified to, or from investment property in accordance with paragraph 105B(a). The entity shall disclose those amounts reclassified as part of the reconciliation of the carrying amount of investment property as at the beginning and end of the period as required by paragraphs .93 and .96.

#### Amendments to the Standard of GRAP on *Property, Plant and Equipment*

Amended text is shown with new text underlined and deleted text struck through. The following paragraphs in GRAP 17 have been amended:

##### Depreciable amount and depreciation period

...

##### Depreciation

...

- .69 Land and buildings are separable assets and are accounted separately, even when they are acquired together. ~~With some exceptions, such as quarries and sites used for landfill,~~ Land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.
- .70 If the cost of land includes the costs of site dismantlement, removal and restoration, the portion of the land asset is depreciated over the period of benefits or service potential obtained by incurring those costs ~~in some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits or service potential to be derived from it.~~

##### Effective date

...

##### Entities already applying Standards of GRAP

- .102B** Paragraphs .69 and .70 were amended by the Improvements to the Standards of GRAP (2020) issued on Month Year. These amendments are effective for annual periods beginning on or after Day Month Year [proposed as 1 April 2021]. These amendments are accounted for as a change in accounting policy, in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors (GRAP 3). Earlier application is permitted. If an entity elects to apply these amendments earlier, it shall disclose this fact.
- .102C** When an entity initially adopts the amendments to paragraph .69 and .70, it needs to assess if the quarry or site used for landfill is impaired. An entity shall apply the impairment requirements prospectively in accordance with GRAP 3.

#### Comparison with International Public Sector Accounting Standard on *Property, Plant and Equipment* (December 2006)

This Standard is drawn primarily from the International Public Sector Accounting Standard on *Property, Plant and Equipment* (IPSAS 17). The main differences between this Standard and IPSAS 17 are as follows:

...

- This Standard has deleted the example indicating that quarries and land used for landfill sites may be depreciated in certain cases as land has an unlimited useful life and cannot be consumed through its use.

#### Amendments to the Standard of GRAP on *Related Party Disclosures*

Amended text is shown with new text underlined and deleted text struck through. The following paragraphs in GRAP 20 have been amended:

##### Definitions

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

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

(a) ...

(b) An entity is related to the reporting entity if any of the following conditions apply:

(i) .....

**(viiA) The entity, or any member of a group of which it is part, provides management services to the reporting entity or to the controlling entity of the reporting entity.**

#### Disclosure of related party transactions

**.27** Subject to the exemptions in paragraph .32, if a reporting entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to those in paragraph .35 to disclose remuneration of management. At a minimum, disclosures shall include:

(a) the amount of the transactions;

(b) the amount of outstanding balances, including commitments; and

(i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and

(ii) details of any guarantees given or received;

(c) provisions for doubtful debts related to the amount of outstanding balances; and

(d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.

**.27A** Amounts incurred by the entity for the provision of management services that are provided by a separate management entity shall be disclosed. Management services are services where employees of a management entity perform functions as "management" as defined in paragraph .10.

**.27B** Amounts incurred for the provision of management services includes amounts paid or payable, and amounts recognised and/or disclosed as services in-kind in terms of the Standard of GRAP on *Revenue from Non-exchange Transactions (Taxes and Transfers)*.

....

**.34** Where a reporting entity is exempt from the disclosures in accordance with paragraph .32 the entity shall disclose narrative information about the nature of the transactions, and the related outstanding balances referred to in paragraph .27 to enable users of the reporting entity's financial statements to understand the effect of related party transactions on its financial statements.

#### Disclosure of remuneration of management

**.35** ...

**.35A** If an entity obtains management services from another entity ("the management entity") the entity is not required to apply the requirements in paragraph .35 to the remuneration paid or payable by the management entity to the management entity's employees or those charged with governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

#### Effective date

...

Entities already applying Standards of GRAP

- .39A** Paragraph .10 was amended and paragraphs .27A, .27B, .27C and .35A added by the Improvements to the Standards of GRAP (2020) issued on Month Year. These amendments are effective for annual periods beginning on or after Day Month Year [proposed as 1 April 2021]. An entity shall apply these amendments retrospectively 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.

**Comparison with International Public Sector Accounting Standard on *Related Party Disclosures* (October 2002)**

This Standard is drawn primarily from the International Public Sector Accounting Standard on *Related Party Disclosures* (IPSAS 21). The main differences between this Standard and IPSAS 21 are as follows:

...

This Standard has been amended to include the change to IAS 24 *Related Party Disclosures* to expand the definition of a related party, and the disclosure of related party disclosures, to include management services.

**Amendments to the Standard of GRAP on *Presentation of Budget Information in Financial Statements***

Amended text is shown with new text underlined and deleted text struck through. The following paragraphs in GRAP 24 have been amended:

...

**Presentation and disclosure**

- .19** An entity shall present a comparison of budget and actual amounts as additional budget columns in the ~~primary~~ financial statements only where the financial statements and the budget are prepared on a comparable basis.

- .20** Comparisons of budget and actual amounts may be presented in a separate financial statement ("statement of comparison of budget and actual amounts" or a similarly titled statement) included in the complete set of financial statements as specified in the Standard of GRAP on *Presentation of Financial Statements* (GRAP 1). Alternatively, where the financial statements and the budget are prepared on a comparable basis – that is, on the same basis of accounting for the same entity and reporting period, and adopt the same classification structure – additional columns may be added to the face of the existing primary financial statements presented in accordance with Standards of GRAP. These additional columns will identify approved and final budget amounts and, if the entity so chooses, differences between the budget and actual amounts.

...

- .22** Where budgets are prepared on the accrual basis and encompass the full set of financial statements, additional budget columns can be added to all the primary face of the financial statements required by Standards of GRAP. In some cases, budgets prepared on the accrual basis may be presented in the form of only certain of the ~~primary~~ financial statements that comprise the full set of financial statements as specified by Standards of GRAP – for example, the budget may be presented as a statement of financial performance or a cash flow statement, with additional information provided in supporting schedules. In these cases, the additional budget columns can be included on the face of the ~~in the primary~~ financial statements that are also adopted for presentation of the budget. Determining the extent of comparison involves professional judgement. That judgement is applied in the context of the objective of this Standard and the qualitative characteristics of financial reporting as outlined in paragraph .25 and the *Framework for the Preparation and Presentation of Financial Statements*<sup>3</sup>.

**Effective date**

...

**Entities already applying Standards of GRAP**

<sup>3</sup> 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*

**.54A** ***Paragraphs .19, .20 and .22 were amended by the Improvements to the Standards of GRAP (2020) issued on Month Year. These amendments are effective for annual periods beginning on or after Day Month Year [proposed as 1 April 2021]. An entity shall apply these amendments retrospectively 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.***

#### **Amendments to the Standard of GRAP on Intangible Assets**

Amended text is shown with new text underlined and deleted text struck through. The following paragraphs in GRAP 31 have been amended:

##### **Review of useful life assessment**

...

**.110** ~~For intangible assets measured under the cost model reassessing the useful life of an intangible asset as finite rather than indefinite~~ In accordance with GRAP 21 or GRAP 26, as appropriate, reassessing the useful life of an intangible asset as finite rather than indefinite is an indicator that the asset may be impaired. As a result, the entity tests the asset for impairment by comparing its recoverable amount or recoverable service amount, determined in accordance with GRAP 21 or GRAP 26, as appropriate, with its carrying amount, and recognising any excess of the carrying amount over the recoverable amount or recoverable service amount, as appropriate, as an impairment loss.

##### **Effective date**

...

##### **Entities already applying Standards of GRAP**

**.134B** ***Paragraph .110 was amended by the Improvements to the Standards of GRAP (2020) issued on Month Year. These amendments are effective for annual periods beginning on or after Day Month Year [proposed as 1 April 2021]. 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 this amendment earlier, it shall disclose this fact.***

#### **Amendments to the Standard of GRAP on Service Concession Arrangements: Grantor**

Amended text is shown with new text underlined and deleted text struck through. The annexure illustrating certain aspects of the requirements of the Standard has been deleted. The following amendments have been made in GRAP 32:

##### **Presentation and disclosure (see Appendix A paragraphs AG65. to AG67.)**

**.30** ***A grantor shall disclose the following information for each material service concession arrangement and in aggregate for individually immaterial service concession arrangements that are material collectively in each reporting period:***

...

**(c) The nature and extent (e.g. quantity, time period, or amount, as appropriate) of:**

- (i) rights to use specified assets;**
- (ii) rights to expect the operator to provide specified services in relation to the service concession arrangement;**
- (iii) the carrying amount of service concession assets recognised ~~at~~ as assets during the reporting date period, including existing assets of the grantor reclassified as service concession assets;**

....

##### **Effective date**

...

##### **Entities already applying Standards of GRAP**

- .33A** Paragraph .30 was amended by the Improvements to the Standards of GRAP (2020) issued on Month Year. These amendments are effective for annual periods beginning on or after Day Month Year [proposed as 1 April 2021]. An entity shall apply these amendments retrospectively 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 this amendment earlier, it shall disclose this fact.

#### **Amendments to the Standard of GRAP on Joint Arrangements**

Amended text is shown with new text underlined and deleted text struck through. The following paragraphs GRAP 37 have been amended:

##### **Effective date**

....

##### **Entities already applying Standards of GRAP**

- .31A** Paragraph AG36A was added by the Improvements to the Standards of GRAP (2020) issued on Month Year. These amendments are effective for annual periods beginning on or after Day Month Year [proposed as 1 April 2021]. An entity shall apply these amendments to transactions in which it obtains joint control on or after the beginning of the reporting period in which the entity first applies the amendments. Earlier application is permitted. If an entity elects to apply this amendment earlier, it shall disclose this fact.

#### **Appendix A - Application guidance**

*This appendix is an integral part of this Standard.*

...

##### **Financial statements of parties to a joint arrangement (paragraphs .21 to .27)**

##### **Accounting for acquisitions of interests in joint operations**

...

- AG36A.** A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a function as defined in GRAP 105 or GRAP 106. In such cases, the previously held interests in the joint operation are not remeasured.

#### **Amendments to the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control**

Amended text is shown with new text underlined and deleted text struck through. The following paragraphs in GRAP 106 have been amended:

##### **A transfer of functions achieved in stages**

...

- .70A** When a party to a joint arrangement (as defined in the Standard of GRAP on Joint Arrangements) (GRAP 37)) obtains control of an operation that is a joint operation (as defined in GRAP 37), and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is an acquisition achieved in stages. The acquirer shall therefore apply the requirements for an acquisition achieved in stages, including remeasuring its previously held interest in the joint operation in the manner described in paragraph .70. In doing so, the acquirer shall remeasure its entire previously held interest in the joint operation.

##### **Effective date**

...

##### **Entities already applying Standards of GRAP**



**.101A Paragraph .70A was added by the Improvements to the Standards of GRAP (2020) issued on Month Year. This amendment is effective for annual periods beginning on or after Day Month Year [proposed as 1 April 2021]. An entity shall apply this amendment to transfer of functions between entities not under common control for which the acquisition date is on or after the beginning of the reporting period in which the entities first applies the amendments. Earlier application is permitted. If an entity elects to apply these amendments earlier, it shall disclose this fact.**

#### **Amendments to the Directive on *The Application of Deemed Cost***

Amended text is shown with new text underlined and deleted text struck through. The following paragraph in Directive 7 has been amended

#### **Scope**

- .04 This Directive does not address:
- (a) ...
  - (b) the deemed cost of biological assets, except for bearer plants, that form part of an agricultural activity. These assets are initially measured at fair value in accordance with the Standard of GRAP on *Agriculture*.

**ANNEXURE C**

**ACCOUNTING STANDARDS BOARD**

**AMENDMENTS TO THE STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE**

**PRESENTATION OF FINANCIAL STATEMENTS**

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

The amendments to GRAP 1 are outlined below. New text is underlined, deleted text is struck through, and text that has been relocated is indicated with a double underline

...

**Components of financial statements**

**.11 A complete set of financial statements comprises:**

- (a) **a statement of financial position;**
- (b) **a statement of financial performance;**
- (c) **a statement of changes in net assets;**
- (d) **a cash flow statement;**
- (e) **a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements, when the entity makes its approved budget publicly available;**
- (f) **notes, comprising ~~a summary of~~ significant accounting policies and other explanatory notes; and**
- (g) **comparative information in respect of the preceding period as specified in paragraphs .44 and .45.**

...

**Materiality and aggregation**

**.36 Each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately unless they are immaterial.**

**.37** Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data which form line items on the face of the statement of financial position, statement of financial performance, statement of changes in net assets and cash flow statement, or in the notes. If a line item is not individually material, it is aggregated with other items either on the face of those statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of those statements may nevertheless be sufficiently material for it to be presented separately in the notes.

**.37A** When applying this and other Standards of GRAP an entity shall decide, taking into consideration all relevant facts and circumstances, how it aggregates information in the financial statements, which includes the notes. An entity shall not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

**.38** Some Standards of GRAP specify information that is required to be included in the financial statements, which include the notes. Applying the concept of materiality means that a specific disclosure requirement in a Standard of GRAP need not be satisfied if the information resulting from that disclosure is not material. This is the case even if a Standard of GRAP contains a list of specific requirements or describes them as minimum requirements. An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in a Standard of GRAP is insufficient to enable the users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

...

**Information to be presented on the face of the statement of financial position**

**.79** In accordance with paragraph .38 As a minimum, the face of the statement of financial position shall include line items that present the following amounts:

- (a) **property, plant and equipment;**
- (b) **investment property;**
- (c) **intangible assets;**
- (d) **heritage assets;**
- (e) **financial assets (excluding amounts shown under (f), (i), (j) and (k));**
- (f) **investments accounted for using the equity method;**
- (g) **inventories;**
- (h) **biological assets that form part of an agricultural activity;**
- (i) **receivables from non-exchange transactions (taxes and transfers);**
- (j) **receivables from exchange transactions;**

- (m) *payables from exchange transactions;*
- (n) *provisions;*
- (o) *liabilities and assets for current and deferred tax, where applicable (as defined in the International Accounting Standard® on Income Taxes);*
- (p) *financial liabilities (excluding amounts shown under (k), (l) and (m));*
- (q) *non-controlling interest, presented within net assets; and*
- (r) *net assets (comprising contributed capital and reserves) attributable to owners of the controlling entity.*

**.80** *Additional line items (including disaggregating the line items listed in paragraph .79), headings and sub-totals shall be presented on the face of the statement of financial position when such presentation is relevant to an understanding of the entity's financial position.*

**.80A** When an entity presents sub-totals in accordance with paragraph .80, those sub-totals shall:

- (a) be comprised of line items made up of amounts recognised and measured in accordance with Standards of GRAP;
- (b) be presented and labelled in a manner that makes the line items that constitute the sub-total clear and understandable;
- (c) be consistent from period to period, in accordance with paragraph .33; and
- (d) not be displayed with more prominence than the sub-totals and totals required in Standards of GRAP for the statement of financial position.

...

