

Reform of the Accounting System with Special Regard to Digitalisation

Report: Review of the Accounting Act in Poland

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The Project “Reform of the accounting system with special regard to digitalisation” (“the Project”) has been contracted by the European Commission Directorate General for Structural Reform Support (DG REFORM) to PricewaterhouseCoopers EU Services EESV, and is carried out by PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością sp.k. (PwC).

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The Project activities relating to this Report were carried out in the period from November 2022 to May 2023. Any developments, changes or updates that have occurred after this period have not been reflected in this Report and further Project work is still in progress at the date of publication of this Report. This Report is not the final Deliverable for the Project.

The Project deliverables should be read in their entirety and respective sequence to gain a clear understanding about the underlying methodology and inherent limitations of the presented results.

The Project results and deliverables are based on the current versions of relevant legislation available at the time of the Project activities, mainly the Polish Accounting Act (i.e. the Act of 29 September 1994 on Accounting (Dz. U. [Journal of Laws] 2023, item 120). Any subsequent updates or changes of these or other used documents have not been reflected in the Project deliverables and this Report.

This Report was prepared in English and Polish. In case of ambiguity/differences between the English and the Polish versions of the Report, the English version should be considered as the prevailing one.

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1. Executive Summary

This Report summarises the work done under Phase II of the Project Reform of the Accounting System with Special Regard to Digitalisation (“Project”). This action is funded by the Technical Support Instrument 2022 and managed by the Commission’s Directorate-General for Structural Reform Support (“DG REFORM”). The contractor for this Project is PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością sp. k (“PwC”) acting on behalf of PricewaterhouseCoopers EU Services EESV, which has been selected by DG REFORM in a tender procedure. The Project beneficiary is the Ministry of Finance (“MoF”).

This Report has been prepared with the financial support of the European Union. The content of the Report is the sole responsibility of the author/s. The views expressed in this Report are not to be construed as in any way reflecting an official opinion of the European Union.

The purpose of this phase of the Project was to provide a comprehensive review of the relevant legislation and practice arising from the Polish Accounting Act (i.e. the Act of 29 September 1994 on Accounting (Dz. U. [*Journal of Laws*] 2023, item 120), hereinafter the “Act”), is to identify potential issues around its implementation. The analysis has been focused on identifying areas for further clarification, structuring or alignment (if required).

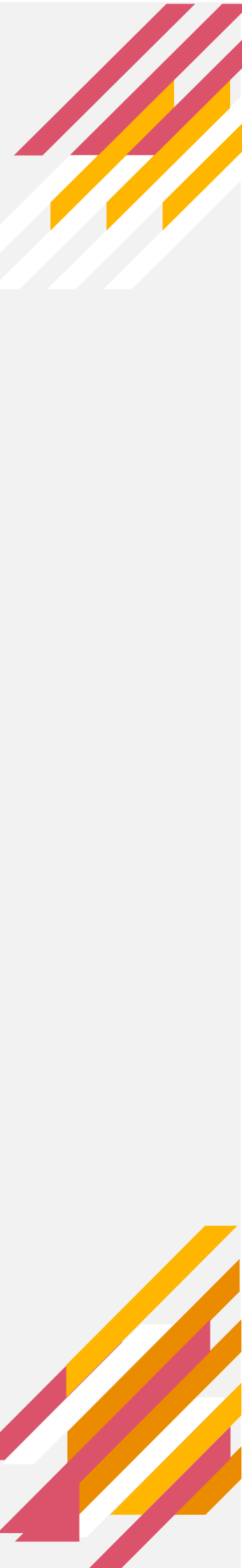
The analysis considered the needs, burdens, preferences and current practices of the Act’s users, specifically the preparers, readers and users of financial statements.

This review has covered the entire Act including the annexes thereto and was performed by expert members of the Project Team (including accounting, audit, tax law and high technology professionals, considering practical expertise in bookkeeping, preparing and auditing financial statements and the specificities of other various industries. Other sources of information such as those made available by the MoF were also considered during the review. Additionally, interviews and workshops with key stakeholders and users of the Act were conducted as part of this phase of the Project. The above work was carried out with the support of the staff of the Ministry of Finance Department of Public Spending Performance and Accounting .

The work resulted in identifying more than a dozen priority areas (described in more detail in Section 4 of this Report) for which a need for further in-depth analysis was identified. Those areas included but were not limited to:

- the organisation of the Act and the structure of the accounting law regulations as a whole;
- the adoption of International Financial Reporting Standards (“IFRS”) in Poland; and
- the reflection of new information technologies in the Act both in the area of accounting, book-keeping, stocktaking and other relevant financial and accounting processes.

In addition to the above-mentioned areas, the key issue that should be addressed in further analyses seems to be the cost aspect of the implementation of possible amendments to the legislation and the cost of accounting for entities, taking into account the amended regulations. That topic along with the other that require further analysis will be addressed by us in the subsequent phases of the Project.



Section 6 of this Report contains a detailed description of individual issues for further discussion and analysis at later stages of the Project, grouped by focus topic. Further, an appropriate weight is assigned to each such issue; the weighting criteria are described in Section 3.

The descriptions of the areas for discussion which have been assigned high priority (and where deemed required in order to implement further phases of the Project) are complemented with suggested next steps to be undertaken in the project work.

Considering the extensive nature of the subject dealt with, the list of areas for discussion in Section 6 may not be complete and will be complemented further as the project continues.

It should also be noted that the list of identified areas for discussion as provided in this Report will be subject to further analysis at later stages of the Project among the stakeholders and the Beneficiary to arrive at a shortlist of such areas and to determine the directions for amendments to the Act.

2. Work performed

The purpose of this phase of the Project was to provide a comprehensive review of the Act and its application.

The following work has been done to this end:

- a comprehensive review of the Act by PwC experts on the Project Team (in the areas of accounting, audit, tax law and high technologies) coupled with a review of various other sources of information such as MoF-provided materials;
- workshops with institutional stakeholders with the support of the staff of the Ministry of Finance Department of Public Spending Performance and Accounting (a list of workshop attendees is provided in Appendix 2); and
- a cycle of individual workshops with the Act's users attended by representatives of selected companies (Appendix 2).

The above work has been aimed at identifying areas for potential updates or provide recommendations for further discussions and analysis due to their impact on the current burden for users and confusion around the application of the Act and those issues that require regulation in view of digital transformation and the advance of information technology.

The results of the analysis conducted to date are described in detail in Section 6. Reference to the specific provision of the Act is provided for each area for discussion. The Act has been reviewed as a whole (including the Annexes thereto). If any of the provisions of the Act is not covered in Chapter 6, this means that the review has not identified any areas for discussion in connection with that provision at this stage and the provision has not been identified as subject to further analysis by the stakeholders. A review of additional provisions of the Act that is not covered by this Report will be done the course of the project work.

