

JOINT ANNOUNCEMENT BY THE ACCOUNTING PRACTICES BOARD (APB) AND THE FINANCIAL REPORTING STANDARDS COUNCIL (FRSC) REGARDING SA GAAP

The Companies Act, 2008 (“the Companies Act”), has brought about changes to the standard-setting process that has required the continued existence of South African Statements of Generally Accepted Accounting Practice (“SA GAAP”) to be re-evaluated.

FRSC

The Companies Act imposed an obligation on the Minister of Trade & Industry (Minister) to establish a body known as the Financial Reporting Standards Council (FRSC). The FRSC is the legally constituted standard-setter and its function is to advise the Minister on matters relating to financial reporting standards. The FRSC was formed in late 2011 and has had two meetings to date. As a consequence of the establishment of the FRSC, the fundamental motivation for the Accounting Practices Board’s (“APB”) existence has fallen away.

SA GAAP

The Accounting Practices Board (“APB”) was formed in 1973 to consider what should be generally accepted accounting practice and issue SA GAAP. In 2003, the APB decided to harmonise SA GAAP with International Financial Reporting Standards (“IFRS”). Since then, after due process, the APB has issued the IFRS standards as SA GAAP without amendment. The Companies Regulations, 2011 (“the Regulations”), prescribe the reporting frameworks based on each individual company’s public interest score. The Regulations permit the use of either IFRS, IFRS for SMEs or SA GAAP in specific instances. However, in order to reduce the burden of issuing each IFRS standard as SA GAAP, it has been decided to withdraw SA GAAP. Accordingly, SA GAAP will no longer apply in respect of financial years commencing on or after 1 December 2012.

APB and FRSC

At the APB meeting held on 28 February 2012, at which the chairman and some members of the FRSC were also present, it was decided that the APB and the FRSC would work closely together in determining a smooth transition of the standard-setting function and the financial reporting standards.

As a result, the following has been decided:

- That SA GAAP will be withdrawn and will cease to apply in respect of financial years commencing on or after 1 December 2012;

- The FRSC, in consultation with the APB, will propose changes to the Regulations to this effect, including a provision to give the FRSC the power to issue financial reporting pronouncements (FRPs) to take account of local circumstances or issues not specifically covered by IFRS or IFRS for SMEs, provided such FRPs are not in conflict with IFRS or IFRS for SMEs. The first FRPs are intended to cover current South African interpretations of SA GAAP, i.e. the AC-500 series; and
- The APB will commence the process of its voluntary winding-up.

Conversion to IFRS or IFRS for SMEs

As a result of these decisions, companies with a public interest score below 350 that are currently applying SA GAAP need to start preparing for their conversion to IFRS or IFRS for SMEs. IFRS 1 – *First-time Adoption of International Financial Reporting Standards*, must be applied when converting to IFRS. Adjustments may arise on transition to IFRS given differences in transitional provisions. Alternatively, a company may change to IFRS for SMEs provided all the scope requirements of the standard are met and the transition provisions followed.

Since the APB ceased approving individual IFRSs as SA GAAP from May 2011, the only differences between SA GAAP and IFRS are 4 IFRSs, 7 amendments to IFRSs and an IFRIC which have not been issued as SA GAAP. All of these, unless otherwise indicated, are only effective for annual periods beginning on or after 1 January 2013. IFRS not forming part of SA GAAP cannot be adopted by a company reporting under SA GAAP, but obviously can be if the company is reporting in terms of IFRS. A detailed list appears below:

- IFRS 10 – *Consolidated Financial Statements*;
- IFRS 11 – *Joint Arrangements*;
- IFRS 12 – *Disclosures of Interests in Other Entities*;
- IFRS 13 – *Fair Value Measurement*;
- Amendments to IAS 27 – *Separate Financial Statements*;
- Amendments to IAS 28 – *Investment in Associates and Joint Ventures*;
- Amendments to IAS 19 – *Employee Benefits*;
- *Presentation of Other Comprehensive Income*: Amendments to IAS 1 – *Presentation of Other Comprehensive Income* (effective for annual periods beginning on or after 1 July 2012);
- *Mandatory Effective Date and Transition Disclosures* – Amendments to IFRS 9 – *Financial Instruments* and IFRS 7 – *Financial Instruments: Disclosures* (These amendments have deferred the mandatory effective date of IFRS 9 from 1 January 2013 to 1 January 2015. However, the SA GAAP equivalent, AC 146 and AC 146 A, still have a 1 January 2013 effective date);

- *Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 – Financial Instruments: Presentation;*
- *Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 – Financial Instruments: Disclosures;* and
- *IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine.*

The Impact on the Treasury Regulations

Although the Treasury Regulations issued in terms of the Public Finance Management Act, 1999 (“PFMA”) require some state-owned entities to apply SA GAAP, National Treasury and the Public Sector Accounting Standards Board are in the process of considering proposed changes to the Treasury Regulations to take account of the withdrawal of SA GAAP.

The Impact on entities other than companies

Other entities that are required to apply SA GAAP in terms of their governing legislation should also follow the process of conversion set out above.

Summary

The consequences of the aforementioned will be as follows:

- 1 SA GAAP will be withdrawn and will cease to apply in respect of financial years commencing on or after 1 December 2012;
- 2 Companies with a public interest score below 350 and other entities that are currently applying SA GAAP need to prepare for conversion to IFRS or IFRS for SMEs;
- 3 The commencement of APB's voluntary winding-up; and
- 4 Close co-operation between the APB and the FRSC to ensure a smooth handover of the standard setting function and related matters from the APB to the FRSC, before the winding-up process of APB is completed.

Accounting Practices Board

M Kgosana
Chairman

Financial Reporting Standards Council

J van Rooyen
Chairman