#### Information to be presented on the face of the statement of financial performance

**.96** *In accordance with paragraph .38 As a minimum, the face of the statement of financial performance shall include line items that present the following amounts for the period:*

- (a) *revenue;*
- (b) *finance costs;*
- (c) *share of the surpluses or deficits of associates and joint ventures accounted for using the equity method;*
- (d) *tax expense (where applicable);*
- (e) *a single amount comprising:*
  - (i) *the post-tax surplus or deficit of discontinued operations and*
  - (ii) *the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and*
- (a) *surplus or deficit.*

**.97** *The following items shall be disclosed on the face of the statement of financial performance as allocations of surplus or deficit for the period:*

- (a) *surplus or deficit attributable to non-controlling interest; and*
- (b) *surplus or deficit attributable to owners of the controlling entity.*

**.98** *Additional line items (including disaggregating the line items listed in paragraph .96), headings and sub-totals shall be presented on the face of the statement of financial performance when such presentation is relevant to an understanding of the entity's financial performance.*

**.98A** When an entity presents sub-totals in accordance with paragraph .98, those sub-totals shall:

- (a) be comprised of line items made up of amounts recognised and measured in accordance with Standards of GRAP;
- (b) be presented and labelled in a manner that makes the line items that constitute the sub-total clear and understandable;
- (c) be consistent from period to period, in accordance with paragraph .33; and
- (d) not be displayed with more prominence than the sub-totals and totals required in Standards of GRAP for the statement of financial performance.

**.98B** An entity shall present the line items in the statement of financial performance ~~statement(e) presenting profit or loss and other comprehensive income~~ that reconcile any sub-totals presented in accordance with paragraph .98B5 with the sub-totals or totals required in Standards of GRAP~~IERS~~ for such the ~~statement(e)~~ of financial performance.

- .122 The notes shall:**
- (a) **present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with paragraphs .127 to .134;**
  - (b) **disclose the information required by Standards of GRAP that is not presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets, cash flow statement or statement of comparison of budget and actual amounts; and**
  - (c) **provide additional information that is not presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets, cash flow statement or statement of comparison of budget and actual amounts, but is relevant to an understanding of any of them.**
- .123 Notes shall, as far as practicable, be presented in a systematic manner. In determining a systematic manner, the entity shall consider the effect on the understandability and comparability of its financial statements. Each item on the face of the statement of financial position, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts shall be cross-referenced to any related information in the notes.**
- .124 Notes are normally presented in the following order, which assists users in understanding the financial statements and comparing them with financial statements of other entities. Examples of systematic ordering or grouping of the notes include:**
- (a) giving prominence to the areas of its activities that the entity considers to be most relevant to an understanding of its financial performance and financial position, such as grouping together information about particular operating activities;
  - (b) grouping together information about items measured similarly such as assets measured at fair value; or
  - (c) following the order of the line items in the statement of financial performance and the statement of financial position, such as:
    - ~~(a)~~ (i) a statement of compliance with Standards of GRAP (see paragraph .18);
    - ~~(b)~~ (ii) ~~a summary of significant accounting policies applied~~ (see paragraph .127);
    - ~~(c)~~ (iii) supporting information for items presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets, cash flow statement or statement of comparison of budget and actual amounts in the order in which each line item and each financial statement is presented; and
    - ~~(d)~~ (iv) other disclosures, including:
      - (i) contingent liabilities (see GRAP 19) and unrecognised contractual commitments; and
      - (ii) non-financial disclosures, e.g. the entity's financial risk management objectives and policies (see GRAP 104).
- .125 ~~[Deleted] In some circumstances, it may be necessary or desirable to vary the ordering of specific items within the notes. For example, information on changes in fair value recognised in surplus or deficit may be combined with information on maturities of financial instruments although the former disclosures relate to the statement of financial performance and the latter relate to the statement of financial position. Nevertheless, a systematic structure for the notes is retained as far as practicable.~~**
- .126 Notes provide information about the basis of preparation of the financial statements and specific accounting policies may be presented as a separate component of the financial statements.**

#### Disclosure of accounting policies

- .127 An entity shall disclose ~~in the summary of its~~ significant accounting policies comprising:**
- (a) **the measurement basis (or bases) used in preparing the financial statements;**
  - (b) **the extent to which the entity has applied any transitional provisions of the Standards of GRAP; and**
  - (c) **the other accounting policies that are relevant to an understanding of the financial statements.**
- .128 It is important for users to be informed of the measurement basis (or bases) used in the financial statements (for example, historical cost, current replacement cost, realisable value, fair value, recoverable amount or recoverable service amount) because the basis on which the financial statements are prepared significantly affects their analysis. When more than one measurement basis is used in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.**
- .129 In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in the reported financial performance and financial position. Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. Disclosure of particular accounting policies**

consolidation or the equity method (see the Standard of GRAP on Interests in Joint Ventures). Some Standards of GRAP specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, GRAP 17 requires disclosure of the measurement bases used for classes of property, plant and equipment.

~~.130 [Deleted] Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. For example, entities would be expected to disclose an accounting policy for recognition of taxes, donations and other forms of non-exchange revenue. When an entity has significant foreign operations or transactions in foreign currencies, disclosure of accounting policies for the recognition of foreign exchange gains and losses would be expected. When entity combinations have occurred, the policies used for measuring goodwill and non-controlling interest are disclosed.~~

.131 An accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by the Standards of GRAP, but is selected and applied in accordance with GRAP 3.

***.132 An entity shall disclose, in the summary of along with its significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph .135), management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements.***

...

#### Transitional provisions

##### Initial adoption of the Standards of GRAP

...

##### Amendments to Standards of GRAP

...

***.148A Paragraphs .11, .38, .79, .80, .96, .98, .123, .124, .127, .129 and .132 were amended, paragraphs .37A, .80A, .98A and .98B were added and paragraphs .125 and .130 were deleted by the Amendments to the Standard of GRAP on Presentation of Financial Statements (2018) issued in April 2019. An entity shall apply these amendments in accordance with GRAP 3. Entities are not required to disclose the information required by paragraphs .30 to .32 of GRAP 3 in relation to these amendments.***

#### Effective date

##### Initial adoption of the Standards of GRAP

...

##### Entities already applying Standards of GRAP

***.150 An entity shall apply amendments to this Standard for annual financial statements covering periods beginning on or after 1 April 2022. Earlier application is encouraged. If an entity applies these amendments for a period beginning before 1 April 2022, it shall disclose that fact.***

#### Comparison with the International Public Sector Accounting Standard on Presentation of Financial Statements (December 2006)

This Standard is drawn primarily from the International Public Sector Accounting Standard on Presentation of Financial Statements (IPSAS 1). The main differences between this Standard and IPSAS 1 are as follows:

- This Standard includes amendments made to the International Accounting Standard® on Presentation of Financial Statements by the International Accounting Standards Board® as part of its 2010 Improvements to IFRS Standards. ~~It further includes~~ and amendments made to IPSAS 1 as part of the IPSASBs 2010 Improvements to IPSASs. It further includes the Disclosure Initiative (Amendments to IAS 1) issued by the IASB in December 2014.
- IPSAS 1 describes the residual of total assets after deducting total liabilities as "net assets/equity" whereas this Standard refers to "net assets".
- Whereas this Standard describes the period of foreseeable future in terms of going concern as 12 months from reporting date, IPSAS 1 refers to the same as 12 months from the approval of the financial statements. This change has been made in accordance with local requirements.

Revised Standard on Presentation of Financial Statements (December 2006) and the International Accounting Standard on Presentation of Financial Statements (December 2006)

- The term “management” has been introduced in this Standard to describe those persons that are charged with the responsibility for planning, directing, controlling and exercising governance over an entity.
- This Standard requires the separate disclosure of expenditure incurred to repair and maintain assets.
- Transitional provisions to this Standard are dealt with differently than in IPSAS 1.
- The appendix with illustrative examples on financial statement structure has been deleted from this Standard.

## B - Consequential amendments to other 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. GRAP 104 Financial Instruments

Amend the following paragraph in GRAP 104:

#### Accounting policies

.103 In accordance with paragraph .127 of GRAP 1, an entity discloses, ~~in the summary of its~~ significant accounting policies, the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.

...

#### Transitional provisions

...

#### Amendments to Standards of GRAP

...

Insert the following paragraph after paragraph .135A:

**.135B** *Paragraphs .103 and AG154. were amended by the Amendments to the Standard of GRAP on Presentation of Financial Statements (2018) issued in April 2019. These amendments are effective for annual periods beginning on or after 1 April 2022. Earlier application of these amendments is permitted.*

### Appendix A - Application guidance

Amend the following paragraph in the Application Guidance:

#### Accounting policies (paragraph .103)

AG154. Paragraph .103 requires disclosure of the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements. For financial instruments, such disclosure may include:

(a)...

**Paragraph .132 of GRAP 1 also requires entities to disclose, ~~in the summary of~~ along with its significant accounting policies or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.**

### B2. GRAP 21 Impairment of Non-cash-generating Assets

Amend the following paragraph in GRAP 21:

#### Disclosure

**.74** *An entity shall disclose ~~in the summary of its significant~~ accounting policies, the judgements management has made in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets.*

**Transitional provisions**

...

**Amendments to Standards of GRAP**

...

Insert the following paragraph after paragraph .83B:

**.83C Paragraph .74 was amended by the Amendments to the Standard of GRAP on Presentation of Financial Statements (2018) issued in April 2019. These amendments are effective for annual periods beginning on or after 1 April 2022. Earlier application of these amendments is permitted.**

**B3. GRAP 26 Impairment of Cash-generating Assets**

Amend the following paragraph in GRAP 26:

**Disclosure**

**.116 An entity shall disclose ~~in the summary of its significant~~ accounting policies, the judgements management has made in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets.**

...

**Transitional provisions**

...

**Amendments to Standards of GRAP**

...

Insert the following paragraph after paragraph .128B:

**.128C Paragraph .116 was amended by the Amendments to the Standard of GRAP on Presentation of Financial Statements (2018) issued in April 2019. These amendments are effective for annual periods beginning on or after 1 April 2022. Earlier application of these amendments is permitted.**



## DEPARTMENT OF TRADE, INDUSTRY AND COMPETITION

NO. 723

13 August 2021

**MEMORANDUM OF UNDERSTANDING  
("MoU")****Between****THE COMPETITION COMMISSION OF SOUTH AFRICA  
("the Commission")**

A juristic person established in terms of section 19 of the Competition Act, No 89 of 1998 as amended ("the Competition Act") and herein represented by **MR TEMBINKOSI BONAKELE** in his capacity as the Commissioner of the Competition Commission of South Africa

**and****THE NATIONAL AGRICULTURAL MARKETING COUNCIL  
("NAMC")**

A statutory body established in terms of the Marketing of Agricultural Products Act No. 47 of 1996 as amended herein represented by **DR SIMPHIWE NGQANGWENI** in his capacity as Chief Executive Officer of the NAMC.

(Hereinafter jointly referred to as "the Parties")

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## 1. PREAMBLE

**WHEREAS** the Commission is a juristic person established in terms of section 19 of the Competition Act No. 89 of 1998, as amended ("the Competition Act");

**WHEREAS** the Commission is mandated to, *inter alia*, investigate and evaluate restrictive practices, abuse of dominant position, exemptions and mergers, as well as conducting market inquiries; and to promote the efficiency, adaptability and the development of the South African economy;

**WHEREAS** the NAMC is a statutory body established in terms of section 3 of the Marketing of Agricultural Products Act No. 47 of 1996 ("the MAP Act"), as amended;

**WHEREAS** the function of the NAMC in terms of section 9 read with section 11(2) of the MAP Act is to investigate the establishment, continuation, amendment or revocation of statutory measures affecting the marketing of agricultural products, evaluating the desirability, necessity or efficiency and if necessary, proposing alternatives and reporting thereon to the Minister for agriculture. It may also undertake investigations and advise the Minister regarding agricultural marketing policy and coordinate such policy in relation to national, economic, social and development policies and international trends and developments;

**WHEREAS** the NAMC promotes South African research interests in agriculture and may exchange information with government, research institutions, business, industry and international partners that has value in predicting the future commercial behaviour of competitors, future development trends or market conditions;

**WHEREAS** the Parties recognise that their respective mandates are mutually reinforcing and should thus encourage the optimal utilisation of the most effective remedies available between them, as the case may be;

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**WHEREAS** the parties recognise the potential to leverage on areas of convergence and mutual interest;

**WHEREAS** the purpose of this MoU is to outline the collaboration between the Parties in consulting one another on matters of mutual interest effectively carry out their powers and duties ensuring that markets in the agriculture, food and agro-processing sectors operate efficiently and competitively for the benefit of industry, consumers and society in general;

**AND WHEREAS** the Parties acknowledge that the content of this MoU is in the context of and subject to all legislation, as amended from time to time, applicable to a Party;

**THEREFORE**, the Parties agree to enter into this MoU and record the terms of their agreement as follows:

## 2. INTERPRETATION

In the interpretation of any terminology used in this MoU, any word or expression to which a meaning is assigned in the Competition Act and the MAP Act has the meaning assigned to it unless otherwise specified.

In this MoU, unless inconsistent with the context, the following words and expressions shall bear the meanings set out below and derivative expressions and words will have corresponding meaning:

2.1 **"Commission"** means the Competition Commission of South Africa, a juristic entity established in terms of section 19 of the Competition Act;

2.2 **"Competition Act"** means the Competition Act, No 89 of 1998 as amended;

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- 2.3 **"MAP Act"** means the Marketing of Agricultural Products Act No. 47 of 1996;
- 2.4 **"MoU"** means this Memorandum of Understanding;
- 2.5 **"NAMC"** means a statutory body established in terms of section 3 the Marketing of Agricultural Products Act No. 47 of 1996;
- 2.6 **"Parties"** means the NAMC and the Commission.

### 3. OBJECTIVE AND SCOPE OF THE MOU

- 3.1 The Parties have identified four (4) key areas of mutual interest and co-operation; namely (i) research, (ii), policy making, (iii) advocacy efforts and (iv) investigations in the agricultural and food and agro-processing sectors in South Africa.
- 3.2 This MoU is entered into to establish the manner in which the Parties will interact and cooperate with each other to enable them to, *inter alia*:
- 3.2.1 **Conduct research:** promoting co-operation and collaboration between them in areas of mutual interest, including any joint research studies that they may agree to undertake, sharing of data and information collected from industry players and intelligence (such as market structure and price considerations) with each other;
- 3.2.2 **Consult and coordinate their activities on policy matters:** consult each other on regulatory aspects in the agricultural and food and agro-processing sector, applying a consistent interpretation and application of competition and agricultural marketing policy principles when exercising their respective powers and functions, sharing information with each other that will inform their policy work;
- 3.2.3 **Partner on advocacy projects:** partnering on non-enforcement activities such as advocacy projects;

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3.2.4 **Conduct Investigations:** providing each other with the necessary information, advice and inputs during their case investigations, review of merger transactions and exemption applications.