Considering the availability of resources, extensive nature of the topics and other ongoing projects, the following areas have been excluded from the Project at the request of the Beneficiary:

1. Accounting and bookkeeping services;
2. Criminal liability;
3. Non-Financial Reporting (ESG) and issues of sustainable development (CSR) (except where the scope of reporting remains related to financial reporting);
4. Audit of financial statements (except the impact of an audit on financial statements, e.g. where the audit is invalid by operation of law),
 - a. Appointment of the statutory auditor; and
 - b. Audit engagements: entering into and terminating contracts.

3. Methodology for prioritising identified issues for discussion

Topics that meet one or more of the criteria listed below were identified as priorities in the analyses performed:

- is identified as a priority by the majority of stakeholders in the focus group¹ (e.g. topics 1, 2, 3, 4, 5, 6, 7 and 9 in Section 4);
- is relevant to the key findings from the review of the Act (as detailed in Section 4); by this we understand the fact that without taking decision how to address the topic it will be impossible to provide detailed proposed directions for change to other related areas further in the Project (e.g. topics 1, 2 and 3 in Section 4);
- is a polarity of views among stakeholders around the topic, i.e. differing opinions regarding potential directions for change and, as a result, a need for in-depth consultations further in the Project (e.g. topics 1, 2, 3 and 6 in Section 4);
- The current provisions of the Act are onerous or absent of certain regulations has been reported by practitioners as an area of significant risk, cost or impracticability (e.g. topics 5 and 9 in Section 4);
- The analysis of a topic must include industry-specific issues and the topic's relevance to the industry; specifically, we point to the financial sector as being sensitive to potential updates to the Act as well as being in need of a profound change;
- There is input from experts regarding the critical directions for change in the Act we are recommending.

A number of areas for discussion related to the application of the Act have been identified in the course of our comprehensive review and as a result of the workshops held with institutional stakeholders and meetings with representatives of selected companies. Those areas have been assigned as priorities representing the relevance of the specific area for the Project of reform of the accounting system in Poland:

- **HIGH** priority has been allocated to issues that:
 - Are linked to the strategic objective of the Project, which is digitalisation; or
 - Have been identified by many stakeholders; or
 - Require far-reaching change and an in-depth analysis and further consultations at the subsequent stages of work; or
 - Concern a radical reconstruction of the accounting system in Poland; or
 - Have been identified by representatives of those financial institutions that are of particular importance for the economy's financing system.
 - Issues marked as high priority mostly fit one or several of the above criteria at once.
- **LOW** priority has been allocated to issues relating to minor changes for the sake of convenience or definition (of lower importance) or to clarify a certain thing.
- **MEDIUM** priority has been allocated to all other issues.

The analysis conducted in this phase of the Project identified a total of 200 issues for discussion grouped into 11 focus areas. Out of all identified issues for discussion, 32 issues have been marked as high priority (16%), 119

¹ Focus groups included attendees of (1) workshops held with institutional stakeholders in the Ministry of Finance; and (2) individual workshops with the Act's users attended by representatives of selected companies.

issues have been marked as medium priority (60%) and the remaining 49 issues (24%) have been assigned low priority.

	Priority			
	High	Medium	Low	
1. System of accounting regulations	8			
2. Preparation, filing and publication of financial statements and other reporting	-	9	1	
3. Scope of information to be reported in financial statements and disclosures in financial statements	2	22	8	
4. Financial statements other than annual financial statements	2	1	-	
5. Consolidated financial statements	2	20	2	
6. Accounting and bookkeeping; documentation of the accounting system	5	10	3	
7. Stocktaking	1	3	1	
8. Classification and measurement of assets, equity and liabilities; recognition of transactions	3	41	29	
9. Business combination and division transactions	5	8	3	
10. Audits of financial statements	2	6	-	
11. Other topics	-	3	2	
	TOTAL	30	121	49
	SHARE	15%	61%	24%

The detailed links between the identified issues for discussion and the provisions of the Act and the assigned priorities are provided in Appendix 3 to this Report.

Appendix 3 of this Report provides detailed links between the identified issues for discussion, provisions of the Act and the assigned priorities.

4. Key areas for discussion

Considering the above characteristics of the topics concerned and the review exercise undertaken and based on the interviews and workshops held with a group of selected companies and the Act adopters and organisations and associations identified as key stakeholders and the PwC experts involved in this phase of the Project, key issues for discussion have been identified as outlined below:

1. **The hierarchy of applicability and the level of detail of the provisions currently in force** may be found problematic at times for usability, may raise concerns among users and have minor inconsistencies.

The current provisions need to be restructured **in terms of their hierarchy of applicability and the level of detail**. At present, various ranking provisions contain very low level guidelines that make it difficult to identify general rules and model practices. The fact that some provisions are contained in a higher ranking document prevents flexible amendments to that document and causes limitations such as the possibility to show an example of use.

Potential directions for further studies of that matter could be aimed at restructuring the provisions of the Act and thus at increasing its usability. The review done so far has revealed the following aspects for further, more detailed work:

- a. Considering the possibility to ensure that the general rules and key issues are defined and regulated in the Act whereas low-level guidelines are provided in the National Accounting Standards published by the Accounting Standards Committee (“NAS Standards”, “NASs” or “Standards”). Such an approach would require that certain provisions of the Act be restated to contain only high-level provisions setting out model practices, which would be then further regulated in the regulations and the Standards. The identified direction for change would be a step towards restructuring the Act itself.
- b. Considering the possibility to ensure that specific regulations of general interest and purpose are not provided in regulations but in documents of some other rank (e.g. in a NAS Standard). For instance, in our opinion, it would be reasonable to consider withdrawing from the rank of regulations documents such as: the Regulation of the Minister of Finance on specific principles of recognition, methods of measurement, scope of disclosure and manner of presentation of financial instruments (“Financial Instrument Regulation”) and the regulation of the Minister of Finance on specific principles of preparation of group consolidated financial statements by entities other than banks or insurance or reinsurance companies (“Consolidation Regulation”). All areas related to separate and more specific regulation (including the areas of financial instruments and consolidation currently addressed in the format of regulations) could be relocated to the corresponding NAS Standards. The option for change as described above would apply to high-level regulations, excluding specific regulations intended for financial institutions.
- c. Considering the possibility to **make additions to the existing sector-specific regulations** (i.e. both in terms of relocating to the currently existing regulations certain provisions of the Act, e.g. the scope of information to be reported in financial statements of financial entities², and in terms of possible additions to the inventory of regulations for those entity groups that would need to have specific principles of preparing financial statements developed for them) to regulate entity-specific and business-specific issues. The provisions of such regulations would build upon and further elaborate the general provisions contained in the Act while holding precedence over the clarifications provided in the NAS Standards. It would be recommended to ensure that the level of detail of the Act approximates that of Directive 2013/34/EU on the annual financial statements, consolidated financial statements and related

² For the sake of simplicity, the scope of information to be reported in financial statements is also referred to as “model financial statements” further in this Report.

reports of certain types of undertakings (“Directive”) whereas issues that require further elaboration of those provisions are addressed in NASs.

