**The future of Statements of Generally Accepted Accounting Practice**

The Companies Act, No 61 of 1973 required all companies to comply with South African Statements of Generally Accepted Accounting Practice (SA GAAP) as issued by the Accounting Practices Board (APB). The APB took a decision in August 2003 to issue International Financial Reporting Standards (IFRS) as SA GAAP without change, after due process. The Companies Regulations 2011 (Regulations) prescribe financial reporting standards applicable by category of company, which largely depend on a public interest score. As explained below, the APB is considering whether it is appropriate and/or necessary to continue issuing IFRS as SA GAAP given the changes to the Companies Act. The APB also wishes to alert companies presently using SA GAAP that they might not be able to continue using SA GAAP in the future, even if SA GAAP is not discontinued.

The Companies Act No.71 of 2008, which became effective from 1 May 2011, establishes a body known as the Financial Reporting Standards Council (FRSC). The FRSC, once constituted, will become the official standard-setter in South Africa. The Regulations continue to recognise SA GAAP, as adopted from time to time by the APB or its successor body. In terms of the Regulations, companies with a public interest score below 350 are still permitted to apply or continue applying SA GAAP in preparing their financial statements. Similarly, the Treasury Regulations that are issued in terms of the Public Finance Management Act, No.1 of 1999 (PFMA) requires some state-owned entities to apply SA GAAP. At present, SA GAAP comprises the AC 100-series (IFRS), AC 400-series (Interpretations of IFRS), AC 500-series (South African Statements and Interpretations) and IFRS for SMEs.

The APB held its first meeting for 2011 on 27 May 2011. At this meeting, the APB decided that it should assess the need for SA GAAP in its current form going forward in light of the Regulations, which refer to IFRS and IFRS for SMEs, along with SA GAAP, which is effectively a replica of IFRS, prior to approving the IFRSs tabled before it. In its assessment the APB would also need to consider the Treasury Regulations and the fact that the financial reporting standards prescribed in the Regulations are currently only applicable to financial years **commencing** on or after 1 May 2011. The APB will engage with relevant stakeholders in arriving at its conclusions. The decision to approve the six of the eight IFRS as SA GAAP or revised SA GAAP tabled at the meeting has been postponed pending the outcome of the assessment.

In the interim, it is important to note that entities currently applying SA GAAP need to start considering what their public interest score is and, resulting therefrom, which financial reporting framework they are permitted and wish to apply. SA GAAP is a replica of IFRSs, but does not require the application of IFRS 1(AC 138) – *First-time Adoption of International Financial Reporting Standards*. Thus these entities need to start thinking about the implications of converting to IFRS, or IFRS for SMEs, once SA GAAP are no longer available for use; and the impact of first time adoption of either of these frameworks.

The six IFRSs which the APB postponed approving were four new IFRSs and two revised IFRSs issued by the International Accounting Standards Board (IASB) in May 2011, all of which are effective for annual periods beginning on or after 1 January 2013. These new and revised IFRSs include IFRS 10 – *Consolidated Financial Statements,* IFRS 11 – *Joint Arrangements,* IFRS 12 – *Disclosures of Interests in Other Entities,* IFRS 13 – *Fair Value Measurement,* IAS 27 –*Separate Financial Statements* and IAS 28 – *Investments in Associates and Joint Ventures.* Prior to this, but after the previous APB meeting that was held on 3 December 2010, the IASB had issued two pronouncements, *Deferred Tax: Recovery of Underlying Assets* – Amendments to IAS 12 – *Income Taxes* and *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* – Amendments to IFRS 1 – *First-time Adoption of International Financial Reporting Standards* and as a consequence of issuing the amendments to IAS 12 withdrew SIC-21 – *Income Taxes – Recovery of Revalued Non-depreciable Assets*. The amendments to IAS 12(AC 102), which are effective for annual periods beginning on or after 1 January 2012, with early application permitted, were approved by the APB via round-robin on 26 January 2011.

As the effective dates of the standards noted below are before 1 January 2013, the APB approved the following pronouncements which were issued by the IASB in December 2010:

- *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* – Amendments to IFRS 1(AC 138) – *First-time Adoption of International Financial Reporting Standards.* These amendments to IFRS 1(AC 138) were approved as amendments to SA GAAP with an effective date of annual periods beginning on or after 1 July 2011. The amendment on *Severe Hyperinflation* permits entities to resume presenting financial statements in accordance with IFRSs after being subject to severe hyperinflation. An entity may elect to measure the assets and liabilities held before the functional currency normalisation date at fair value and to use their fair value at that date as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position. The amendment on the *Removal of Fixed Dates for First-time Adopters* changes references to the fixed date of 1 January 2004 to 'date of transition to IFRSs', eliminating the need for companies adopting IFRSs for the first time to restate assets and liabilities derecognised before the date of transition to IFRSs.

- Withdrawal of SIC-21(AC 421) – *Income Taxes – Recovery of Revalued Non-depreciable Assets.* As noted above the publication of *Deferred Tax: Recovery of Underlying Assets* resulted in the withdrawal of SIC-21 and as a result SIC-21(AC 421) was also withdrawn as an Interpretation of SA GAAP effective for annual periods beginning on or after 1

January 2012. The amendments to IAS 12(AC 102) introduce a presumption that an investment property measured at fair value is recovered through sale. The presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all the economic benefits embodied in the investment property overtime, rather than through sale.

The IASB press release of the amendments to IAS 12(AC 102) and IFRS 1(AC 138) can be downloaded from the **SAICA website**.

These amendments can be downloaded from the **SAICA on-line Handbook** or **eIFRS**.

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