3.3 This MoU does not affect the independence of the Parties in respect of fulfilling their mandate in terms of the respective legislation with which they must comply.

#### 4. PRINCIPLES OF COOPERATION

4.1 In order to achieve the purposes of this MoU, the Parties have adopted and will comply with the principles of co-operation set out below:

4.1.1 the Parties will cooperate with each other in mutual trust and good faith;

4.1.2 the Parties will assist and support each other in respect of agreed upon services and commitments between them in terms of this MoU;

4.1.3 the Parties will consult each other, transfer knowledge and share information on matters of mutual interest;

4.1.4 the Parties will participate in each other's processes in an advisory capacity or obtain the other's input on an aspect within the technical competence of the other;

4.1.5 the Parties will share each other's available resources in order to bring the provisions of this MoU into full effect, provided that such a process is reasonable, shall not compromise the independence of either of the Parties and does not contravene any statute with which the Parties must conform; and

4.1.6 the Parties will avail to each other the necessary support for the successful performance of the tasks and programmes envisaged in this MoU.

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- 4.2 When the Parties participate in each other's processes or obtain each other's inputs as contemplated in clause 4.1.4, they shall do so at no cost to each other and they shall act as expeditiously as circumstances permit.

## 5. PROJECTS AND EVENTS

- 5.1 When the Parties enter into any specific co-operation (such as a project or special event) within the framework of this MoU, the Parties shall sign a separate project plan, which shall be added as an addendum to this MoU, and which stipulates their obligations with respect to such co-operation.

- 5.2 The Project Plan shall be developed jointly by the Parties as and when necessary, and which will describe:

5.2.1 the specific activities to be carried out by the Parties, individually and/or jointly, under this MoU; and

5.2.2 the intended contributions of each Party.

- 5.3 Either Party may propose a Project Plan, which will only be carried out upon approval by both Parties.

- 5.4 The parties shall agree on payment of the costs associated for the execution of any such specific co-operation on a project-by-project basis.

## 6. INTELLECTUAL PROPERTY RIGHTS

- 6.1 Each Party agrees that it shall not use the name, logo and trademarks of the other Party or any abbreviation thereof without the other Party's prior written consent. Consent shall not be unreasonably withheld.

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- 6.2 When making reference to this MoU, each Party undertakes to use the other's name in good faith, reflecting accurately the agreed upon nature of the collaboration contemplated in this MoU, and only in relation to or furtherance of this MoU.
- 6.3 All intellectual property rights, which may be developed pursuant to or in connection with a project or specific event, shall be jointly owned by the Parties.
- 6.4 For avoidance of conflict, Intellectual Property created by either of the Parties prior to, or independent of, this partnership (including any pre-existing methodology and/or tools used by the Parties) will remain the property of the Party responsible for the creation of the Intellectual Property.

## 7. ESTABLISHMENT OF THE JOINT WORKING COMMITTEE

- 7.1 A Joint Working Committee ("the Committee") constituted by at least three (3) representatives of the Commission and the NAMC, as nominated by the respective Parties, shall be established pursuant to this MoU and shall function on an on-going basis.
- 7.2 The functions of the Committee shall be to:
- 7.2.1 manage and facilitate co-operation and consultation in respect of matters dealt with by each Party in terms of this MoU;
  - 7.2.2 facilitate and manage joint projects undertaken in terms of this MoU;
  - 7.2.3 propose, when necessary, any amendment of or supplementation to this MoU;
  - 7.2.4 advise management of both the Commission and the NAMC on issues affecting competition in the agriculture and food and agro-processing sectors, as the case may be, and make recommendations on how to deal with same.

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7.3 The Committee shall meet regularly, but no less than once per quarter, to ensure both Parties are aware of developments in areas of common interest.

## 8. INSTITUTIONAL CONTACT PERSONS

8.1 For purposes of this MoU:

8.1.1 The Divisional Manager: Advocacy will be the main contact person at the Commission.

8.1.2 The Division Senior Manager will be the main contact person at the NAMC.

8.2 Should the Parties have to exchange information, as a result of discussions at the Committee, the processes set out in this MoU shall be followed.

## 9. EXCHANGE OF INFORMATION

9.1 The Parties may, in the manner set out below, request assistance from each other and exchange information as may be necessary to give effect to this MoU.

9.2 The Parties may inform each other of any decision or judgment that either of them has taken in respect of the anticompetitive practice or conduct involving the same respondent, in so far as it pertains to competition and agricultural marketing matters.

9.3 To facilitate communication and to ensure continuity in the co-operation between the Parties, each Party has designated the contact person as set out in clause 8, for communications under this MoU.

9.4 A Party requesting assistance shall make its request for assistance in writing by sending it to the contact person of the other Party. The request must provide:

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- 9.4.1 a description of both the subject matter of the request and the purpose for which the information is sought and the reasons why this information will be of assistance;
- 9.4.2 any information in the possession of the requesting party that might assist in identifying such information; and
- 9.4.3 the desired period of time for the reply.

## 10. CONFIDENTIALITY

- 10.1 Any information shared by the Commission and the NAMC pursuant to this MoU shall be used only for lawful supervisory or statutory purposes.
- 10.2 Any request made by either Party for confidential information in possession of the other, shall be dealt with in accordance with the procedures set out in the parties' respective enabling legislation or policies or procedures.
- 10.3 The party providing confidential information pursuant to this MoU shall clearly indicate what information is identified as confidential to the requesting party.
- 10.4 The parties shall ensure that confidential information accordingly disclosed to them remains confidential and is not placed in the public domain through any negligent or willful conduct on its behalf.
- 10.5 To the extent permitted by law, the Commission and the NAMC shall hold confidential all information received from each other pursuant to this MoU and shall not otherwise disclose such information to any third party, without the written consent of the other party, except in the following circumstances:

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- 10.5.1 when required to do so by the law or an order of a Court or a Tribunal; or
- 10.5.2 where the information is required to be disclosed to government or regulatory bodies; or
- 10.5.3 where the information, prior to disclosure to the third party requesting it, has become available to the public without any act, default or omission of any Party of its obligations hereunder.
- 10.6 The Commission and the NAMC shall, prior to disclosing confidential information or a part thereof when required to do so by the law or an order of a Court or a Tribunal, notify each other of the law or an order of a Court or Tribunal requiring such disclosure.
- 10.7 The sharing of confidential information, in accordance with this MoU, relies on the assurances given in 10.1, 10.2, 10.3, 10.4 and 10.5 above and shall not constitute a waiver of any legally recognisable grounds for refusing disclosure of information.
- 10.8 Where confidential information is disclosed either by the Commission or NAMC in contravention of this MoU, such disclosing party shall be solely liable in law for such disclosure.
- 10.9 Any of the Parties may in its discretion decline a request for confidential information made in terms of this MoU.
- 11. GENERAL PROVISIONS**
- 11.1 Each Party will, with regard to the implementation of this MoU and any activities arising from it, bear its own expenses, unless otherwise agreed upon by the Parties.
- 11.2 The provision of, or request for information under this MoU may be denied:
- 11.2.1 where compliance would require the Commission or the NAMC to act in a manner that would violate the applicable law;

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- 11.2.2 under circumstances where there is an imminent risk to national security; or
- 11.2.3 when compliance with a request or provision of information would interfere with an ongoing investigation in circumstances where prejudice to the investigation is likely to outweigh the adverse effects of denying the information.
- 11.3 No provision of this MoU shall give rise to a right on the part of any person, entity or organ of state other than the Commission and the NAMC, directly or indirectly, to obtain any information or to challenge the execution of a request for information under this MoU.
- 11.4 The provisions set forth under clauses 9 and 10 must prevail with respect to any information provided or actions taken under this MoU prior to its termination.
- 11.5 The Parties shall consult each other before either of them issues a media statement concerning any matter emanating from this MoU.


## 12. NON-VARIATION

- 12.1 This MoU constitutes the whole of the agreement between the Parties relating to the subject matter hereof.
- 12.2 No amendment or consensual cancellation of this MoU or any term thereof, including this clause shall be binding unless recorded in a written document signed by duly authorised representatives of both Parties.

## 13. COMMENCEMENT AND TERMINATION

- 13.1 This MoU comes into effect on the date on which it is last signed by the persons authorised to act on behalf of the Parties.
- 13.2 This MoU shall remain in force until it is amended or repealed by both Parties acting jointly.

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13.3 The termination of this MoU will not prejudice the completion, in accordance with their terms, of any ongoing projects or activities under this MoU unless otherwise agreed to by the Parties at or after termination of this MoU.

#### 14. REVIEW OF THE MOU

14.1 This MoU shall, on an ongoing basis, be reviewed to accommodate developments incidental to matters that require co-operation between the Parties. The review shall take into account prevailing legal precedents, legislative amendments, promulgation of regulations, and policy reviews, as the case may be.



#### 15. DISPUTE RESOLUTION

15.1 Any dispute or difference arising from the interpretation, application and/or implementation of this MoU, shall be resolved amicably through consultation or negotiations between the Parties. In the event of such dispute, the representatives of the Parties as stated in clause 8 shall meet with the view of resolving the impasse.

15.2 Should the Parties fail to resolve the dispute as set out clause 15.1 above, such dispute shall be dealt with in accordance with Intergovernmental Relations Framework Act 13 of 2005.

#### 16. DOMICILIUM CITANDI ET EXECUTANDI

16.1 The Parties choose the following addresses as their respective domicilium citandi et executandi for purposes of this MoU:

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**The Competition Commission**

The DTI Campus  
Mulayo (Block C)  
77 Meintjies Street,  
Sunnyside,  
Pretoria  
Contact person: Ms Khanyisa Qobo

**NAMC**

536 Francis Baard Street  
Arcadia  
Pretoria  
Contact person: Dr Simphiwe Ngqangweni

**17. SIGNATURES**

17.1 The signatories hereof, being duly authorised thereto, by their signatures hereto confirm their acceptance of the contents hereof and recommend the adoption thereof, for and on behalf of the parties represented by them.

SS NPT F [Signature] SM  
[Signature]



Thus Signed at Pretoria on this the 28th day of May 2021.

**DR SIMPHIWE NGQANGWENI**

**For and on behalf of the National Agricultural Marketing Council**

In the presence of witnesses:

1.

2.

Thus Signed at PRETORIA on this the 11 day of JUNE 2021.

**MR TEMCINKOSI BONAKELE**

**For and on behalf of the Competition Commission of South Africa**

In the presence of witnesses:

1.

2.

## DEPARTMENT OF TRADE, INDUSTRY AND COMPETITION

NO. 724

13 August 2021

**NOTICE IN TERMS OF SECTION 79(3) OF THE COMPETITION ACT 89 OF 1998, AS AMENDED****Draft Guidelines on collaboration between competitors on localisation initiatives**

The Competition Commission (“**Commission**”) hereby, in terms of section 79(3) of the Competition Act No. 89 of 1998 (as amended) (“**Act**”), issues draft guidelines on collaboration between competitors on localisation initiatives, for public comment.

The Commission invites interested parties to submit written representations on the draft guidelines in terms of section 79(3) of the Act within 30 business days from date of publication of this notice in the Government Gazette.

The draft Guidelines on collaboration between competitors on localisation initiatives is attached hereto and can also be downloaded from [www.compcom.co.za](http://www.compcom.co.za).

Email: BakheM@compcom.co.za / KriskaG@compcom.co.za

Telephone: +27 12 394 3200

Postal address: The Competition Commission South Africa  
Private Bag X23  
Lynwood Ridge, 0040

**CLOSING DATE FOR SUBMISSION OF COMMENTS: 27 September 2021**





**competitioncommission**  
*south africa*

## **Guidelines on collaboration between competitors on localisation initiatives**

August 2021

Draft

## 1. PREFACE

- 1.1. These Guidelines have been prepared in terms of section 79(1) of the Competition Act No. 89 of 1998 (as amended) (the Act) which authorises the Competition Commission (Commission) to prepare and issue guidelines to indicate its policy approach on any matter falling within its jurisdiction in terms of the Act. These Guidelines are not binding on the Commission, the Competition Tribunal or the Competition Appeal Court in the exercise of their respective functions in the interpretation of the Act.<sup>1</sup> However, any person interpreting or applying the Act is obliged to take the Guidelines into account.<sup>2</sup>
- 1.2. In response to the economic consequences of the Covid-19 pandemic, government developed the Economic Reconstruction and Recovery Plan (“ERRP”) which maps out interventions aimed at promoting inclusive growth and employment in the domestic economy. One of the key objectives of the ERRP is increased localisation – increasing the share of total procurement of an identified input from local suppliers and decreasing the share of procurement of imports of the same input.
- 1.3. Increasing localisation will stimulate economic growth and lead to greater economies of scale for local producers, greater investment locally and, ultimately, improved competitiveness in export markets in the longer term. For the purposes of this guideline, a “localisation initiative” is any project or effort to achieve greater levels of local procurement or production. Localisation initiatives may be initiated by Government or private players themselves.
- 1.4. Government-initiated localisation initiatives may include initiatives such as the Department of Trade, Industry and Competition’s (DTIC’s) CEO

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<sup>1</sup> Section 79(2)(b) of the Act.

<sup>2</sup> Section 79(4) of the Act.

Localisation Initiative<sup>3</sup> or localisation initiatives that arise of the DTIC's Master Plan processes<sup>4</sup>. In addition, localisation initiatives may be initiated by any government entity.

- 1.5. Outside of government, the Commission recognises that industry participants/market players may also wish to engage in initiatives to increase localisation in terms of the ERRP, and in line with government policy.
- 1.6. Whether led by Government or industry, collaboration amongst competitors may be required in order to advance such localisation initiatives. These guidelines have been developed to guide the process by which such collaboration between competitors may occur. For avoidance of doubt, all forms of collaboration between competitors on localisation initiatives are covered by these guidelines.
- 1.7. Given the potential for collaboration between competitors to amount to prohibited conduct in terms of the Act, these guidelines are aimed at providing guidance to industry and government as to how localisation initiatives may be appropriately identified and implemented, in a manner that does not raise competition concerns.
- 1.8. These guidelines are in respect of localisation processes and relate to collaboration amongst purchasers and/or suppliers of products earmarked for greater localisation. The Commission may from time to time update these Guidelines when necessary.

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<sup>3</sup> Under the DTIC CEO Localisation Initiative, the DTIC will explicitly task specific CEOs to lead a process of identifying products in their own supply chains where greater localisation is possible. These CEOs are best placed to identify these opportunities and collaboration may be needed to implement the initiative.

<sup>4</sup> Master Plans focus on supply-side restructuring and investment in an industry, and in that respect may seek exemptions from the Competition Act as required to provide for collaboration amongst competing industry producers. Master Plans may not need to deal with the demand-side of the industry concerned but collaboration on the demand-side may be needed where there is greater scope for localisation to support the supply-side restructuring efforts.