2. **The question of mandatory adoption of the NAS Standards:** currently, NASs are a possible but are not the only interpretation of the statutory requirements, which does not support a consistent adoption of the accounting principles (policies) by individual entities and leads to the need to regulate new emerging issues by amending the Act, which is a complex and lengthy process. Therefore, it would be recommended to review the existing grading of the particular pieces of legislation, including, for example, considering the mandatory adoption of NASs by certain entities. Such a direction for action might then require an examination of the possibility to implement NASs in whole or in part (i.e. without illustrative examples) in the format of a regulation.
3. **The unavailability of an option to adopt IASs, IFRSs and the related interpretations (“IFRS”) published as regulations of the European Commission (“EU-IFRS”) by all entities** (on a voluntary basis) is a problem, for those entities which are obliged to provide IFRS-compliant reporting to financing entities, investment funds or other investors (but which entities do not satisfy the requirements of Article 45.1b of the Act), for instance, for the purpose of calculating financial covenants or monitoring performance by a stakeholder other than through annual financial statements. Similarly, it is unfavourable to those entities which consider going public in the long run and which, if allowed to voluntarily adopt the IFRS, could embrace and “get used to” the regime of preparing the IFRS financial statements before even taking action on the intention to enter the public market.

The decision to make adoption of IFRS available to all entities is fundamental to the approach to developing accounting principles (policies) for other entities. One of the possible directions to take is to adopt a solution where the accounting principles (policies) in Poland are wholly based on the scalability (proportionality), i.e. IFRS will set the best standard that must be adopted by certain entities (as determined by the legislator) and may be adopted by all others that need to do so. On the other hand, the accounting principles (policies) in Poland could then mandate solutions to balance the protection of financial statements users and the costs of compliance as applicable for: (1) large entities; (2) medium-sized and small entities; and (3) micro entities.

For instance, the issue of lease accounting could be systematically addressed as follows:

- a. IFRS determines lease accounting that reflects the best picture while also involving significant efforts.
 - b. For large entities, there is a solution that provides essential user protection in relation to the recognition of liability and asset amounts in the balance sheet, the profit or loss statement, income and expenses that reflect the economic substance of the transactions. Consequently, the practical application is easier than the full adoption of IFRS.
 - c. For medium-sized and small entities, an exemption from the application of specific accounting principles (policies) is proposed in favour of further simplified principles (policies) or principles (policies) based on tax laws in order to minimise the cost of preparing the information. Further, the adopter of such an exemption would be required to provide disclosures that give users at least essential information to enable assessment of the size of lease transactions and their potential impact if full principles (policies) were adopted.
 - d. For micro entities, there would be an obligation to adopt the full principles (policies) that are consistent with, e.g., tax rules without the need to make or with very limited disclosures, e.g. restricted to an indication whether leases occur at all and providing minimum information which is available without significant effort.
4. **Simplifications for small or micro entities** are dispersed and unclear for eligible entities and their range requires a more detailed review. The analysis identified a need to update the range of simplifications at the statutory level, making sure that it is clear for those entities that would be eligible to use them. Work is now

underway in the Accounting Standards Committee on a draft statement of position on the use of simplifications permitted by the Act.

5. The Act requires amendment in areas that relate to the **adoption of information technologies**.

Technological advances in recent years have impacted the development of financial reporting, accounting and bookkeeping practices, but also the rise of previously unknown types of transactions and business models. These developments have been randomly incorporated into the accounting laws and, as a result, the current provisions do not reflect the daily practice and technology landscape in all respects. Consequently, some areas of the Act are over regulated, particularly the specific provisions on accounting and bookkeeping techniques, whilst issues such as data retention and protection or cybersecurity seem to be under regulated.

As for accounting, bookkeeping and data storage provisions, there have been some issues that have been identified concerning an insufficient direction whether an entity may or may not accept **supporting documentation in hard copy or soft copy** and whether such supporting documents may be freely converted, provided that a change of format of these specific documentation does not result in the data being altered or irreversibly lost. This is particularly important where many entities use electronic document distribution systems.

The Act's users, in the current market, continue to raise doubts about the interpretation whether supporting accounting documents in soft copy are equal to those in hard copy (i.e. whether having an electronic version of an invoice or contract means that the paper version can be destroyed and the electronic one be considered a legitimate and valid supporting accounting document). In the above example, an explicitly stated possibility to recognise electronic and paper supporting documents as equivalent would provide a great convenience for accounting entities and would be in keeping with the evolving technology landscape. However, it must be assumed that certain smaller entities may find it more reasonable to keep source documents in hard copy only; such entities should also be allowed to have documents they convert from an electronic format to a paper format recognised as sufficient supporting documents.

Further project work and proposals for possible amendments to the Act should also include provisions arising from the tax laws that may be relevant to the Act's user, for instance, as an explicit reference in the Act to the admissibility of an electronic document such as a sales invoice generated in the KSeF system (both as a sales document and a purchase document).

Additionally, the Act does not reflect the accounting treatment of new technology operations such as cloud data processing other subscription models, crypto assets and sales of gaming tokens and virtual properties.

In view of the above findings, a comprehensive modification of the provisions on **accounting and bookkeeping** would also be recommended. It may be reasonable to reduce the existing provisions to general requirements stating that books must be duly kept, which signifies that they meet the requirements of data integrity, chronological order of records, accounting record integrity and possibility to control changes while also developing a MoF regulation or a standard by the Accounting Standards Committee to provide lower-level guidance on how to achieve those goals, taking into account the developments in the technology landscape and the accounting needs.

Additionally, it would also be recommended to incorporate technology solutions for remote **stocktaking**.

Article 73.2 of the Act does provide for a possibility to transfer the content of accounting documents to computer-readable data storage media (subject to certain conditions with certain restrictions). However, in practice, the Act's users have reported doubts of interpretation in this area. As a consequence, the implementation of more precise provisions concerning the recognition of electronic and paper supporting documents as equivalent could be considered, which would provide a great convenience for accounting entities and would be in keeping with the evolving technology landscape. However, it must be assumed that

certain smaller entities may find it more reasonable to keep source documents in hard copy only. Documents that have been converted from an electronic format to a paper format version should be allowed to be sufficient as supporting documents for the above entities.

