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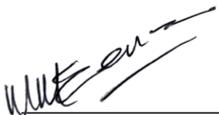
**The Chief Executive Officer**  
**Accounting Standards Board**  
40 Church Square  
Pretoria  
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Email: [info@asb.co.za](mailto:info@asb.co.za)

**RE: EXPOSURE DRAFT ON PROPOSED AMENDMENTS TO GRAP 109 (ED 215)**

1. The South African Institute of Chartered Accountants (SAICA) welcomes the opportunity to make submissions on ED 215.
2. SAICA is South Africa's pre-eminent accountancy body and is widely recognised as one of the world's leading accounting institutes. The Institute provides a wide range of support services to more than 50 000 members who are chartered accountants [CAs(SA)], associate general accountants [AGAs(SA)] and accounting technicians [ATs(SA)] who hold positions as chief executive officers, managing directors, board members, entrepreneurs, chief financial officers, auditors, and leaders in their respective spheres of operation.
3. Our work in the public sector goes beyond member support but also includes a significant focus on advocacy and capacity building to support and encourage an improvement in public finance management.
4. SAICA generally supports the proposed amendments to GRAP 109 as we believe they will support a better understanding and application of the standard.
5. Our detailed comments on the specific matters for comment are included under the following annexures of the comment letter:
  - a. **Annexure A: Detailed Comments on the Specific Matters for Comment**
  - b. **Annexure B: General Comments**
6. We would also appreciate the opportunity to engage further, and we would be willing to discuss the comments if required. Please do not hesitate to contact Odwa Benxa ([odwab@saica.co.za](mailto:odwab@saica.co.za)) in this regard.

Kind regards,



**Dr Mariska McKenzie**  
**Acting Chairperson: National Public Sector Committee**



**Natasha Soopal**  
**Head of Public Sector and Ethics**



**Odwa Benxa**  
**Lead: Public Sector Advocacy**



## ANNEXTURE A: DETAILED COMMENTS ON THE SPECIFIC MATTERS FOR COMMENT

No.	Specific Matter for Comment	Comment	Recommendation
1.	<p><b>Specific Matter for Comment 1</b></p> <p>In clarifying the existing requirements of GRAP 109 on assessing whether an arrangement is a principal-agent arrangement, the following amendments are proposed:</p> <p>(a) combine the guidance on binding arrangements in the definition section of the Standard (see paragraphs .05A to .05F);</p>	<p>SAICA supports the combining of all guidance on binding arrangements under the definitions section in GRAP 109. However, paragraph .05F appears to relate more to the reassessment of the principal-agent relationship following a modification to a binding arrangement rather than to the definition of a binding arrangement itself. It may therefore be more appropriate for this guidance to be positioned within the application guidance on principal-agent assessment to preserve conceptual clarity.</p>	<p>The ASB should consider moving both paragraphs .05E and .05F to the heading '<b>A binding arrangement exists</b>' as the guidance on rights and obligations under a binding arrangement is unpacked and clarified in this section.</p>
	<p>(b) add guidance to clarify that a binding arrangement can consist of various mechanisms that should be read together, and that judgement is applied to assess if there is a binding arrangement (see paragraphs .05B and .05D);</p>	<p>SAICA supports the additional guidance that clarifies that a binding arrangement can consist of various mechanisms that should be read together, and that judgement is applied to assess if there is a binding arrangement as per paragraphs .05B and .05D. However, the ASB should consider the following:</p> <ol style="list-style-type: none"> <li>1. Opportunity exists to add a visual demonstration for the application of the linkages between the various ways that binding arrangements can be evidenced, that is, contracts, legislation and the operation of law, and how judgement should be applied in concluding whether a binding arrangement exists where</li> </ol>	<ol style="list-style-type: none"> <li>1. The ASB should consider:             <ol style="list-style-type: none"> <li>a. adding a graphical depiction to demonstrate how the assessment of the existence of a binding arrangement and the linkages between the various ways that a binding arrangement can be evidenced, that is, contract, legislation and the operation of law.</li> <li>b. including guidance on differentiating between binding arrangement and normal service provide contracts</li> </ol> </li> </ol>

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		<p>these ways link. This could be in a form of a decision tree and be outside of the housing arrangement guide currently being used to demonstrate the application of concepts in the standard.</p> <p>2. There have been instances where entities are unable to differentiate between binding arrangements and normal service provider contracts (that is, contract that the entity enters into to fulfil its mandate. For example, a municipality entering into a contract with a service provider to provide prepaid electricity). It may be beneficial for the ASB to include guidance on differentiating between binding arrangement and normal service provide contracts to assist with avoiding the confusion.</p> <p>While SAICA recognises that the application of judgement is an integral part of the financial statements preparation process, judgement can also lead to different interpretations of the same transactions due to subjectivity and therefore may result in a lack of comparability of the financial statements. Therefore, it may be beneficial for the ASB to consider adding an example to demonstrate how judgement can be applied in a binding arrangement as per paragraph .05D.</p>	<p>c. adding an example to demonstrate how judgement should be applied in a binding arrangement as per paragraph .05D</p>