## 2. DEFINITIONS

Unless the context indicates otherwise, the following terms are applicable to these Guidelines-

- 2.1. **“The Act”** means the Competition Act No. 89 of 1998, as amended;
- 2.2. **“Aggregated information”** means information which does not identify an individual firm’s competitively sensitive information;
- 2.3. **“Competitively sensitive information”** means information that is important to rivalry between competing firms and likely to have an impact on one or more of the dimensions of competition (price, output, quality, and innovation). Competitively sensitive information includes, *inter alia*, prices, customer lists, production costs, sales volumes, capacities, business plans, and investment plans;
- 2.4. **“The Commission”** means the Competition Commission, a juristic person established in terms of section 19 of the Act empowered to investigate, control and evaluate competition matters in South Africa in accordance with the Act;
- 2.5. **“The DTIC”** means the Department of Trade, Industry and Competition;
- 2.6. **“Facilitator”** refers to both an appointed independent facilitator and any government entity performing the same function as an independent facilitator;
- 2.7. **“Firm”** includes a person (juristic or natural), partnership or a trust. This may include a combination of firms that form part of a single economic entity, a division and/or a business unit of a firm;
- 2.8. **“Guidelines”** mean these guidelines which have been prepared and issued in terms of section 79(1) of the Act;

- 2.9. **“Independent facilitator”** is a person or firm, with no direct or indirect commercial links or otherwise with the industry or the concerned firm, appointed to facilitate the sharing of competitively sensitive information by individual firms, and the aggregation of such competitively sensitive information amongst firms in the industry; and
- 2.10. **“SMMEs”** means small, micro and medium-sized enterprises within the meaning of the National Small Business Act of 1996 (as amended).

### 3. INTRODUCTION

- 3.1. A number of industries in South Africa face decline amidst the economic consequences of the Covid-19 pandemic. The economic decline threatens job losses across the economy, in some of the most vulnerable areas of the country, and may result in the exit from the market of a significant number of players.
- 3.3. One policy route to address these concerns is to promote localisation initiatives through the ERRP. One example of such an initiative is the industry Master Plan process which aims to deliver a social compact aimed at, among other things, securing agreement amongst all stakeholders on an intervention plan to reinvigorate an industry. Master Plans typically include objectives such as preventing or reversing job losses, restoring competitiveness by increasing efficiencies and restructuring capacity, transformation through inclusive and broad-based participation in the value chain, increasing investment, and increased localisation of procurement.
- 3.4. However, localisation initiatives may also originate from industry itself or any other government department or entity in order to reinvigorate an industry or merely to capitalise on opportunities to further local procurement objectives.

## 4. PURPOSE

- 4.1 In achieving the objective of localisation, industry collaboration may be required. These Guidelines are aimed at providing guidance to industry and government on how industry players may collaborate in identifying opportunities for localisation and implementing commitments related to localisation initiatives in a manner that does not raise competition concerns.
- 4.2 In view of the fact that the process of implementation of such localisation initiatives is dynamic and may be iterative in nature, to the extent that other issues may arise which are not covered in these Guidelines, specific guidance on those issues may be sought from the Commission on a case-by-case basis.

## 5. LEGAL FRAMEWORK

- 5.1 The legal framework for assessing agreements on collaboration among competitors is found in section 4(1) of the Act. Section 4(1) of the Act states as follows:

*“4. Restrictive horizontal practices prohibited*

*(1) An agreement between, or concerted practice by, firms, or a decision by an association of firms, is prohibited if it is between parties in a horizontal relationship and if –*

*(a) It has the effect of substantially preventing, or lessening, competition in a market, unless a party to the agreement, concerted practice, or decision can prove that any technological efficiency or other pro-competitive gain resulting from it outweighs that effect; or*

*(b) it involves any of the following restrictive horizontal practices:*

*(i) directly or indirectly fixing a purchase or selling price or any other trading condition;*

*(ii) dividing markets by allocating customers, suppliers, territories, or specific types of goods or services; or*

*(iii) collusive tendering.”*

5.2 Section 4(1)(a) of the Act prohibits an agreement between competitors that has the effect of substantially preventing or lessening competition, unless a party to the information exchange can prove efficiency benefits that arise from the information exchanged.

5.3 Section 4(1)(b) of the Act outright prohibits an agreement that involves:

5.3.1. the direct or indirect fixing of a purchase or selling price or any other trading condition;

5.3.2. the dividing of markets by allocating customers, suppliers, territories, or specific types of goods or services; and

5.3.3. collusive tendering.

5.4 The main difference between section 4(1)(a) and section 4(1)(b) is the opportunity given to parties in terms of section 4(1)(a) to put up an efficiency justification.

5.5 Section 4(1)(b) provides for an outright prohibition when an agreement results in the conduct listed under section 4(1)(b) and there is no opportunity for raising efficiency, pro-competitive or technological gains as a defence to the alleged anti-competitive conduct.

## **6. FRAMEWORK FOR COLLABORATION ON IDENTIFICATION AND IMPLEMENTATION OF LOCALISATION INITIATIVES**

6.1. Collaboration around localisation initiatives may involve the following elements:

- 6.1.1. the identification of opportunities for localisation initiatives;
- 6.1.2. the process of setting industry local procurement targets;
- 6.1.3. the process of setting individual firm local procurement targets; and
- 6.1.4. demand forecasting.

*Identification of opportunities for localisation initiatives*

- 6.2. Potential opportunities for localisation would typically be identified by an industry player through its own knowledge of the supply chain and local procurement opportunities. In some cases, opportunities may be identified in conjunction with government or identified by government itself. An industry player may engage with its suppliers around the potential for expansion of local supply at any stage, however this must not involve acquiring the competitively sensitive information of competitors.
- 6.3. Following the identification of a candidate product, the scope for localisation in aggregate across an industry must be assessed, at which point collaboration between competitors would be required. In order to do this, an independent facilitator must be appointed or the government entity itself may act as the facilitator.
- 6.4. The facilitator must engage with firms on a bilateral basis in order to determine the aggregate level of localisation across the industry, and the scope for increasing it.
- 6.5. Securing agreement amongst firms on a specific product for a localisation initiative may require discussion between competing firms that must be led by the facilitator. Only aggregated information on volumes and percentages



of the identified product may be shared by the facilitator. No firm-specific competitively sensitive information may be shared, including prices, procurement, or business plans. The focus of such a meeting is to reach agreement on whether there are prospects to increase localisation of the identified product and discussions must be minuted.

- 6.6. Following identification of the product, guidance on how targets may be agreed and achieved through collaboration are covered below.

#### *The process of setting industry localisation targets*

- 6.7. The process of setting industry level localisation targets may require discussions among competitors. These discussions must be led by the appointed independent facilitator or the government entity where it acts as the facilitator.
- 6.8. No competitively sensitive information must be shared or discussed among firms in the collective discussions on localisation.
- 6.9. Only aggregated information on the percentage and volumes of industry data may be shared and discussed among firms.
- 6.10. The final industry targets must be determined by the facilitator. In determining the industry targets, the facilitator may obtain competitively sensitive information on a bilateral and confidential basis separately from each individual firm, and this individual firm information may not be shared or discussed in the collective discussions among competitors.
- 6.11. The participation by firms in the discussions on any localisation initiative within the provisions of these guidelines does not amount to a contravention of section 4(1) of the Act.

### *The process of setting individual firm localisation targets*

- 6.12. The process of setting individual firm localisation targets in the implementation of any localisation initiative must be conducted on a bilateral and confidential basis between the facilitator and the individual firm.
- 6.13. The facilitator may obtain competitively sensitive information from an individual firm for the purpose of reaching an agreement with the firm on its localisation target, and this information may not be shared with other market participants.
- 6.14. An agreement between the facilitator and firms on individual localisation targets, facilitated by the facilitator, may not amount to a contravention of section 4(1) of the Act.
- 6.15. Progress reports on the achievement of milestones set out in the individual firm's localisation plan must be submitted to the facilitator on a bilateral and confidential basis, whereafter the facilitator may aggregate the information for any other purpose.

### *Demand forecasting*

- 6.16. A localisation initiative may also include industry commitments to providing demand forecasting guidance to input suppliers to facilitate industry planning against the availability of the input and supply commitments.
- 6.17. In such cases, the demand forecasting guidance provided to suppliers must only contain aggregated information and must not contain firms' individual procurement plans and information.

## 7. CONCLUSION

- 7.1. These Guidelines set out the Commission's approach to collaboration in the identification and implementation of industry commitments on localisation initiatives initiated by government entities or industry players.
- 7.2. In accordance with the provisions of section 79(4) of the Act, the Commission will not regard collaboration on local procurement which is conducted in accordance with these Guidelines as a contravention of section 4(1) of the Act. As specified above, these Guidelines do not provide for any localisation initiative that may contravene section 4(1)(b) of the Act.
- 7.3. These Guidelines do not set out all the permutations of collaboration that may be required for localisation initiatives and do not fetter the discretion of the Commission to consider other forms of collaboration on localisation a case-by-case basis, considering the market context and the nature of the collaboration.
- 7.4. Collective discussions on localisation initiatives involving competitors and/or firms in the value-chain must be notified to the Commission within a reasonable time and all ensuing discussions must be minuted. The Commission may request access to these minutes or recordings of such meetings at any time.
- 7.5. Localisation initiatives contemplated in these guidelines must, where practical, be inclusive of firms in the affected industry, particularly SMMEs and firms owned by historically disadvantaged persons.
- 7.6. Should market participants be uncertain as to whether any other collaboration on increasing local procurement may potentially contravene the Act, they may approach the Commission for further guidance.

## 8. EFFECTIVE DATE AND UPDATES

- 8.1. These Guidelines become effective on the date of publication in the Government Gazette and may be updated by the Commission as necessary.

DRAFT

## GENERAL NOTICES • ALGEMENE KENNISGEWINGS

### DEPARTMENT OF AGRICULTURE, LAND REFORM AND RURAL DEVELOPMENT

#### NOTICE 466 OF 2021

#### GENERAL NOTICE IN TERMS OF THE RESTITUTION OF LAND RIGHTS ACT 1994, (ACT No. 22 OF 1994) AS AMENDED.

Notice is hereby given in terms of Section 11 (1) of the Restitution of Land Rights Act 1994 (Act 22 of 1994) as amended, that a Land Claim for Restitution of Land Rights has been lodged by Ms. Notaru Venus Kula as the spouse of the late Mr. Mbuyiselo Gladstone Kula (ODI) for Erf 149109 Cape Town at Kensington situated in the City of Cape Town under Cape Town Metro, Western Cape

Reference Number	:	K621
Dispossessed Party	:	Mr. Mbuyiselo Gladstone Kula
Claimant	:	Ms. Notaru Venus Kula
Property Description	:	Erf 149109 Cape Town at Kensington
Extent	:	582m <sup>2</sup>
Capacity	:	Tenancy
Date of Occupation	:	1948
Date of Dispossession	:	1960
Current Owners	:	Achmat Hendricks and Fatima Hendricks
Date Submitted	:	31 December 1998

The Regional Land Claims Commission investigated this claim in terms of provisions of the Act. Any party who has an interest in the above-mentioned land is hereby invited to submit, within 15 days from the publication of this notice, any comments / information to: The Regional Land Claims Commission: Western Cape, Private Bag X9163, Cape Town, 8000, Tel no: (021) 4090300 and Fax no: (021) 424-5146

Mr. L. H. Maphutha  
Regional Land Claims Commissioner

APPROVED .....

DATE .....

CHECKED .....

DATE .....

**DEPARTMENT OF AGRICULTURE, LAND REFORM AND RURAL DEVELOPMENT****NOTICE 467 OF 2021****AGRICULTURAL PRODUCT STANDARDS ACT, 1990 (ACT No. 119 OF 1990)****REGULATIONS RELATING TO THE PROTECTION OF GEOGRAPHICAL INDICATIONS USED ON AGRICULTURAL PRODUCTS INTENDED FOR SALE IN THE REPUBLIC OF SOUTH AFRICA: PROPOSED AMENDMENT**

I, Angela Thokozile Didiza, Minister of Agriculture, Land Reform and Rural Development, acting under section 15 of the Agricultural Product Standards Act, 1990 (Act No. 119 of 1990), hereby make known that I intend to publish an amendment to the "Regulations relating to the protection of geographical indications used on agricultural products intended for sale in the Republic of South Africa" (No.R. 447 of 22 March 2019).

All interested parties are invited to submit comments or make representations concerning the proposed amendment to the regulations within **30 days** from the date of publication of this notice to the following address:

Executive Officer: Agricultural Product Standards  
Department of Agriculture, Land Reform and Rural Development  
Private Bag X343, Pretoria, 0001  
30 Hamilton Street, Harvest House Building, Arcadia, Room 156  
Tel. no. 012 319 6093; Fax no. 012 319 6265  
Email: ThabangK@dalrrd.gov.za

The proposed amendment is available on the Department's website [www.dalrrd.gov.za](http://www.dalrrd.gov.za), go to "Branches", then to "Agricultural Production, Health & Food Safety", then to "Food Safety & Quality Assurance" and then to "Draft legislation for comments", or can be forwarded via electronic mail or posted on request.

**MRS ANGELA THOKOZILE DIDIZA**  
**MINISTER FOR AGRICULTURE, LAND REFORM AND RURAL DEVELOPMENT**

**NON-GOVERNMENTAL ORGANIZATION****NOTICE 468 OF 2021****IN THE HIGH COURT OF SOUTH AFRICA  
(WESTERN CAPE DIVISION, CAPE TOWN)**

CASE NUMBER: 11344/21

In the *ex parte* application of:**ANELE SELEKWA**

First Applicant

(ID NO: 850224 5382 087)

and

**LINN SOFIA ELISABETH MALMBORG SELEKWA**

Second Applicant

(DATE OF BIRTH: 26 SEPTEMBER 1989)

(PASSPORT NO: 97979368)

For the registration of a Postnuptial Notarial Contract having the effect of an Antenuptial Contract

**NOTICE OF MOTION**

**BE PLEASED TO TAKE NOTICE THAT** the above-named Applicants will make application to the above Honourable Court on **Tuesday** the **31<sup>st</sup>** day of **August 2021** at 10h00 or as soon thereafter as Counsel may be heard, for an order in the following terms:

1. Granting the Applicants leave to change their matrimonial property regime and authorising them, in terms of Section 21(1) of the Matrimonial Property Act, No 88. of 1984, as amended, to conclude and register a postnuptial notarial contract in terms whereof the matrimonial property regime applicable to their marriage will be altered and regulated in accordance with the terms and conditions contained in the draft postnuptial notarial contract which constitutes Annexure "**S2**" to First Applicant's affidavit, which shall operate from the date of execution thereof.
2. Ordering the Applicants to register the aforementioned postnuptial notarial contract within THREE (3) months of the date of this order.
3. Authorising and directing the Registrar of Deeds Cape Town to register the aforementioned notarial contract and to effect any necessary consequential alterations and/or deletions of any endorsements in the title deed(s) of any immovable property held in the name(s) of either, or both, of the Applicants, provided that the aforementioned notarial contract complies with the relevant legal requirements and subject to it being submitted to the offices of the Registrar of Deeds within the period prescribed in paragraph 2 above.
4. Confirming that this order shall not prejudice the rights of any actual or contingent creditors of the Applicants whose rights accrued prior to the registration of the postnuptial notarial contract.
5. Granting the Applicants such further and/or alternative relief as the above Honourable Court may deem fit.