6. **The scope of information to be reported in financial statements** (that is, balance sheet, profit and loss account, statement of changes in equity and cash flow statement) which are contained in the Annex to the Act are worth reviewing with a view to their **arrangement** and assessing to **make the Annexes more adaptable to the needs of the industries concerned**. One of the possible directions for change would be to ensure that the Act only contains high-level guidelines for the presentation of aggregated categories in core statements and sector-specific regulations which would describe the detailed scope and layout of statements for individual groups of entities. At this point, it seems fair to mention the demands reported by a number of stakeholders regarding the comparability of model Act-compliant financial statements and model IFRS-compliant financial statements.
7. The current **regulation of financial statements other than annual financial statements** (for instance, statements prepared due to the change of legal form), including but not limited to the presentation of comparative data in such statements and the obligations to audit, approve and publish them and the related obligations to close the books, take stock and retain records, are insufficient and lack precision in some respects. On the other hand, for interim statements required to be prepared under the applicable legislation for listed companies, clarifying the preparation of such statements in separate legislation may be considered.
8. As regards the obligations in the preparation of financial statements, the following issues have been identified:
 - a. Insufficient clarity is provided as to who the person appointed to be in charge of accounting is;
 - b. The provisions on preparing statements within 3 months are difficult to comply with in practice;
 - c. The provisions on the identification of financial statements need to be simplified for statements signed by a single management board member since the provisions as they now stand are a practical barrier to the use of the simplification provided for in the Act.
9. The issues around **financial statements of foreign company branches as well as of branches of financial institutions** are under regulated. Specifically, it is necessary to provide clarification on issues such as: the definition of a branch manager and their responsibility versus the responsibility of the parent entity's management board; the appointment of a statutory auditor; communication with persons providing oversight; approval of financial statements; and other publication issues as the absence of the related regulation is a major stumbling block to the practical operation of branches.
10. The time point of publication of new logical schemas of financial statements ("schemas") does not fall within the remit of the Act. However, the issue was raised by stakeholders in the preparation of this Report; the **absence of an obligation to publish schemas sufficiently in advance** exposes entities to an "emergency mode of action" and an inability to properly plan the reporting.
11. Reinforcing the provisions of the Act on the **obligation to answer questions of a statutory auditor** in relation to the audit on the part of third parties such as contractors, bankers and lawyers, including for audits of consolidated financial statements, should also be considered. The provisions of the Act could, e.g., expressly state that providing access to account books and to the documents supporting entries in them and to all other documents and providing exhaustive information, clarifications and statements that are necessary to prepare an audit report do not constitute a violation of professional secrecy and privilege provisions under other legislation or of the personal data protection laws. For parties other than the entity, such a requirement may be subject to the entity's consent. Sanctions for gross (persistent) obstruction of access to information for a statutory auditor may also be considered.

12. The obligation to **assess the entity's ability to continue as a going concern** rests with the entity's manager, however, the Act does not expressly mandate that such an assessment must be documented and its outcome presented in financial statements, regardless of the entity's financial position. In some cases, no such disclosure may raise doubts among users of the financial statements.

Annual mandatory review and assessment of the ability to continue as a going concern: an obligation for the entity's manager to carry out and internally document such a review, including a mandatory disclosure in the financial statements (in the introduction and/or notes) of the outcome of such an assessment (or, as a minimum, an obligation to provide an unequivocal statement that, based on the review, there are no circumstances or indications that would suggest that the going concern is at risk) could also be considered. Guidelines for the scope of such an assessment could be articulated, e.g. as a separate NAS or a statement of position of the Accounting Standards Committee and the scope of the assessment could be determined by the nature, financial position and market position, etc., of the entity.

13. **The provisions on accounting for merger and consolidation transactions may require a review and addition;** specifically, issues such as the accounting treatment of reverse business combinations, the definition of an organised part of an enterprise ("OPE") or business, allowing the pooling-of-interest method to be used in consolidated financial statements to account for acquisitions of subsidiaries under joint control or staged mergers may need to be clarified. The clarifications and additions as mentioned above would ensure that similar events are interpreted in a consistent manner in both separate and consolidated financial statements and could also help reduce inconsistencies that occur in practice.

14. The question of what categories of equity are distributable to shareholders and what categories are not is insufficiently addressed. Currently, it is causing problems of interpretation, specifically in regards to accounting for the difference on a business combination recognised in equity, accounting for the impact of a transition from the Act to IFRS or vice versa on distributable amounts. Therefore, defining "**retained earnings**" as an accounting category (representing an amount of equity available for distribution) that would be referred to by Poland's Commercial Companies Code could be considered.

The areas of particular relevance, for institutional stakeholders, were areas 1, 2, 3, 4, 5, 6, 7 and 12. Whilst for companies, the most mentioned issues were those in areas 3 and 5.

Presently, areas of conflicting interests emerging should also be noted and include the following::

- The approach to mandatory auditing of financial statements of IFRS adopters - companies reported concerns around the requirement for small entities engaged in limited activities and being members of larger groups of companies whose financial statements are prepared under IFRS;
- Simplification and limiting of the provisions of the Act down to essential matters - would be in conflict with the demands to regulate in the Act those issues which are not explicitly provided for in the IFRS;
- The scope of information to be reported in financial statements - a number of entities called for expanding the models to make them more industry-specific, but on the other hand, there was opposition for simplifying the models while providing an option to add company type-specific items (lines).

Further, it must be emphasised that the possible recommendations for the identified problematic and debatable areas in this Report have been prepared by reference to the provisions of the Directive.

5. Next steps: key findings from the review of the Act

Based on the analytics done in phase 2 of the Project and taking into account the comments and priorities solicited from the stakeholders, a summary of the key findings from the review have been prepared. These findings are organised around the specific areas identified in a comprehensive review of the Act and described in Section 6 of this Report. These findings may inform the decision-making in the subsequent phases of the Project on the reform of the Act and include high-level directions and overriding priorities that should enable more detailed recommendations for changes to the Act moving forward.

The decision-making, primarily in respect of the identified areas for discussion covering the hierarchy of legislation, the status of the Act vis-a-vis IFRS and vis-a-vis NASs or the regulations will help set the right direction for future work.

A major aspect that we considered in making our findings and in identifying the priorities was digitalisation and commitment to ensure that changes to the regulations, if any, can be developed so as to be independent from any specific technology to provide longevity and universality of the legislation and equal application across a variety of technologies. Another important issue was the commitment to develop accounting practices that reduce the administrative burden for preparers while retaining or improving the informative value for statements' users.

The key findings from the comprehensive review are:

1. Determining the applicability of the Act and direction for legislative development

As a result of the review undertaken in this phase of the Project, we have identified a need to define the profile of entities obliged to adopt the Act and those obliged to comply with the provisions of the Act because of reaching a certain size of business. In addition, it will be necessary to define the range of provisions that have to be adhered to by such entities and the inventory of simplifications and exclusions from the obligation to prepare the specific components of financial statements.

It also seems reasonable to set the direction for development of legislation governing the accounting in Poland in order to make a choice whether following IFRS with certain acceptable simplifications is a desirable direction or a direction that is independent of IFRS and targets a precisely defined group of entities, with an inventory of acceptable simplifications would rather be preferred.