No.	Specific Matter for Comment	Comment	Recommendation
	(c) clarify that assessing whether an arrangement is a principal-agent arrangement should be undertaken before accounting for the arrangement using GRAP 109 (see paragraphs .08D and .16);	SAICA supports the addition of the clarity that assessing whether an arrangement is a principal-agent arrangement should be undertaken before accounting for the arrangement using GRAP 109.	None.
	(d) add guidance to explain that a single binding arrangement may establish multiple rights and obligations for different activities, but not all the activities and related transactions may meet the definition of principal-agent arrangement (see paragraphs .05B and .08I);	SAICA supports the additional guidance explaining that a single binding arrangement may establish multiple rights and obligations for different activities, but not all the activities and related transactions may meet the definition of principal-agent arrangement. However, SAICA believes it may be beneficial for the ASB to add an illustrative example to demonstrate the application of this guidance	The ASB should add an illustrative example to demonstrate the application of the principles in paragraph 08I of the standard.
	(e) clarify that, even though the definitions of a principal and an agent require the principal to direct the agent in undertaking transactions with third parties, the direction does not imply that an active action is required. The direction can be established by the rights and obligations in the binding arrangement (paragraph .08C);	SAICA supports the clarity that, even though the definitions of a principal and an agent require the principal to direct the agent in undertaking transactions with third parties, the direction does not imply that an active action is required. The direction can be established by the rights and obligations in the binding arrangement.	None.
	(f) add guidance that explains that the roles and responsibilities of the parties should be assessed for each transaction undertaken with third parties or a group of transactions that share similar characteristics (see paragraph .08F);	SAICA supports the additional guidance explaining that the roles and responsibilities of the parties should be assessed for each transaction undertaken with third parties or a group of transactions that share similar characteristics. However, SAICA believes it may be beneficial for the ASB to add an illustrative example to demonstrate the application of this guidance and combine it with the additional guidance in paragraph	The ASB should add an illustrative example to demonstrate the application of the principles in paragraph 08F of the standard.

No.	Specific Matter for Comment	Comment	Recommendation
		08I in the example demonstrating the application of the principles.	
	(g) require an entity to re-assess whether the arrangement continues to be a principal-agent arrangement if there is a modification to the binding arrangement (see paragraphs .05E and .05F);	SAICA supports the requirement of the entity to reassess whether the arrangement continues to be a principal-agent arrangement if there is a modification to the binding arrangement. However, it may be beneficial for the ASB to include guidance clarifying the instances that may constitute a modification. This can be done through an illustrative example.	The ASB should add additional guidance in the form of illustrative examples to demonstrate the application of the principles of the binding arrangement modification. The ASB can furthermore consider the modification guidance in International Financial Reporting Standard 16, <i>Leases</i> (IFRS 16) IFRS 16 for application in GRAP 109.
	(h) clarify the nature of the rights and obligations of the parties to a principal-agent arrangement (see paragraph .13B); and	SAICA supports the amendment to clarify the nature of the rights and obligations of the parties to a principal-agent arrangement.	None.
	(i) clarify the application of substance over form to conclude whether the arrangement meets the definition of a principal-agent arrangement (see paragraph .08E).	SAICA supports the clarification that substance over form should be applied in concluding whether the arrangement meets the definition of a principal-agent arrangement.	None.
2.	<p><b>Specific Matter for Comment 2</b></p> <p>To address users' information needs, the ED proposes the following amendments to the disclosure requirements of GRAP 109:</p> <p>(a) include a disclosure objective that replaces the guidance in GRAP 109 on materiality and aggregation of information for disclosure purposes to enable preparers to consider whether the disclosures meet their users' information needs (see paragraph .60A);</p>	SAICA supports the amendment to include paragraph .60A in GRAP 109. SAICA further supports the ASB's explanation in BC41 on the removal of the guidance on materiality currently in GRAP 109.	None.

No.	Specific Matter for Comment	Comment	Recommendation
	(b) expand the existing disclosure requirement to include disclosure of significant judgements in assessing whether an arrangement is a principal-agent arrangement (see paragraph .62A(a)); and	SAICA supports the amendment to include the disclosure of significant judgements in assessing whether an arrangement is a principal-agent arrangement.	None.
	(c) include a cross-reference to the encouraged disclosure in GRAP 2 on Cash Flow Statements to disclose the amount and nature of restricted cash balances (see paragraph .63A).	SAICA supports the amendment to include a cross-reference to the encouraged disclosure in GRAP 2 on Cash Flow Statements to disclose the amount and nature of restricted cash balances.	None.

## ANNEXTURE B: GENERAL COMMENTS

No.	Affected paragraph	Comment and recommendation
1.	<p><b>Paragraph .46</b>            Agents are usually compensated for the transactions that they carry out on behalf of their principals. Compensation can take a variety of forms and may be fixed or variable in amount. Compensation may be received directly from the principal in the form of a commission, administration or transaction fee for the services it provides in an exchange transaction, or it may receive compensation indirectly from a third party, such as another level of government, in a non-exchange transaction. Some arrangements stipulate that, instead of paying a specific fee to the agent, the agent is entitled to withhold certain fees collected from third parties (e.g. consumers). These types of compensation typically qualify for recognition as revenue by the agent, because they compensate the agent for transactions undertaken on the principal's behalf.</p>	<p>There have been instances where entities interpret the lack of compensation in a contract as an indicator that the transaction is not a principal-agent arrangement. It may therefore be appropriate for the ASB to clarify in the standard that compensation is not an indicator of an existence of a principal-agent arrangement.</p> <p>Furthermore, the ASB should clarify that agents do not always have to be compensated in a principal-agent arrangement. While .46 infers this, it may be appropriate for the ASB to clearly state this fact in the standard.</p>