**KINDLY PLACE THIS MATTER ON THE ROLL FOR HEARING ACCORDINGLY.****DATED** at **CLAREMONT** on this 5<sup>th</sup> day of **JULY 2021****MEYER INC**  
Per:  
Applicants' Attorney

18 Draper Square, Draper Street  
**CLAREMONT**  
Tel: 021 683 2792  
Email: [collections@meyerinc.co.za](mailto:collections@meyerinc.co.za)  
Ref.: J A MEYER/VG

**TAKE FURTHER NOTICE** that should any party intend opposing the application or make any representation, notice of intention to oppose must be done in writing and directed to:

1. The Registrar of the High Court, Keerom Street, Cape Town; and
2. 1<sup>st</sup> and 2<sup>nd</sup> Applicants attorney of record

**TAKE NOTICE THAT** the intended Post-Nuptial Contract lies for inspection as the Registrar of Deeds and at the offices of the Applicants' attorney of record.



**DEPARTMENT OF SCIENCE AND INNOVATION**  
**NOTICE 469 OF 2021**  
**NATURAL SCIENTIFIC PROFESSIONS ACT, 2003**

**Fields of Practice**

By virtue of the powers vested in me by section 19 (2) (b) of the Natural Scientific Professions Act, 2003 (Act No. 27 of 2003) ("the Act") I, Dr BE Nzimande, Minister of Higher Education, Science and Innovation, hereby substitute the existing Schedule I to the Act with the amended Schedule I, attached hereto, with effect from the date of publication of this notice.



**DR B E NZIMANDE, MP**

**MINISTER OF HIGHER EDUCATION, SCIENCE AND INNOVATION**

**DATE:** 07/07/2021

## GENERAL EXPLANATORY NOTE

Words underlined with a solid line indicate insertions in existing enactments.

**SCHEDULE I**  
**FIELDS OF PRACTICE**

<b>Fields of practice: Schedule I of the Act<sup>1</sup></b>	
Agricultural Science	Includes Forestry & Wood Science
Animal Science	
Aquatic Science	Includes Marine Science
Atmospheric Science	Includes Climatology and Meteorology
Biological Science	
Botanical Science	
Chemical Science	Includes Industrial Science
Conservation Science	
Earth Science	<u>Includes L4 Competent Natural Science Geo-Professionals</u>
Ecological Science	
Environmental Science	
Extension Science	
Food Science	
Geological Science	<u>Includes L4 Competent Natural Science Geo-Professionals</u>
Geospatial Science	
Materials Science	Includes Metallurgical Science
Mathematical Science	
Microbiological Science	
Physical Science	Includes Radiation Science
Soil Science	
Specified Science	Includes Fire Origin and Cause Investigation
Statistical Science	
Toxicological Science	
Water Resources Science	Includes Hydrological Science and Water Science
Zoological Science	
Measurement Science	Can be included as a sub-field of practice under any appropriate field of practice in Natural Science.

## DEPARTMENT OF TRADE, INDUSTRY AND COMPETITION

## NOTICE 470 OF 2021

STANDARDS ACT, 2008  
STANDARDS MATTERS

In terms of the Standards Act, 2008 (Act No. 8 of 2008), the Board of the South African Bureau of Standards has acted in regard to standards in the manner set out in the Schedules to this notice.

## SECTION A: DRAFTS FOR COMMENTS

The following draft standards are hereby issued for public comments in compliance with the norm for the development of the South African National Standards in terms of section 23(2)(a) (ii) of the Standards Act.

Draft Standard No. and edition	Title, scope and purport	Closing Date
SANS 19160-3 Ed 1	<i>Addressing – Part 3: Address data quality.</i> Establishes a set of data quality elements and measures for describing the quality of address data.	2021-09-28
SANS 13408-1 Ed 1	<i>Aseptic processing of health care products – Part 1: General requirements.</i> Describes standards for terminal sterilization of healthcare products by irradiation, by moist heat, by dry heat, by ethylene oxide and by liquid chemical sterilants.	2021-09-28
SANS 61158-3-17 Ed 1	<i>Industrial communication networks – Fieldbus specifications – Part 3-17: Data-link layer service definition – Type 17 elements.</i> Provides common elements for basic time-critical messaging communications between devices in an automation environment.	2021-09-28
SANS 1332 Ed 2	<i>Accessories for medium-voltage XLPE and impregnated paper-insulated power cables (3,8/6,6 kV to 19/33 kV).</i> Covers requirements for accessories for medium-voltage cables used on a.c. systems of voltages from 3,8/6,6 kV up to and including 19/33 kV, and covers accessories for both XLPE and impregnated paper-insulated cables.	2021-09-28

## A.1: AMENDMENT OF EXISTING STANDARDS

The following draft amendments are hereby issued for public comments in compliance with the norm for the development of the South African National Standards in terms of section 23(2)(a) (ii) of the Standards Act.

Draft Standard No. and edition	Title	Scope of amendment	Closing Date
SANS 868-1-2 Ed 1.2	<i>Compression-ignition engine systems and machines powered by such engine systems, for use in mines and plants with explosive gas atmospheres or explosive dust atmospheres or both – Part 1-2: Hazardous locations in underground mines - Explosion protected engine systems</i>	Amended to move reference to marking from the foreword to the body of the text, to update the subclause on joints, the definitions and renumber accordingly, and to delete an annex on procedure for obtaining approval for an explosion protected compression ignition engine system not previously certified as well as for a modified system.	2021-09-23
SANS 1825 Ed 4.2	<i>Gas cylinder test stations – General requirements for periodic inspection and testing of transportable refillable gas pressure receptacles</i>	Amended to update referenced standards, to add requirements for cylinder and cylinder tare check, to update the requirements for identification of cylinder and preparation for inspections and tests, the requirements for cylinder records and inspection report/certificates, to add foot notes in the table for basic equipment for test stations, the requirements for resale of	2021-09-28

		scrapping/rejection criteria for pressure receptacles, to update the annex on withdrawn cylinder specifications, the annex on LPG cylinder inspection and test procedures, and to update the annex on test pressure requirements for DOT pressure receptacles.	
SANS 638 Ed 3.1	<i>Food grade salt</i>	Amended to remove the reference to “SADC harmonized standard” and to delete the annex on notes to purchasers.	2021-09-28
SANS 777 Ed 3.5	<i>Overbed tables</i>	Amended to delete the appendix on notes to purchasers.	2021-09-28
SANS 10123 Ed 1.4	<i>The control of undesirable static electricity</i>	Amended to update the note in the scope, referenced standards, and to move the reference to national authority to the foreword.	2021-09-28

## SCHEDULE A.2: WITHDRAWAL OF THE SOUTH AFRICAN NATIONAL STANDARDS

In terms of section 24(1)(C) of the Standards Act, the following published standards are issued for comments with regard to the intention by the South African Bureau of Standards to withdraw them.

Draft Standard No. and edition	Title	Reason for withdrawal	Closing Date

## SECTION B: ISSUING OF THE SOUTH AFRICAN NATIONAL STANDARDS

### SCHEDULE B.1: NEW STANDARDS

The following standards have been issued in terms of section 24(1)(a) of the Standards Act.

Standard No. and year	Title, scope and purport
SANS 62386-216:2021 Ed 1	<i>Digital addressable lighting interface – Part 216: Particular requirements for control gear – Load referencing (device type 15)</i> . Specifies a bus system for control by digital signals of electronic lighting equipment which is in line with the requirements of IEC 61347 (all parts), with the addition of DC supplies.
SANS 10400-Q:2021 Ed 4	<i>The application of the National Building Regulations – Part Q: Non-water-borne means of sanitary disposal</i> . Specifies deemed-to-satisfy requirements for compliance with part Q (Non-Water-Borne Means of Sanitary Disposal) of the National Building Regulations.
SANS 27035-2:2021 Ed 1	<i>Information technology – Security techniques – Information security incident management – Part 2: Guidelines to plan and prepare for incident response</i> . Provides the guidelines to plan and prepare for incident response.

**SCHEDULE B.2: AMENDED STANDARDS**

The following standards have been amended in terms of section 24(1)(a) of the Standards Act.

<b>Standard No. and year</b>	<b>Title, scope and purport</b>
SANS 890-2:2021 Ed 3.3	<i>Ballasts for fluorescent lamps – Part 2: Ballasts for lamps for operation without starters (class B lamps). Consolidated edition incorporating amendment No.3.</i> Amended to delete the annex on notes to purchasers.
SANS 60601-1-10:2021 Ed 1.2	<i>Medical electrical equipment – Part 1-10: General requirements for basic safety and essential performance – Collateral Standard: Requirements for the development of physiologic closed-loop controllers. Consolidated edition incorporating amendment No.2.</i> Amended to update the scope, object and related standards, referenced standards and terms and definitions, to update the clauses on general requirements, ME equipment identification, marking and documents, accuracy of controls and instruments and protection against hazardous outputs, requirements for physiological closed-loop controller (PCLC) development, and to update the annexes general guidance and rationale, and on guide to marking and labelling requirements for ME equipment and ME systems..

**SCHEDULE B.3: WITHDRAWN STANDARDS**

In terms of section 24(1)(C) of the Standards Act, the following standards have been withdrawn.

<b>Standard No. and year</b>	<b>Title</b>
SANS 964:2008 Ed.3.2	<i>Solas life-jackets</i>

**SCHEDULE B4: DISBAND OF TECHNICAL COMMITTEES**

<b>Committee No</b>	<b>Title</b>	<b>Scope</b>

If your organization is interested in participating in these committees, please send an e-mail to [Dsscomments@sabs.co.za](mailto:Dsscomments@sabs.co.za) for more information.

**SCHEDULE B5: ADDRESS OF THE SOUTH AFRICAN BUREAU OF STANDARDS HEAD OFFICE**

Copies of the standards mentioned in this notice can be obtained from the Head Office of the South African Bureau of Standards at 1 Dr Lategan Road, Groenkloof, Private Bag X191, Pretoria 0001.

## PROCLAMATION NOTICES • PROKLAMASIE KENNISGEWINGS

## PROCLAMATION 35 OF 2021

by the  
*President of the Republic of South Africa*

**COMMENCEMENT OF CUSTOMARY INITIATION ACT, 2021 (ACT NO. 2 OF 2021)**

Under section 42 of the Customary Initiation Act, 2021 (Act No. 2 of 2021), I hereby determine 01 September 2021 as the date on which the said Act shall come into operation.

Given under my Hand and the Seal of the Republic of South Africa at  
Pretoria on this 02 day of August  
Two thousand and Twenty-one.

President



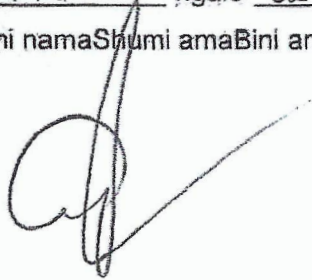
By Order of the President-in-Cabinet:

*NC Zuma*  
Minister of the Cabinet

**ISIBHENGEZO****ngu****Mongameli weRiphabliki yoMzantsi Afrika****UKUQALA KOKUSEBENZA KOMTHETHO WOLWALUKO, 2021 (UMTHETHO WESI- 2 KA-2021)**

Phantsi kwecandelo lama-42 lomThetho woLwaluko, 2021 (umThetho wesi-2 ka-2021), Ngale ndlela ndimisela owe-01 Septemba 2021 njengomhla lowo umThetho okhanganyweyo uza kuqala ukusebenza ngawo.

ISayinwe ngeSandla sam kunye neSitampu seRiphabliki yoMzantsi Afrika e Pretoria ngalo 02 wosuku lwe August AmaWaka amaBini namaShumi amaBini ananye.

**uMongameli**

NgokoMyalelo kaMongameli okwiKhabhinethi:

**UMphathiswa weKhabhinethi**

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**BOARD NOTICES • RAADSKENNISGEWINGS**

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**BOARD NOTICE 100 OF 2021****THE SOUTH AFRICAN PHARMACY COUNCIL****PHARMACIST WHO PROVIDES IMMUNISATION SERVICES**

The South African Pharmacy Council hereby publishes for broad-based stakeholder consultation, the scope of practice of a pharmacist who offers IMMUNISATION SERVICES, the competency standards of such pharmacists and the criteria for the approval of a curriculum of an immunisation and injection technique and delivering immunisation services course.

Interested parties are invited to submit, within **60 days** of publication of this notice, substantiated comments on or representation. Comments must be addressed to the Registrar, the South African Pharmacy Council c/o Ms Debbie Hoffmann, via email [BN@sapc.za.org](mailto:BN@sapc.za.org).

**SCHEDULE:**

**Part 1:** Scope of practice for a pharmacist who provides immunisation services.

**Part 2:** Competency standards for a pharmacist who provides immunisation services.

**Part 3:** Criteria for accreditation/approval by the South African Pharmacy Council of a curriculum of an immunisation and injection technique and delivering immunisation services course.

In this notice "the Act" shall mean the Pharmacy Act, 53 of 1974 (as amended), and any expression to which a meaning has been assigned in the Act shall bear such meaning.



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## BOARD NOTICE 101 OF 2021

## THE SOUTH AFRICAN PHARMACY COUNCIL

**A PHARMACIST WHO PROVIDES PHARMACIST-INITIATED MANAGEMENT OF ANTIRETROVIRAL THERAPY (PIMART) SERVICES IN SOUTH AFRICA: SCOPE OF PRACTICE, COMPETENCY STANDARDS AND THE CRITERIA FOR ACCREDITATION OF A PHARMACIST INITIATED MANAGEMENT OF ANTIRETROVIRAL THERAPY (PIMART) COURSE**

The South African Pharmacy Council hereby publishes for **implementation**, the scope of practice of a pharmacist who provides PIMART services, the competency standards of such pharmacists and the criteria for the approval of a curriculum of a PIMART course.

**SCHEDULE:**

- Part 1:** Scope of practice for a pharmacist who provides pharmacist-initiated management of antiretroviral therapy (PIMART) services.
- Part 2:** Competency standards for a pharmacist who provides pharmacist-initiated management of antiretroviral therapy (PIMART) services.
- Part 3:** Criteria for accreditation/approval by the South African Pharmacy Council of a curriculum leading to the awarding of a PIMART course.

In this notice "the Act" shall mean the Pharmacy Act, 53 of 1974 (as amended), and any expression to which a meaning has been assigned in the Act shall bear such meaning.