The ultimate objective should be the protection of broadly understood stakeholders and for public interest entities ("PIEs"), including in particular listed companies, preparing annual financial statements under IFRS seems to achieve that objective.

For other entities, creating a system that is independent of IFRS on the scalability (proportionality) basis should be considered. This would involve:

- Defining (or using the existing definitions of) a micro entity, small and medium entities and large entities;
- Creating regulations for companies defined as "large" that would generally provide a reasonable measurement of assets, equity, liabilities, profit or loss and a complex system of disclosures. Such principles may or may not be aligned with IFRS but they must be at least compatible with the concepts and fundamental accounting principles (policies);

- Creating regulations for entities defined as “small” for which certain valuation and measurement rules that are mandatory for entities defined as “large” may be too onerous and costly. Simplifications should be provided to exempt them from certain measurement principles in favour of additional complementary disclosures, e.g., narrative disclosures of the adopted simplifications. For instance, an entity could be able to elect and not to calculate deferred tax but it would then be required to disclose temporary differences; an entity does not adopt the specific principles (policies) on leases but it reports the lease periods and its monthly lease liability. Financial statements would not provide the statements’ users with information calculated to such a level of detail as for entities defined as “large” but the users would still derive information about the developments occurring in the company from data that would be cost-effective to obtain by the preparer.
- Creating regulations for companies defined as “micro” that could provide for further simplifications in the Act and for the option to adopt limited disclosures subject to the guidelines set out in the Directive. One of the directions for potential action in this area could be to further approximate the accounting principles (policies) to the tax laws. Since that group would potentially include entities for which stakeholder protection is of the least priority, the accounting principles (policies) that are similar to the tax principles (policies) could sufficiently address the need to provide reliability and accessibility of data. With such an approach, the same transaction would be reported in the same way for both accounting and taxation purposes, which would considerably reduce the burden on those entities as well as the cost of preparing such information. It would be potentially sufficient to disclose what simplifications have been adopted by the entity, without stating the value as, where justified, an entity defined as “micro” could even be allowed not to keep detailed records enabling complete and legally required disclosures (for instance, this could cover transactions such as leases); provided that the type of disclosures is not required under the provisions of Chapter 4 of the Directive.
- Making it possible for all entities that would elect to do so to adopt IFRS on a voluntary basis, with precisely defined requirements for resumption of the financial statement preparation principles (policies) arising from the Act.

2. Update to the structure of the Act and its status vis-a-vis other regulations (NASs, IFRS, etc.)

As a result of the review performed in this phase of the Project, we have identified an area for further analysis related to the structure and hierarchy of the existing legislation and regulations.

This topic must be addressed first as it is key to the proposed updates across all areas of the Act. We realise that there already exist very broad, valid and widely accepted regulations, e.g. those contained in NASs, regulations or IFRS that address the areas reported by the stakeholders and unregulated in the Act or in need of interpretation. Our recommendation will be to leverage these regulations (where reasonable) and refer to them in the Act and to make their adoption mandatory (where reasonable) if it has been voluntary. However, we would like to stress that our aim is not to move provisions from NASs or IFRS to the Act but only to structure the Act so as to make the regulations mentioned a comprehensive add-on to the basic principles (policies) regulated under the Act.

3. Restructuring of the Act and the accompanying legislation to improve transparency and intelligibility for users

Another issue facing the users as identified on the basis of the review is the level of complexity and user-unfriendliness of the system. The takeaway and a potential next step for further proceeding is a full and comprehensive review of the Act so that the review would, first, provide a robust base for the stakeholders and, second, provide clarity, structure and understanding to practitioners. Multiple historical amendments to the Act have caused its content to possibly appear unintelligible or chaotic and to be in need of grouping into areas of similar topics aggregated in one place. We do realise that one part of the provisions of the Act

is of general nature while another part is very detailed, therefore, our proposals for change will suggest that the Act should deal with the fundamental principles (policies), leaving the details to regulations or NASs.

4. Making the most of the existing standards and regulations

Based on the work performed, it was concluded that there does not exist a large number of areas that lack proper regulation in the Act or secondary legislation (regulations, NASs, IFRS). As such, there is no need to create any significant new regulations concerning the basic principles (policies) in the field of accounting. However, considering the recommendations in items 1 and 2, it is key to properly structure and establish a relation between the Act and other sources of information, which will largely address the stakeholders' demands. Our aim will be to use as much of the existing policies and legislation as possible rather than creating new ones.

5. Inclusion of high technologies

The Act addresses selected technology issues, that is computer-based accounting, bookkeeping, data protection, electronic financial statements and electronic signature.

However, considering the time of its inception, the Act as it is currently seems to fail to comprehensively address the technology aspects and some regulations contained in the Act may be no longer relevant to the present market conditions.

The topic of the application of high technologies regularly recurred during our interviews and workshops with the stakeholders and they represented a major area for analysis for our experts. It is thus, indisputable to conclude that all advocated changes to the Act in the areas such as processes, systems, measurement methods or reporting methods must all both consider the current practices and the existing technologies and be forward-looking to address potential future directions for development in the field of high technologies. The key in this area will also be addressing the topic of security and data protection.

6. Resolving interpretation gaps, inaccuracies and unfeasible, impracticable or too costly provisions

Our review has revealed a number of areas that are difficult to interpret, impracticable to use or generating considerable costs for the stakeholders. This area is closely related to items 1, 2 and 3 described above. In our opinion, the main objective of the Act is to ensure that entities provide reliable, accurate and correct information to a wide group of stakeholders should simultaneously enable practicality and ease of use and, whenever possible, ease of implementation and low cost. Additionally, the clarity and intelligibility of legislation ensure that there are no inconsistencies of interpretation and significantly reduce the risk of errors. This demand applies to the whole of the Act and the related regulations and our recommendations for all changes will focus on upholding that overriding principle.

7. Providing coherence (where possible) for multidirectional and varied reporting obligation on the Act adopters







Our review and interviews with the stakeholders showed that many entities are now overwhelmed by the multitude and complexity of the various types of mandatory reporting to government authorities, organisations and public entities. While we do not deny the need for multidirectional reporting for financial, statistical and tax purposes, etc., we do realise that such reporting is often based on different data or information, forcing entities to maintain multidimensional environments for the same transactions and economic events. We are calling for providing options to align the reporting processes whenever possible in order to enable entities to maintain a single source of data to reduce the cost and risk of errors and to improve the efficiency and comparability.



6. Directions for potential change: the outcome of reviews and surveys among stakeholders

The descriptions of the areas for discussion which have been assigned **high priority** (and where deemed required in order to implement further phases of the Project) are complemented with suggested **next steps** to be undertaken in the project work.





6.1. System of accounting regulations




6.1.1. The remit of the Act and the obligation to apply NASs


	Area:	System of accounting regulations		
	Title:	The remit of the Act and the obligation to apply NASs		
	Priority:	<input checked="" type="checkbox"/> High	<input type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Mainly the provisions of Article 10.3 of the Act <i>“For matters not regulated by the Act, while adopting their accounting principles (policies), entities may apply national accounting standards issued by the Accounting Standards Committee. If there is no applicable national standard, entities other than those specified in Article 2.3 may apply IAS.”</i>		
	Issue for discussion:	<p>The Accounting Act was implemented back in 1994 and has been amended multiple times ever since the Act as it currently reads is excessively detailed on some points, however, is difficult to interpret while failing to fully address the needs of various groups of entities.</p> <p>Additionally, the accounting principles (policies) are regulated in regulations, National Accounting Standards and statements of position of the Accounting Standards Committee. The National Accounting Standards are not mandatory and the legal status of statements of position of the Accounting Standards Committee is not clear-cut.</p> <p>Article 10.3 permits, but does not require, the adoption of NASs and IFRS in areas not explicitly provided for in the Act. This leads to considerable variation in the presentation of financial statements and a “selective” choice of accounting principles (policies) in practice.</p> <p>Some representatives of the institutional stakeholders (and selected companies) also made proposals to have only general principles written in the Act that would provide a base framework for accounting policies while detailed principles should be contained in the Standards and regulations (including sector-specific and industry-specific regulations). As such, an obligation to adopt the Standards and elevate them to the rank of regulations should be considered, which is however problematic in the context of use examples contained in the Standards.</p> <p>Some institutional stakeholders called for the mandatory adoption of all Standards</p>		

		by entities without choice or otherwise a diverse approach to the recognition of identical transactions may occur (which is the case now too). [experts; institutional stakeholders; telecommunications company; media company]
	Preliminary proposed solution/general direction for change:	In view of the issues mentioned above, possible directions for change could include, for instance: <ul style="list-style-type: none"> • Restructuring the Act so that the level of detail contained would approximate the level of detail of the Directive. • In the context of the above point, the work at the subsequent stages could focus on a review and discussion of the range of issues that should be regulated directly in the Act and the range of low-level guidelines that would be covered by the Standards; • Discussing the place in the system of legal regulations for specific issues such as, e.g., stocktaking, accounting and bookkeeping, information to be reported in financial statements and the so-called industry-specific regulations (targeting entities such as, e.g., banks); • Possibly making the Standards mandatory, including the solutions provided for in regulations and for matters not regulated by the Act, regulations of Standards, allowing an option to develop accounting policies based on IFRS, subject to the overriding principles prescribed in the Act; • Possibly regulating the issue of adopting statements of position of the Accounting Standards Committee by adding a provision to the effect that the Standards shall be understood as including both the Standards and statements of position of the Accounting Standards Committee; however, such an approach would require an analysis of its legislative acceptability and further examination of the classification into standards and statements of position; • If Standards were to be elevated to the rank of Regulations, they could potentially be divided into the mandatory part and application guidelines (similarly to IFRS).
	Next steps (if any)	<ul style="list-style-type: none"> • An in-depth strengths and weaknesses analysis of the proposed solutions, primarily among institutional stakeholders; • An in-depth requirements and restrictions analysis for the implementation of the recommendations defined above. • A benchmarking study of the related solutions in place elsewhere in the European Union ("EU").







6.1.2. Coherence between the Act and other legislation

	Area:	System of accounting regulations		
	Title:	Coherence between the Act and other legislation		
	Priority:	<input checked="" type="checkbox"/> High	<input type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap		

		<input checked="" type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	Not applicable
	Issue for discussion:	<p>As a legal act, the Act should be coherent with the legislation in other branches of law. There are certain inconsistencies between the accounting laws and the tax laws in terms of both definitions and regulation with respect to the same areas. Examples include:</p> <ul style="list-style-type: none"> • Different document retention and storage periods under the tax laws and the accounting laws (leading to difficulties in establishing a uniform retention framework); • Limited fixed asset disposal possibilities in some cases, dependent on having the appropriate documentation in place from the tax perspective; • Keeping double records, separately for accounting and tax purposes (e.g. to determine the accounting profit or loss and the tax profit or loss), which is cost-intensive, especially for smaller entities; • Different scopes of information for the same business transaction required by different laws; • Different definitions and lack of coherence under the Act and the tax laws for a variety of events and transaction types, e.g. income and expenses, including their different categories; the principle of recognising inventory shortages as wilful or involuntary; income, e.g. where related-party transactions are not at arm's length or gratuitous services occur; the date of a business transaction (supply of a service or goods); the tax point date; the event date; the document date; the exchange rates applied to convert transactions; financial instruments; leases; rates; fixed asset stocktaking methods and start date; related parties; the definition of an investment and capital work in progress. <p>Furthermore, the definitions of micro, small, medium-sized and large entities would require a review and unification across the various sources of law. For instance:</p> <p>There is no distinction between medium-sized and large entities in the Act which is provided in the Directive.</p> <p>In addition, the Act does not sufficiently regulate the accounting category of "retained earnings", which leads to doubts of interpretation when combined with a review of the regulations provided in the Polish Commercial Companies Code.</p> <p>[experts; institutional stakeholders; telecommunications company; retail company]</p>
	Preliminary proposed solution/general direction for change:	<p>In view of the issues mentioned above, possible directions for change could include, for instance:</p> <ul style="list-style-type: none"> • Simplification efforts (for small entities) could consider (whenever possible and reasonable and compatible with the Directive) providing options to adopt the tax regulations as accounting principles (policies) (for measurement and classification purposes). • It would be recommended to provide regulation governing what categories of equity are distributable to shareholders and what categories are not. Therefore, a definition of "retained earnings" as an accounting category that would be referred to by the Commercial Companies Code in Poland would be welcomed. With the cross-sectional nature of such changes, any changes in this area would have to be preceded by a broader review and consultations with a wide range of legislative groups.

		<ul style="list-style-type: none"> Introduce consistent definitions of certain categories of economic events for the purposes of compliance with the Act and tax laws, e.g. the start point of depreciation and amortisation or acceptable depreciation and amortisation methods; the definitions of income and expenses; the definition of an investment, etc. Establish a single list of information required for the registration of transactions by entities in their accounting systems for the purposes of compliance with the Act and tax laws, e.g. the scope of data required by SAF-T logical schemas (e.g. JPK_KR: account symbol vs. account name, account type, etc.)
	Next steps (if any)	<ul style="list-style-type: none"> An in-depth strengths and weaknesses analysis of the proposed solutions, primarily among institutional stakeholders; An in-depth requirements and restrictions analysis for the implementation of the recommendations defined above. A benchmarking study of the solutions in place elsewhere in the EU.