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## PART 1: THE SCOPE OF PRACTICE FOR A PIMART PHARMACIST

In addition to the acts and services which form part of the scope of practice of the pharmacist as prescribed in terms of Regulations 3 and 4 of the *Regulations relating to the practice of Pharmacy*; a pharmacist who has completed the Pharmacist Initiated Management of Antiretroviral Therapy (PIMART) supplementary training must be allowed to perform consultations with patients at a pharmacy or in an approved primary health care setting, which includes:

- (a) history taking, performing of screening and confirmatory tests, ordering, conducting and interpretation of diagnostic and laboratory tests in line with NDoH guidelines (for diagnosis, clinical staging and assessment of an HIV infected patient or those at high risk of contracting HIV);
- (b) assess and manage the HIV-infected patients or those at high risk of contracting HIV who require Pre-Exposure Prophylaxis (PrEP) and Post-Exposure Prophylaxis (PEP), who are not pregnant or under 15 years of age;
- (c) decision on safe and appropriate therapy;
- (d) initiate anti-retroviral treatment limited to PrEP, PEP and 1st line Antiretroviral Therapy (ART) plus initiation of TB-Preventative Therapy (TPT) in line with NDoH guidelines;
- (e) adjustment of ART (where necessary) which has been prescribed previously;
- (f) monitoring of the outcomes of therapy;
- (g) referral to another health care provider where necessary, e.g. discordant results; and
- (h) confidential and adequate record keeping.

## PART 2: COMPETENCY STANDARDS FOR A PHARMACIST WHO PROVIDES PHARMACIST-INITIATED MANAGEMENT OF ANTIRETROVIRAL THERAPY (PIMART) SERVICES

### ACRONYMS

AIDS	Acquired Immune Deficiency Syndrome
ART	Antiretroviral Therapy
ARV	Antiretroviral
CD4	Cluster of Differentiation 4
CD8	Cluster of Differentiation 8
ELISA	Enzyme-Linked Immunosorbent Assay
GP	General Practitioner
HIV	Human Immunodeficiency Virus
HTS	HIV Testing Services
IRIS	Immune Reconstitution Inflammatory Syndrome
MTCT	Mother-to-Child Transmission
NDoH	National Department of Health
PEP	Post Exposure Prophylaxis
PhICT	Pharmacist-Initiated Counselling and Testing
PIMART	Pharmacist-Initiated Management of Antiretroviral Therapy
PMTCT	Prevention of Mother-to-Child Transmission
PrEP	Pre-Exposure Prophylaxis
TB	Tuberculosis
TPT	TB-preventative treatment
VMMC	Voluntary Medical Male Circumcision
WHO	World Health Organisation

### DEFINITIONS

**Behavioural competency:** Typical behaviour observed when effective performers apply motives, traits or skills to job-relevant tasks.

**Competency:** A quality or characteristic of a person related to effective or superior performance. Competency consists of aspects such as attitudes, motives, traits and skills.

**Domain:** Represents an organised cluster of competencies within a framework and the domains, with associated competencies.

**Fast Track Initiation Counselling:** Fast-tracking patients onto ART without delay and providing minimal ART preparation counselling.

**HIV Specialist:** A practising physician with a background in clinical, internal or family medicine who provides comprehensive primary health care services to patients with HIV on a daily basis.

## SUMMARY OF PIMART COMPETENCY STANDARDS

DOMAIN	Competency Standard
1. Conduct testing and diagnosis of HIV	1.1 Understand and perform various HIV testing options. 1.2 Understand and perform CD4 Testing. 1.3 Conduct Pharmacist-Initiated Counselling and Testing (PhICT). 1.4 Provide Risk Reduction Counselling. 1.5 Use immunological and virological parameters in understanding the severity of HIV infection.
2. Initiate pre-exposure prophylaxis (PrEP), post-exposure prophylaxis (PEP) and 1st line antiretroviral therapy (ART) plus the initiation of TB-preventative therapy (TPT) where appropriate and apply protocol adherence measures	2.1 Demonstrate knowledge of ART Principles. 2.2 Prepare patients for ART adherence. 2.3 Identify, classify, and analyse the various types of ARTs and their side effects and toxicities. 2.4 Initiate ART. 2.5 Analyse ART medicine choices in PrEP and PEP, and considerations around pharmacology and drug interactions, including TPT. 2.6 Identify and manage PrEP, PEP and ART contra-indications. 2.7 Conduct PEP in the PIMART environment.
3. Implement processes for the prevention of HIV transmission and infection via PrEP, safer conception and contraception, and prevention of mother to child transmission (PMTCT)	3.1 Implement PrEP in the PIMART environment. 3.2 Conduct pregnancy screening and recommend contraception in the PIMART context. 3.3 Implement pre-conception management for HIV positive couples. 3.4 Demonstrate knowledge of PMTCT and the rationale for PMTCT programmes.
4. Implement processes to identify and manage co-morbidities and opportunistic infections related to HIV	4.1 Manage HIV co-morbidities. 4.2 Identify and manage common opportunistic infections. 4.3 Manage TB and HIV co-infection. 4.4 Promote TB prevention.
5. Implement processes to prevent and manage drug interactions and drug resistance	5.1 Understand the importance of drug interactions, e.g. drug/drug and drug/disease. 5.2 Demonstrate in-depth knowledge of various ART drug interactions. 5.3 Prevent adverse drug interactions and reactions. 5.4 Define the types and consequences of drug resistance.
6. Handle ART data responsibly and use disease management systems appropriately	6.1 Generate reports to assist with clinical governance, programme management and quality improvement. 6.2 Use a Patient Management System. 6.3 Implement the process of care for PIMART. 6.4 Apply minimum package of interventions to support linkage to care.

## **DOMAIN 1: CONDUCT TESTING AND DIAGNOSIS OF HIV**

### **INTRODUCTION**

The domain covers competencies that are required to conduct testing and diagnosis of HIV, provide counselling and understanding the severity of the HIV infection and the mental state of the patient. The NDoH's aspiration is that 90% of people living with HIV will know their status.

Participation of pharmacists in conducting testing and diagnosis of HIV will contribute to improved access to quality testing and diagnosis sites.

The competencies required in the domain for testing and diagnosis of HIV are:

- 1.1 Understand and perform various HIV testing options;
- 1.2 Understand and perform CD4 Testing;
- 1.3 Conduct Pharmacist-Initiated Counselling and Testing (PhICT);
- 1.4 Provide Risk Reduction Counselling; and
- 1.5 Use immunological and virological parameters in understanding the severity of HIV infection.

<b>DOMAIN 1: CONDUCT TESTING AND DIAGNOSIS OF HIV</b>	
<b>BEHAVIOURAL STATEMENTS</b>	
<b>COMPETENCIES</b>	
1.1 Understand and perform various HIV testing options	<p>1.1.1 Demonstrating an understanding of the different types of tests available when testing for HIV.</p> <p>1.1.2 Performing rapid or point of care tests (including HIV Self-tests) to diagnose HIV.</p> <p>1.1.3 Interpreting HIV test results including reasons for false-negative.</p> <p>1.1.4 Selecting which tests to use to diagnose HIV in a range of circumstances.</p> <p>1.1.5 Linking patients with positive, negative, or indeterminate results to care (appropriate referral).</p>
1.2 Understand and perform CD4 Testing	<p>1.2.1 Explaining the role CD4+ T-cells and CD8+ T-cells play.</p> <p>1.2.2 Knowing when and why CD4 counts are measured.</p> <p>1.2.3 Interpreting CD4 counts.</p> <p>1.2.4 Describing the factors that affect CD4 counts.</p>
1.3 Conduct Pharmacist-Initiated Counselling and Testing (PhICT)	<p>1.3.1 Demonstrating an understanding of HTS in general and PIMART in terms of linkage to care and pre-test counselling.</p> <p>1.3.2 Describing the nature of counselling as it relates to counselling phases, clinical interaction, legal and ethical issues, and confidentiality and disclosure.</p> <p>1.3.3 Demonstrating an understanding and application of empathic counselling skills. Range: Active listening, mirroring, paraphrasing, the reflection of content and feelings, summarising, responding, and questioning.</p> <p>1.3.4 Demonstrating an understanding and application of counselling approaches in specified groups Range: Adolescents, strong reactions, couples, serodiscordant couples and suicidal patients.</p> <p>1.3.5 Describing the basic goals of PEP and PrEP Effective Use counselling.</p>
1.4 Provide Risk Reduction Counselling	<p>1.4.1 Demonstrating an understanding of common risk reduction conditions.</p> <p>1.4.2 Demonstrating an understanding of risk-taking variables Range: Knowledge, Relationships, Social Context, Structural Factors.</p> <p>1.4.3 Demonstrating an understanding of the risk reduction behaviour change model.</p> <p>1.4.4 Applying the seven (7) steps in risk reduction counselling.</p>
1.5 Use immunological and virological parameters in understanding the severity of HIV infection	<p>1.5.1 Demonstrating an understanding of the use and benefits of clinical staging.</p> <p>1.5.2 Describing the WHO HIV Stages.</p> <p>1.5.3 Identifying symptoms and common opportunistic infections for stage 1, 2, 3 and 4, i.e. AIDS-defining illness.</p> <p>1.5.4 Demonstrating an understanding of immunological and clinical staging parameters.</p>

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**AIDS HELPLINE: 0800-0123-22 Prevention is the cure**

**DOMAIN 2: INITIATE PRE-EXPOSURE PROPHYLAXIS (PrEP), POST-EXPOSURE PROPHYLAXIS (PEP) AND 1<sup>ST</sup> LINE ANTIRETROVIRAL THERAPY (ART) PLUS INITIATION OF TB-PREVENTATIVE THERAPY (TPT) WHERE APPROPRIATE AND APPLY PROTOCOL ADHERENCE MEASURES**

**INTRODUCTION**

The domain covers competencies that are required to initiate therapy and apply protocol adherence measures. A concept adopted by NDoH which advocates that 90% of people who know their HIV status will receive treatment with at least 90% of those on treatment being virally suppressed.

The competencies required in the domain for testing and diagnosis of HIV are:

- 2.1 Demonstrate knowledge of ART Principles;
- 2.2 Prepare patients for ART adherence;
- 2.3 Identify, classify, and analyse the various types of ARTs and their side effects and toxicities;
- 2.4 Initiate ART;
- 2.5 Analyse ART medicine choices in PrEP and PEP, and considerations around pharmacology and drug interactions, including TPT;
- 2.6 Identify and manage PrEP, PEP and ART contra-indications; and
- 2.7 Conduct PEP in the PIMART environment.

<b>DOMAIN 2: INITIATE PRE-EXPOSURE PROPHYLAXIS (PrEP), POST-EXPOSURE PROPHYLAXIS (PEP) AND 1<sup>ST</sup> LINE ANTIRETROVIRAL THERAPY (ART) PLUS INITIATION OF TB-PREVENTATIVE THERAPY (TPT) WHERE APPROPRIATE AND APPLY PROTOCOL ADHERENCE MEASURES</b>	
<b>COMPETENCIES</b>	<b>BEHAVIOURAL STATEMENTS</b>
2.1 Demonstrate knowledge of ART Principles	2.1.1 Describing the objectives of ART. 2.1.2 Describing the HIV life cycle, CD 4 counts, viral load and when to start therapy.
2.2 Prepare patients for ART adherence	2.2.1 Defining ART adherence. 2.2.2 Applying the pre-ART counselling process. 2.2.3 Prepare patients for ART by applying the adherence counselling process. 2.2.4 Interpreting viral load results and monitor for ART adherence. 2.2.5 Conducting laboratory monitoring for antiretroviral therapy efficacy and safety. 2.2.6 Applying the post-ART counselling process.
2.3 Identify, classify, and analyse the various types of ART and their side effects and toxicities	2.3.1 Demonstrating knowledge of the classes of ART. 2.3.2 Describing the pharmacology, dosing, side effects, toxicity monitoring and management of medicines used in 1st line ART, PrEP and PEP according to current national guidelines.
2.4 Initiate ART	2.4.1 Describing first-line treatment pharmacology practicalities in PIMART. 2.4.2 Identifying who is not eligible for therapy via PIMART by analysing initiation limitations in PIMART. Range: TB, IRIS, cryptococcal meningitis, hepatitis B, pregnant woman, patients under 15 years. 2.4.3 Describing ART Initiation steps and implementing the ART initiation algorithm according to current national guidelines. 2.4.4 Transitioning a patient from PrEP to ART if required.
2.5 Analyse ART medicine choices in PrEP and PEP, and considerations around pharmacology and drug interactions, including TPT	2.5.1 Describing and analysing pharmacology, dosing, toxicity, side effects and drug interactions of various regimens as determined by NDoH for PEP and PrEP.
2.6 Identify and manage PrEP, PEP and ART contra-indications	2.6.1 Identifying PEP contraindications. 2.6.2 Analysing and classifying the management of ambiguities in source status, source ART adherence, and patient HIV status. 2.6.3 Referring pregnant and breastfeeding women who require PEP. 2.6.4 Describing Hepatitis B screening and vaccination as set out in the PHC EML for PEP.

<b>DOMAIN 2: INITIATE PRE-EXPOSURE PROPHYLAXIS (PrEP), POST-EXPOSURE PROPHYLAXIS (PEP) AND 1<sup>ST</sup> LINE ANTIRETROVIRAL THERAPY (ART) PLUS INITIATION OF TB-PREVENTATIVE THERAPY (TPT) WHERE APPROPRIATE AND APPLY PROTOCOL ADHERENCE MEASURES</b>	
<b>COMPETENCIES</b>	<b>BEHAVIOURAL STATEMENTS</b>
2.7 Conduct PEP in the PIMART environment	2.7.1 Describing PEP in the PIMART Context. 2.7.2 Listing PEP Indications. 2.7.3 Identifying at-risk groups in terms of PEP. 2.7.4 Analysing PEP Efficacy. 2.7.5 Describing the steps in the PEP treatment process. 2.7.6 Initiate clients on PEP. 2.7.7 Implementing adherence monitoring and follow-up. 2.7.8 Implementing the PEP to PrEP transition.

**DOMAIN 3: IMPLEMENT PROCESSES FOR THE PREVENTION OF HIV TRANSMISSION AND INFECTION VIA PrEP, SAFER CONCEPTION AND CONTRACEPTION, AND PREVENTION OF MOTHER TO CHILD TRANSMISSION****INTRODUCTION**

The competencies required in the domain to implement processes for the prevention of HIV transmission and infection.

- 3.1 Implement PrEP in the PIMART environment.
- 3.2 Conduct pregnancy screening and recommend contraception in the PIMART context.
- 3.3 Implement pre-conception management for HIV positive couples.

<b>DOMAIN 3: IMPLEMENT PROCESSES FOR THE PREVENTION OF HIV TRANSMISSION AND INFECTION VIA PrEP, SAFER CONCEPTION AND CONTRACEPTION, AND PREVENTION OF MOTHER TO CHILD TRANSMISSION COMPETENCIES</b>	
<b>BEHAVIOURAL STATEMENTS</b>	
3.1 Implement PrEP in the PIMART environment	<p>3.1.1 Interpreting and applying the steps in the treatment process. Range: screening, initiation, follow-up, maintenance, adherence support, FAQs and stopping PrEP.</p> <p>3.1.2 Implementing the PEP to PrEP transition, and the prevention continuum and failure referral.</p> <p>3.1.3 Describing PrEP administration methods and components.</p> <p>3.1.4 Describing PrEP regimen options and nomenclature.</p> <p>3.1.5 Analysing the pharmacology, dosing, safety, toxicity monitoring and side effects of medicines recommended by NDoH for PrEP.</p> <p>3.1.6 Describing PrEP indications, contra-indications, and practical application in the pharmacy context.</p>
3.2 Conduct pregnancy screening and recommend contraception in the PIMART context	<p>3.2.1 Carrying out a basic fertility intention screen and referring patients who wish to conceive.</p> <p>3.2.2 Demonstrating an understanding of processing pregnancy test results. Range: positive, STI and HIV screening, negative with pregnancy intent, negative without pregnancy intent.</p> <p>3.2.3 Listing and describing the types of available contraceptives. Range: classification, dosing, and efficacy.</p> <p>3.2.4 Describing indications for contraception. Range: women who may wish to conceive in the future, and women who do not wish to conceive at all, contraception eligibility, and general use in South Africa.</p> <p>3.2.5 Describing the link between contraception and HIV. Range: injectable link to incidence, HIV and contraception choices and safety, contraception impact on risk.</p>
3.3 Implement pre-conception management for HIV positive couples	<p>3.3.1 Describing key aspects to consider ensuring conception occurs safely, and knowledge of how to minimise the risks of partner acquiring HIV.</p> <p>3.3.2 Describing methods used to ensure safe conception. Range: ART, PrEP, VMMC, STI treatment, timed intercourse without the use of a condom and self-insemination.</p> <p>3.3.3 Demonstrate application of couple counselling skills when working with discordant couples.</p>
3.4 Demonstrate knowledge of PMTCT and the rationale for PMTCT programmes	<p>3.4.1 Demonstrating knowledge of the MTCT risk and risk factors in South Africa.</p> <p>3.4.2 Demonstrating knowledge of the ideal treatment pathway for PMTCT.</p> <p>3.4.3 Demonstrating knowledge of the safety and efficacy of various pharmacological therapies in PMTCT.</p> <p>3.4.4 Demonstrate knowledge of the factors that improve and impede adherence and retention in PMTCT interventions.</p> <p>3.4.5 Demonstrating knowledge of appropriate viral load monitoring and responses in PMTCT.</p>

## DOMAIN 4: IMPLEMENT PROCESSES TO IDENTIFY AND MANAGE CO-MORBIDITIES AND OPPORTUNISTIC INFECTIONS RELATED TO HIV

### INTRODUCTION

The competencies required in the domain implement processes to identify and manage co-morbidities and opportunistic infections related to HIV are:

- 4.1 Manage HIV co-morbidities;
- 4.2 Identify and manage common opportunistic infections;
- 4.3 Manage TB and HIV co-infection; and
- 4.4 Promote TB prevention.

<b>DOMAIN 4: IMPLEMENT PROCESSES TO IDENTIFY AND MANAGE CO-MORBIDITIES AND OPPORTUNISTIC INFECTIONS RELATED TO HIV</b>	
<b>COMPETENCIES</b>	<b>BEHAVIOURAL STATEMENTS</b>
4.1 Manage HIV co-morbidities	4.1.1 Describing and applying the management of diseases as HIV co-morbidities. <ul style="list-style-type: none"> <li>• Type 2 Diabetes as an HIV co-morbidity.</li> <li>• Hypertension as an HIV co-morbidity.</li> <li>• Asthma and COPD as an HIV co-morbidity.</li> <li>• Epilepsy as an HIV co-morbidity.</li> <li>• Hypertriglyceridaemia and hypercholesterolaemia as HIV co-morbidities.</li> </ul>
4.2 Identify and manage common opportunistic infections	4.2.1 Demonstrating an understanding to identify and manage opportunistic infections, including: <ul style="list-style-type: none"> <li>• Pneumocystis Carinii Pneumonia.</li> <li>• Respiratory Distress.</li> <li>• Kaposi Sarcoma.</li> <li>• Cryptococcal meningitis.</li> <li>• Herpes Zoster.</li> </ul>
4.3 Manage TB and HIV co-infection	4.3.1 Demonstrating an understanding of TB diagnosis in HIV infected adults. 4.3.2 Demonstrating an understanding of managing TB/HIV co-infection. 4.3.3 Identifying and describing TB/HIV drug interactions and shared side effects. 4.3.4 Promoting adherence to TB treatment and ART.
4.4 Promote TB prevention	4.3.5 Screening for TB in adults and children and know when to refer patients for further care if TB is suspected. 4.3.6 Application of TB-Preventative Therapy (TPT) Range: dosage, eligibility, monitoring, adherence.

## DOMAIN 5: IMPLEMENT PROCESSES TO PREVENT AND MANAGE DRUG INTERACTIONS, ADVERSE DRUG REACTIONS AND DRUG RESISTANCE

### INTRODUCTION

The competencies required in the domain to implement processes to prevent and manage drug interactions, adverse drug reactions and drug resistance are:

- 5.1 Understand the importance of drug interactions, e.g. drug/drug and drug/disease;
- 5.2 Demonstrate in-depth knowledge of various ART drug interactions and reactions;
- 5.3 Prevent adverse drug interactions and reactions; and
- 5.4 Define the types and consequences of drug resistance.

<b>DOMAIN 5: IMPLEMENT PROCESSES TO PREVENT AND MANAGE DRUG INTERACTIONS, ADVERSE DRUG REACTIONS AND DRUG RESISTANCE</b>	
<b>COMPETENCIES</b>	<b>BEHAVIOURAL STATEMENTS</b>
5.1 Understand the importance of drug interactions, e.g. drug/drug and drug/disease	5.1.1 Understanding the basics of drug interactions. 5.1.2 Listing and describing the consequences of drug interactions. Range: therapeutic failure, drug resistance, life-threatening toxicities, poor adherence, increased costs. 5.1.3 Demonstrating knowledge and understanding of how the body processes drugs and of specified pharmacological concepts. Range: pharmacokinetics and pharmacodynamics, therapeutic index, substrate, inhibitor, inducer.
5.2 Demonstrate in-depth knowledge of various ART drug interactions and reactions	5.2.1 Listing the ARVs most involved in drug interactions. 5.2.2 Describing medicines that may interact with ART and understand their mode of interaction and the management of interaction.
5.3 Prevent adverse drug interactions and reactions	5.3.1 Knowing how to prevent drug interactions. Range: Comprehensive patient questioning and accessing useful resources.
5.4 Define the types and consequences of drug resistance	5.4.1 Demonstrating an understanding of the consequences of drug resistance. 5.4.2 Demonstrating an understanding of the mechanism of HIV drug resistance. 5.4.3 Defining acquired drug resistance, transmitted drug resistance, and pre-treatment drug resistance in patients.



**DOMAIN 6: HANDLE ART DATA RESPONSIBLY AND USE DISEASE MANAGEMENT SYSTEMS APPROPRIATELY****INTRODUCTION**

The competencies required in the domain to handle ART data responsibly and use disease management systems appropriately are:

- 6.1 Generate reports to assist with clinical governance, programme management and quality improvement;
- 6.2 Use a Patient Management System;
- 6.3 Implement the process of care for PIMART; and
- 6.4 Apply minimum package of interventions to support linkage to care.

<b>DOMAIN 6: HANDLE ART DATA RESPONSIBLY AND USE DISEASE MANAGEMENT SYSTEMS APPROPRIATELY</b>	
<b>COMPETENCIES</b>	<b>BEHAVIOURAL STATEMENTS</b>
6.1 Generate reports to assist with clinical governance, programme management and quality improvement	<p>6.1.1 Demonstrating an understanding and description of the content, generation, extraction, and verification of reports-</p> <ul style="list-style-type: none"> <li>• Outstanding laboratory results list.</li> <li>• Data validation list.</li> <li>• Early missed appointment list.</li> <li>• Late missed appointment list.</li> <li>• Unconfirmed lost to follow-up list.</li> <li>• ART regimen line validations list.</li> <li>• Viral load cascade list.</li> </ul>
6.2 Use a Patient Management System	6.2.1 Describing the functionality and process flow within a patient management system.
6.3 Implement the process of care for PIMART	<p>6.3.1 Demonstrating a detailed knowledge and understanding of the baseline Clinical Evaluation for HIV+ Adults and Adolescents (&gt;15 years) in terms of clinical evaluation component, purpose, and further actions.</p> <p>6.3.2 Demonstrating a detailed knowledge and understanding of the Baseline Laboratory Evaluation for Adults and Adolescents (&gt;15 years) in terms of laboratory evaluation, purpose, sex, and referral.</p> <p>6.3.3 Demonstrating a detailed knowledge and understanding of the Serial HIV Testing Algorithm.</p> <p>6.3.4 Demonstrating a detailed knowledge and understanding of the REFLEX Laboratory ELISA Testing Algorithm.</p> <p>6.3.5 Demonstrating an understanding of the Baseline Laboratory Evaluation for Adults and Adolescents (&gt;15 years) (GP/HIV Specialist) in terms of laboratory evaluation, purpose, sex, and outcomes.</p> <p>6.3.6 Demonstrating a detailed knowledge and understanding of TPT in terms of client category, specific eligibility requirements, treatment and duration.</p> <p>6.3.7 Identifying common 1st line regimens.</p>
6.4 Apply minimum package of interventions to support linkage to care	<p>6.4.1 Demonstrating a detailed knowledge and understanding of PIMART referral criteria.</p> <p>6.4.2 Demonstrating a detailed knowledge and understanding of Fast Track Initiation Counselling.</p> <p>6.4.3 Describing the procedure to follow before, during and at the end of each session.</p> <p>6.4.4 Describing the steps in dealing with substance abuse.</p> <p>6.4.5 Describing the procedure to follow for scheduling appointments for the next visit and tracing patients not seen for ≥ 90 days.</p> <p>6.4.6 Describing the procedure for re-integrating patients into care.</p>

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1. Adherence guidelines for HIV, TB and NCDs: Policy and service delivery guidelines for linkage to care, adherence to treatment and retention in care. 2016. National Department of Health.
2. HIV Testing Services: Policy, 2016. National Department of Health.
3. Scope of practice and competency standards for a PIMART pharmacist. 2020. HIV Clinician Society.

## **PART 3: CRITERIA FOR ACCREDITATION/APPROVAL BY THE SOUTH AFRICAN PHARMACY COUNCIL OF A CURRICULUM LEADING TO THE AWARDING OF A PHARMACIST INITIATED MANAGEMENT OF ANTIRETROVIRAL THERAPY COURSE**

### **A. INTRODUCTION**

In terms of Section 3 of the Pharmacy Act, 53 of 1974, one of the objects of the South African Pharmacy Council (Council) is to establish, develop, maintain and control universally acceptable standards of pharmaceutical education.

Council developed these criteria in order to evaluate the Pharmacist Initiated Management of Antiretroviral Therapy (PIMART) course curriculum of each accredited institution.

### **B. PRINCIPLES**

The criteria for the accreditation/approval of a curriculum leading to the awarding of a PIMART course are based on the following principles–

- 1.1 Use of the criteria should promote the application of the principles of good governance in the process of the evaluation of curricula submitted to Council for approval.
- 1.2 Any decisions taken with regard to the approval or disapproval of a curriculum must be defensible by Council.
- 1.3 Compliance with the criteria will be considered to be a minimum requirement for the accreditation/approval of the PIMART curriculum.
- 1.4 The institutional autonomy of the Higher Education Institution (HEI)/Skills Development Provider (SDP) must be respected.
- 1.5 Portability will not be used as a basis for approval of courses.

### **C. CRITERIA FOR ACCREDITATION/APPROVAL OF A CURRICULUM LEADING TO THE AWARDING OF A PIMART COURSE**

#### **1. Criteria for entry to the course**

- 1.1 Evidence must be provided by the prospective provider that pharmacists who wish to enter into study towards achieving this course must:
  - (a) be in possession of a Bachelor of Pharmacy (BPharm) degree, or recognised equivalent,
  - (b) be registered as a pharmacist with the SAPC, and
  - (c) have completed their community service year.

## **2. Criteria for compliance with the requirements of the course**

2.1 Evidence must be provided by the prospective provider that –

2.1.1 The curriculum must be on NQF level 8; and

2.1.2 The duration for completion of the course must be at least 160 notional study hours.

## **3. Requirements for pharmacists who want to provide PIMART services**

3.1 In order to provide PIMART services, the pharmacist is required to:

3.1.1 Successfully complete the PIMART course with an accredited provider.

3.1.2 Record the PIMART course with the SAPC.

3.1.3 Apply for a Section 22(A)15 permit at the NDoH.

3.1.4 Upon receipt of the Section 22(A)15 permit from the NDoH the pharmacist must record their permit with the SAPC.

3.1.5 Lastly, the pharmacist may apply for a Practice Code Number from the Board of Healthcare Funders of Southern Africa (BHF).

## **4. Criteria for compliance with the outcomes**

The prospective provider must provide evidence that the topics and the associated outcomes have been with complied with as listed in Table 1:

**Table 1: Topics covered in the PIMART course with associated outcomes**

Topic	On completion, the student should be able to:
HIV	<p>(a) Apply commonly used medical terminology and acronyms, relevant to this course.</p> <p>(b) Demonstrate a sound understanding of the HIV life cycle, CD4 count and viral load meaning, and when to initiate ART.</p> <p>(c) Order, perform and interpret HIV tests (rapid, self-screening ELISA and CD-4 tests); i.e. diagnose.</p> <p>(d) Describe factors that could influence test results (such as CD-4 count).</p> <p>(e) Perform, order or refer and interpret additional, relevant screening tests (tuberculosis<sup>1</sup>, sexually transmitted infections<sup>2</sup>, substance abuse and pregnancy tests).</p> <p>(f) Order or refer and interpret additional, relevant laboratory screening tests, e.g. baseline creatinine.</p> <p>(g) Differentiate between the different WHO staging profiles and be able to classify a patient accordingly.</p> <p>(h) Describe the mechanism, clinical presentation and preventative measures relating to Immune Reconstitution Inflammatory Syndrome (IRIS).</p> <p>(i) Effectively consult and accurately document patient history, including but not limited to socio-economic profile, medication history, comorbidity profile etc.</p> <p>(j) Identify opportunistic infections (in line with WHO staging and most recent NDoH standard treatment guidelines).</p> <p>(k) Demonstrate the ability to perform patient assessments based on theoretical guidelines.</p> <p>(l) Demonstrate specialised clinical skills by providing authentic proof of practice-based experience and knowledge of HIV test results.</p> <p>(m) Effectively and professionally communicate with other members of the healthcare team.</p> <p>(n) Identify and professionally refer complicated cases.</p>
Prevention of HIV transmission and infection (PrEP and PEP)	<p>(a) Demonstrate a clear understanding of the importance, role indications, contra-indications and regimen options of PrEP and PEP.</p> <p>(b) Have a thorough knowledge and understanding of basic ARV treatment principles (as applied PMTCT, PrEP or PEP).</p> <p>(c) Describe who is eligible for PMTCT, PrEP or PEP.</p> <p>(d) Appropriately initiate PMTCT, PrEP or PEP.</p> <p>(e) Discuss the general preventative measures against HIV (i.e. condoms, contraceptives).</p> <p>(f) Understand the importance of keeping pregnant women HIV negative.</p> <p>(g) Understand the role and importance of PMTCT, along with the ability to initiate it.</p> <p>(h) Describe methods to ensure safe conception.</p>

<sup>1</sup> Pharmacists may not draw blood or order/interpret X-rays, differential diagnosis will only be made based on symptoms and complaints.