6.1.3. Restructuring the Act







	Area:	System of accounting regulations		
	Title:	Restructuring the Act		
	Priority:	<input checked="" type="checkbox"/> High	<input type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	A number of the provisions of the Act (including those mentioned below in the Issue Overview)		
	Issue for discussion:	<p>The existing structure of the Act could be more clear; the same issues appear in several places across the text. Examples include:</p> <ul style="list-style-type: none"> Simplifications available to some categories of entities are described in several places across the Act (e.g. Article 7, Article 28a, Article 32.7, Article 46.5(4), Article 49a, etc.); moreover, the list of simplifications seems incomplete: Section 49a lacks clarity whether the simplifications provided for therein for small and micro entities apply to separate financial statements only or consolidated financial statements are also covered; Definitions are arranged in thematic order and not in alphabetical order, which may make it harder to find a particular definition and, on top of that, some of the definitions are included in Chapter 4 of the Act, e.g. cost of acquisition, fair value, etc.); Some thematic issues are described in several places across the Act, e.g. the accounting method for acquisitions is described both in the part concerning consolidation and in the part concerning the accounting methods for business combinations (Article 44b and Article 60). <p><i>[experts; institutional stakeholders; retail company]</i></p>		



	Preliminary proposed solution/general direction for change:	It seems expedient to restructure the Act so that its structure would be more clear and organised and would group similar topic together in one place. Solutions to consider include grouping together in one place the obligations and exemptions for the identified categories of entities. It would also be appropriate to consider calibration of the proposed simplifications. Work is now underway in the Accounting Standards Committee on a draft statement of position on the use of simplifications permitted by the Act.
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6.1.4. Obligation to apply the Act by IFRS adopters







	Area:	System of accounting regulations		
	Title:	Obligation to apply the Act by IFRS adopters		
	Priority:	<input checked="" type="checkbox"/> High	<input type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 2.3 <i>“3. Entities which prepare their financial statements in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as regulations of the European Commission, hereinafter referred to as ‘IAS’, shall conform to the provisions of the Act and its related secondary legislation, in matters not regulated by IAS.”</i>		
	Issue for discussion:	In conversations with the Act’s users, doubts of interpretation were raised about the application of certain provisions of the Act by IFRS preparers. Examples of such doubts include: <ul style="list-style-type: none"> • How to proceed with issues that are provided for in the Act or NASs but not regulated under IFRS? Should the IFRS adopter refer to the requirements of IAS 8 (paragraphs 10 to 12) or directly adopt the principles set out in the Act or NASs?; • The issues of exemptions from consolidation as described in more detail in the chapter concerning consolidation; • Doubts whether the obligation to disclose the compensation of the statutory auditor also applies to IFRS preparers. 		
	Preliminary proposed solution/general direction for change:	Regulation of the above issue should be considered.		



6.1.5. Voluntary IFRS adoption

	Area:	System of accounting regulations		
	Title:	Voluntary IFRS adoption		
	Priority:	<input checked="" type="checkbox"/> High	<input type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input checked="" type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Articles 45.1a, 45.1b, 45.1e</p> <p><i>“1a. The financial statements of issuers of securities admitted to or intending to file for admission or pending permission to trading on one of the regulated markets of the European Economic Area may be prepared in accordance with IAS.</i></p> <p><i>1b. Financial statements of entities being members of a group of companies where a parent company prepares consolidated financial statements under IAS may be prepared in accordance with IAS. ...</i></p> <p><i>1e. Financial statements of branches of a foreign business may be prepared in accordance with IAS if the foreign business prepares its financial statements under IAS.”</i></p>		
	Issue for discussion:	<p>Only those entities which meet certain criteria are allowed to adopt IFRS. Some representatives of the stakeholders pointed out that Section 1e might trigger doubts in that the provisions of the Act, under Article 2.1(6), [are to be] applied by branches and representative offices of foreign businesses as defined for the purposes of the Act of 6 March 2018 on the principles of participation of foreign businesses and other foreign persons in business transactions in the territory of the Republic of Poland (Dz. U. [<i>Journal of Laws</i>] 2022, item 470), but there is a missing direct reference to branches of credit institutions, foreign banks and (main) branches of insurance companies which operate under separate provisions of the banking law and the insurance law.</p> <p>Both the institutional stakeholders and representatives of the companies have voiced demands for voluntary adoption of IFRS.</p> <p>The unavailability of an option to adopt IFRS on a voluntary basis is a problem, including for those entities which are obliged to provide IFRS-compliant reporting to financing entities, investment funds or other investors (but which entities do not satisfy the requirements of Article 45.1b of the Act), for instance, for the purpose of calculating financial covenants or monitoring performance by a stakeholder other than through annual financial statements. Similarly, it is unfavourable to those entities which consider going public in the long run and which, if allowed to voluntarily adopt IFRS, could embrace and “get used to” the regime of preparing IFRS financial statements before even taking action on the intention to enter the public market. Additionally, in light of the definition contained in Article 45.1b, an option to adopt IFRS is excluded for affiliates and co-subsidiaries.</p>		







		[experts; institutional stakeholders; media company; retail company; power company]
	Preliminary proposed solution/general direction for change:	It seems expedient to consider making IFRS adoption available to all entities, subject to additional requirements as discussed next in this Report.
	Next steps (if any)	<ul style="list-style-type: none"> An in-depth options and conditions analysis for the implementation of the recommendations provided above – if a decision to work in that direction is taken further in the Project; A benchmarking study of the related solutions in place elsewhere in the EU.



6.1.6. Mandatory auditing of IFRS-compliant financial statements

	Area:	System of accounting regulations		
	Title:	Voluntary IFRS adoption		
	Priority:	<input checked="" type="checkbox"/> High	<input type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 64.3 <i>“3. The financial statements of acquirers and newly-formed companies prepared for the financial year of the business combination as well as the annual financial statements of entities prepared in accordance with IAS are required to be audited.”</i>		
	Issue for discussion:	Representatives of the institutional stakeholders argued that voluntary adoption of IFRS should be combined with an obligation to have financial statements audited by a statutory auditor (as it currently is). That demand was opposed by some representatives of the selected companies who saw mandatory auditing of those IFRS adopters which: <ul style="list-style-type: none"> are engaged in very limited business activity (low scale; simple activities); would not be required to have audits if they were not IFRS adopters; or are audited as part of the audit of consolidated financial statements; as an unnecessary burden and cost. Therefore, there have also been comments that there seems to be no reason why adopting accounting principles (policies) other than the Act should necessarily trigger mandatory audit requirement, with a suggestion that an audit should only be required where a company changes its set of accounting principles (policies), e.g. transitions from the Act to IFRS or vice versa. On the other hand, it could be argued that the current provisions are legitimate as the application of IFRS is more complex and there is a higher risk of misapplication. In addition, being under an obligation to adopt IFRS means that the entity is required to have audits and, as a result, bear additional costs. Consequently, audits eliminate or minimise that risk and provide a certain barrier		






		to hasty decision-making about adopting IFRS. [experts; institutional stakeholders; media company; retail company; power company]
	Preliminary proposed solution/general direction for change:	A debate on the rules governing mandatory audits of IFRS financial statements would be recommended.
	Next steps (if any)	<ul style="list-style-type: none"> An in-depth options and conditions analysis for the implementation of the recommendations provided above – if a decision to work in that direction is taken further in the Project; A benchmarking study of the related solutions in place elsewhere in the EU.