<sup>2</sup> Pharmacists may not perform physical examination of genital area, differential diagnosis will only be made based on symptoms and complaints.

Topic	On completion, the student should be able to:
Pharmacological Management of HIV	<p>(i) Demonstrate ability to screen for pregnancy.</p> <p>(j) Demonstrate a clear understanding of the interactions between ARV and oral contraceptives.</p> <p>(k) Elaborate on the association and interaction between STIs and HIV.</p> <p>(l) Demonstrate a clear understanding of harm reduction programmes in key populations.</p> <p>(m) Demonstrate a clear understanding of the importance, role, and indications of PEP (including the legal requirements in the case of criminal offences) and PrEP.</p> <p>(a) Outline and differentiate between the pharmacological and clinical profiles (including, but not limited to mechanisms of action, side effects and interaction profiles, absolute and relative contraindications, antiviral drug resistance implications and dosing) of the various ARV drugs.</p> <p>(b) Have a thorough knowledge and understanding of basic ARV treatment principles (as applied to ART).</p> <p>(c) Identify, classify and analyse the different ARV pharmacological profiles.</p> <p>(d) Implement the most recent NDoH standard treatment guidelines.</p> <p>(e) Apply pre-ART counselling appropriately and initiate ARV treatment regimens.</p> <p>(f) Illustrate sound clinical knowledge by means of recommending evidence-based treatment regimens.</p> <p>(g) Discuss the importance of treatment adherence for general treatment outcome.</p> <p>(h) Effectively and clearly explain the way forward to the patient and what to expect (including, but not limited to expected adverse effects and potential drug-drug interactions, drug allergies, contraindications, and general adherence and risk reduction counselling).</p> <p>(i) List complications in the ART era and describe the general approaches to managing these complications.</p>
Drug interactions and drug resistance	<p>(a) Outline the basic principles of drug interactions and the consequences thereof.</p> <p>(b) List the most significant interactions relating to ARV treatment and explain appropriate measures to accommodate or eliminate these interactions.</p> <p>(c) Demonstrate an understanding of the mechanism of HIV resistance and understand how resistance is determined clinically.</p> <p>(d) Define acquired drug resistance, transmitted drug resistance and pre-treatment drug resistance.</p>
Co-morbidities and opportunistic infections related to HIV	<p>(a) List and describe co-morbidities (including, but not limited to diabetes, hypertension, asthma, epilepsy, hypercholesterolemia, hyperthyroidism, TB) to be considered in ARV initiated patients.</p> <p>(b) Identify opportunistic infections and refer accordingly.</p> <p>(c) Discuss recent anti-TB treatment regimens (according to most recent NDoH standard treatment guidelines), their pharmacological profiles and dosage adjustments required when co-administering with ARVs (Including first-line ART, PMTCT, PrEP or PEP).</p> <p>(d) Demonstrate knowledge of Hepatitis.</p> <p>(e) Demonstrate knowledge of TB prevention.</p>
ART data, disease management and referral network	<p>(a) Record keeping.</p> <p>(b) Data management.</p> <p>(c) Referral pathway.</p>

**5. Criteria for compliance with requirements relating to qualifications and experience of course presenters**

5.1 Evidence must be provided by the prospective provider that the presenter(s) of the course-

5.1.1 have a Bachelor of Pharmacy (BPharm) degree, or recognised equivalent and be registered as a pharmacist with the SAPC with prior experience or an additional qualification in HIV management; or

5.1.2 have a MBChB degree and be registered as a medical practitioner with the Health Professions Council of South Africa (HPCSA) with prior experience or an additional qualification in HIV management; or

5.1.3 is a nurse practitioner who is providing training for the NIMART course.

**6. Criteria for compliance with requirement for prior approval by the relevant structures of the institution**

6.1 Evidence must be provided by the prospective provider that the course received prior approval by the relevant structures of the HEI or SDP or providers of short courses.

**7. Criteria for compliance with requirements relating to mode of delivery**

7.1 Evidence must be provided by the prospective provider that-

7.1.1 the course allows for flexible study hours;

7.1.2 the institution has a reliable electronic platform that makes provision for sharing of study material and resources;

7.1.3 this platform must have access control and at a minimum allow for the following:

(i) General announcements;

(ii) Communication with students;

(iii) Resources and training material (e.g. study guides, PowerPoint presentations and videos);

(iv) Submission of work assignments; and

(v) Online tests and examinations.

7.1.4 there are comprehensive study guides which guide the student through the learning process.

7.1.5 there are additional textbooks and references.



**8. Criteria for compliance with requirements relating to assessment and moderation**

- 8.1 Evidence must be provided by the prospective provider that–
- 8.1.1 both formative and summative forms of assessment are applied appropriately throughout the assessment process.
  - 8.1.2 the student is exposed to a minimum of twenty (20) clinical cases of which ten (10) are observed and ten (10) as part of formal assessment.
  - 8.1.3 admission to the examination of the course is obtained through proof of participation confirming that the student has met the requirement for admission to the examination.
  - 8.1.4 the summative assessment at the end of the course must be in the form of a written/online examination and a formal Objective Structured Clinical Examination (OSCE) with two examination opportunities.
  - 8.1.5 the students must achieve an average mark of at least 60% for the portfolio of evidence (which includes assignments and clinical cases), with a subminimum of 60% for each component, in order to be admitted to the summative assessment (examination).
  - 8.1.6 the subminimum examination mark must be at least 70%. The pass requirements for the course must be a final course mark of at least 70%.
  - 8.1.7 the final course mark is calculated as follows:
    - (a) Average mark of compulsory portfolio which includes the ten (10) documented clinical cases: 33%
    - (b) Examination mark (written/oral) and OSCE examination: 67%
    - (c) Final course mark: 100%

**9. Criteria for compliance with the process of appeal**

- 9.1 Evidence must be provided by the prospective provider that–
- 9.1.1 there is a process in place in cases where students are in disagreement regarding the outcome of an assessment (written/practical).
  - 9.1.2 the appeals process against assessment decisions on the demonstration of competence by candidates is described in the study guide.

**10. Criteria for compliance with the dishonesty and plagiarism policy**

- 10.1 Evidence must be provided by the prospective provider that there are policies and procedure in place to address dishonesty and plagiarism.

**11. Criteria for compliance with the certification methods and procedures**

- 11.1 Evidence must be provided by the prospective provider that–
- 11.1.1 there are procedures in place to ensure that certification of the students is managed in a secure and safe manner.
  - 11.1.2 the security and accuracy of certificates during printing, filing and distribution must be assured.
  - 11.1.3 the following information is available for certification of the course certificate:
    - (a) provider name and/or logo;
    - (b) name of the course;
    - (c) student's full name (first names followed by surname);
    - (d) student's identity number;
    - (e) date of issue of the certificate; and
    - (f) signatories.

**12. Criteria for compliance with facilities and equipment**

- 12.1 Evidence must be provided by the prospective provider that–
- 12.1.1 If the course is presented in a mode that requires contact sessions with the students then the physical facilities are:
    - (a) adequate and include lecture rooms;
    - (b) The lecture rooms are sufficient in number and adequate in size to accommodate the number of students; and
    - (c) The lecture rooms are adequately equipped, well maintained and provide a reasonably attractive environment for teaching and learning.
  - 12.1.2 If the course is presented as a distance learning course with only contact workshops then the institution must have a reliable electronic platform that makes provision for:
    - (a) sharing of study material and resources;
    - (b) submission of work assignments by the students; and
    - (c) the functionality that allows students to write online tests and/or exams.
  - 12.1.3 there are offices for administrative staff and course presenters;

12.1.4 there are clinical simulation facilities (for presentation of compulsory contact sessions/workshops); and

12.1.5 the clinical simulation facilities are sufficient in number and adequate in size to accommodate the number of students, and must be adequately equipped, well maintained and provide a reasonably attractive environment for teaching and learning.

**13. Criteria for compliance with standards for administration and record keeping**

13.1 Evidence must be provided by the prospective provider that-

13.1.1 there is a student administration system for maintaining and updating detailed information about each enrolled student.

13.1.2 the student Information includes but is not limited to the following:

(a) student's full names and surname;

(b) maiden name (if applicable);

(c) ID number;

(d) cell phone number;

(e) e-mail address;

(f) postal address; and

(g) qualifications.

13.1.3 the student administration system has a functionality to generate a document that can be used as "Proof of Registration" for each enrolled student.

13.1.4 the student administration system allows for record keeping of the marks that each student has obtained during the course and must include a functionality to generate an "Academic Record" for each student.

**BOARD NOTICE 102 OF 2021**  
**THE SOUTH AFRICAN PHARMACY COUNCIL**

**PRIMARY CARE DRUG THERAPY PHARMACIST (PCDT)**

The South African Pharmacy Council hereby publishes for broad-based stakeholder consultation, the scope of practice for a Primary Care Drug Therapy (PCDT) Pharmacist, the competency standards of such pharmacists and the criteria for the approval of a curriculum of a PCDT course.

Interested parties are invited to submit, within **60 days** of publication of this notice, substantiated comments on or representation. Comments must be addressed to the Registrar, the South African Pharmacy Council c/o Ms Debbie Hoffmann, via email [BN@sapc.za.org](mailto:BN@sapc.za.org).

**SCHEDULE:**

**Part 1:** Scope of practice for a Primary Care Drug Therapy (PCDT) pharmacist.

**Part 2:** Competency standards for a Primary Care Drug Therapy (PCDT) pharmacist.

**Part 3:** Criteria for accreditation/approval by the South African Pharmacy Council of a curriculum of a PCDT course.

In this notice "the Act" shall mean the Pharmacy Act, 53 of 1974 (as amended), and any expression to which a meaning has been assigned in the Act shall bear such meaning.



**VM TLALA**  
**REGISTRAR**

Address: 591 Belvedere Street, Arcadia, Pretoria, 0083,  
Private Bag X40040, Arcadia, 0007. Telephone: 0861 7272 00


To obtain the full content of this Board Notice please visit the 'Proposed Legislation' section on the South African Pharmacy Council's website:

[https://www.pharmcouncil.co.za/Legislation\\_Proposed](https://www.pharmcouncil.co.za/Legislation_Proposed)

**BOARD NOTICE 103 OF 2021****DEFINING OF PRODUCTION AREA: GROENFONTEIN (WARD)**

The Wine and Spirit Board, acting under section 6 of the Wine of Origin Scheme published by Government Notice No. R. 1434 of 29 June 1990 hereby-

defines the area specified in the Schedule as a production area (ward) under the name Groenfontein.



**OLIVIA POONAH**  
**SECRETARY: WINE AND SPIRIT BOARD**

**SCHEDULE**

That portion of land situated within the following boundaries:

The proposed Groenfontein ward is a higher lying foothill with a deep ravine landscape and the catchment area of the Nels River, which feeds the Calitzdorp Dam. The northern boundary coincides with the northern boundary of the Calitzdorp district, just south of the Gamkwaskloof Nature Reserve. The rest of the boundaries follow the watershed boundaries of the Nels River catchment area/drainage basin north of the Calitzdorp Dam.

The proposed ward is situated 280-930 m above sea level, with vineyards in valleys mostly 340-440 m above sea level, and mostly stretches over the original Matjiesgoed Valley, Quarrieveldt, Kraaldoorn and Groenfontein farms.

**RAADSKENNISGEWING 103 VAN 2021****OMSKRYWING VAN PRODUKSIEGEBIED: GROENFONTEIN (WYK)**

Die Wyn- en Spiritusraad, handelende kragtens artikel 6 van die Wyn van Oorsprong-skema gepubliseer by Goewermenskennisgewing No. R.1434 van 29 Junie 1990-

omskryf hierby die area in die Bylae gespesifiseer as 'n produksiegebied (wyk) onder die naam Groenfontein.



**OLIVIA POONAH**  
**SEKRETARIS: WYN- EN SPIRITUSRAAD**

**BYLAE**

Die area geleë binne die volgende grense:

Die voorgestelde Groenfontein-wyk is 'n hoërliggende voetheuwel met 'n diep klowe-landskap en is die opvangsgebied van die Nelsrivier, wat die Calitzdorp-dam voed. Die noordelike grens loop saam met die Calitzdorp-distrik se noordelike grens, net suid van die Gamkwaskloof-natuurreservaat. Die res van die grense volg die waterskeidinggrense van die Nelsrivier-opvangsgebied/dreineringskom noord van die Calitzdorp-dam.

Die voorgestelde wyk is geleë 280-930 m bo seevlak, met wingerde in valleie meestal 340-440 m bo seevlak, en strek hoofsaaklik oor die oorspronklike Matjiesgoedvallei, Quarrieveldt-, Kraaldoorn- en Groenfontein-plase.

**BOARD NOTICE 104 OF 2021****ROAD ACCIDENT FUND****ADJUSTMENT OF STATUTORY LIMIT IN RESPECT OF CLAIMS FOR LOSS OF INCOME AND LOSS OF SUPPORT**

The Road Accident Fund hereby, in accordance with section 17(4A)(a) of the Road Accident Fund Act, No. 56 of 1996, adjusts and makes known that the amounts referred to in subsection 17(4)(c) are hereby adjusted to **R307 074**, with effect from **31 July 2021**, to counter the effects of CPI inflation.

Note: The CPI index based on the new "basket and weights" was used to calculate this adjustment, **effective from 31 July 2021** (with base year December 2016 = 100). The rebased CPI index for May 2008 was 62.63. The CPI index for May 2021 was 120.2. This adjustment was calculated by multiplying the R 160 000 limit by 120.2/62.63.

**RAADSKENNISGEWING 104 VAN 2021****PADONGELUKFONDS****AANPASSING VAN STATUTÊRE LIMIET TEN OPSIGTE VAN EISE VIR VERLIES AAN INKOMSTE EN ONDERHOUD**

Die Padongelukfonds maak ooreenkomstig artikel 17(4A)(a) van die Padongelukfondswet, No. 56 van 1996 bekend dat, met effek vanaf **31 Julie 2021**, die bedrae waarna verwys word in subartikel 17(4)(c) aangepas word tot **R307 074**, ten einde die uitwerking van VPI inflasie teen te werk.

Neem kennis: Die VPI indeks gebaseer op die nuwe "mandjie en gewigte" is gebruik om hierdie aanpassing, **effektief vanaf 31 Julie 2021**, te bereken (met basisjaar Desember 2016 = 100). Die heraangepaste VPI indeks vir Mei 2008 was 62.63. Die VPI indeks vir Mei 2021 was 120.2. Hierdie aanpassing was bereken deur die R 160 000 limiet te vermenigvuldig met 120.2/62.63.

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