6.1.7. Voluntary resumption of the Act


	Area:	System of accounting regulations		
	Title:	Voluntary resumption of the Act		
	Priority:	<input checked="" type="checkbox"/> High	<input type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input checked="" type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 45.1d <i>“1d. The approving body may decide to discontinue IAS in the preparation of financial statements by entities if the circumstances referred to in Sections 1a and 1b no longer exist.”</i>		
	Issue for discussion:	<p>Transition from IFRS to the Act is hindered; the transition is limited to those cases where the reason for adopting IFRS no longer exists. Where the relevant requirements are met, the adoption of IFRS is voluntary whereas eligibility conditions for discontinuation of IFRS are stricter.</p> <p>The provision in Article 45.1d prevents entities being members of groups of companies applying IFRS from transiting to the Act. The prohibition seems to be unfounded and operates as a constraint for those entities which no longer have reasons to apply IFRS due to the change of ownership or reorganisation.</p> <p>In addition, there are differences of interpretation of Article 45.1d, i.e. whether the requirement that the circumstances referred to in Sections 1a and 1b no longer exist is to be understood in its broad or narrow sense:</p> <ul style="list-style-type: none"> In its broad sense, if the entity is a member of a group of companies preparing IFRS consolidated financial statements, then the entity may not convert to the Act even if it is not the same group of companies that the entity was a member of at the time of taking the decision to adopt IFRS; In its narrow sense, if the group of companies that the entity was a member of at the time of taking the decision to adopt IFRS has changed, then the 		

		<p>entity is allowed to convert to the Act, even if the new owner prepares IFRS consolidated financial statements.</p> <p>As a result, there may be disparate approaches to the resumption of the Act in the market.</p> <p>However, there were voices among the institutional stakeholders advocating for setting the criteria for switching back from IFRS to the Act and limiting conversion to the Act to special situations and good causes.</p> <p>Further, the Act lacks detailed guidelines governing the accounting approach that could be adopted for conversion from IFRS to the Act (keeping in mind that a full retrospective approach may not be possible). Examples of ambiguities could be issues such as:</p> <ul style="list-style-type: none"> • Should conversion be fully retrospective? • How to recognise assets, equity and liabilities of the entity as at the date of transitioning to the Act? For example, should their value for the purposes of the Act equal their value under IFRS? • In the above context, how to approach goodwill that is not amortised in accordance with IFRS? • What approach should be taken to the measurement of allowances for doubtful accounts? • What approach should be adopted for assets and liabilities that fall within the definition of assets and liabilities for the purposes of IFRS but would not be recognised under the Act? <p>[experts; institutional stakeholders]</p>
	Preliminary proposed solution/general direction for change:	It would be recommended to consider lifting the restrictions on resumption of the Act or, alternatively, setting forth special requirements for the same.
	Next steps (if any)	<ul style="list-style-type: none"> • An in-depth options and conditions analysis for the implementation of the recommendations provided above; • A benchmarking study of the related solutions in place elsewhere in the EU.

6.1.8. Need to regulate the accounting of foreign company branches, foreign credit institutions and foreign insurance companies







	Area:	System of accounting regulations		
	Title:	Need to regulate the accounting of foreign company branches, foreign credit institutions and foreign insurance companies		
	Priority:	<input checked="" type="checkbox"/> High	<input type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Articles including Article 2, Article 3.1(6)–(7), Article 53.2b and Article 69.1		


		<p>Article 3.1(6)</p> <p>“(6) the entity’s manager, it means the member of the management board or other managing body, and if the body is composed of more than one member, the members of that body, excluding any attorneys-in-fact appointed by the entity. In the case of a general partnership and simple partnership, the entity’s manager is understood to mean the partners managing the affairs of the partnership, and in the case of a professional partnership – the partners managing the affairs of the partnership or its management board, whereas with regard to a limited partnership and a limited joint-stock partnership, it is the general partners managing the affairs of the partnership. In the case of an individual acting as a sole trader, the entity’s manager is understood to mean that individual; this provision applies accordingly to individual professionals. In addition, the entity’s manager is deemed to include a liquidator as well as a trustee or receiver appointed in the course of restructuring proceedings and a succession manager referred to ...;</p> <p>(7) an approving body, it means a body which, under the legal regulations applicable to the entity and the articles of association or the partnership or company deed, or based on an ownership title, is authorised to approve the financial statements of the entity. In the case of a partnership, save for a limited joint-stock partnership and a simple partnership, the approving body means the partners of such a partnership;”</p> <p>Article 53.2b</p> <p>“2b. The annual financial statements of a foreign company branch are deemed to be approved if the financial statements of the foreign company incorporating the data of the financial statements of that branch are approved.”</p> <p>Articles 69.1b to 69.1c</p> <p>“1b. The manager of a foreign company branch shall file annual financial statements with the competent court register. 1c. The management of a branch of an insurance company, reinsurance company, foreign bank, credit institution or financial institution as defined for the purposes of the Banking Law, hereinafter referred to as a “credit or financial institution” which is based outside the territory of the Republic of Poland shall file annual financial statements of that institution prepared and audited in accordance with the laws applicable in the home country of the credit or financial institution and translated into Polish by a sworn translator along with the management report and the audit report.”</p>
	<p>Issue for discussion:</p>	<p>The definition of the entity’s manager fails to address the specificities of branches. When applied to foreign company branches, the above definition raises doubts about who to consider the branch manager, especially where branches of financial institutions (banks or insurers) are concerned.</p> <p>The Act does not state what is meant by an approving body in the case of a foreign company branch.</p> <p>The current provision on signing, approving and auditing financial statements of a foreign company is impractical as the financial statements of the head office tend to be approved before statements are prepared by the branch of a foreign financial institution; the branch may also happen to have no knowledge of the head office’s statements.</p> <p>[experts; accounting firm; institutional stakeholders]</p>
	<p>Preliminary proposed solution/general direction for change:</p>	<p>It would be recommended to consider the following changes towards clarifying the provisions of the Act:</p>

		<ul style="list-style-type: none"> • Clarifying the accounting and bookkeeping and financial statement filing requirements for branches. • Making relevant additions to the definition of an entity's manager provided in Article 3.1(6). A practical solution might be that the Representative is the branch manager, provided that they have delegated authority to act in that capacity from the relevant body of the foreign company. • Stating what provisions of the Act apply to branches, taking into account the specific profiles of those branches, i.e. whether it is a foreign company branch or a branch of a credit institution or an insurer. <p>Adding provisions governing the sign-off, approval and audit of statements for foreign company branches should also be considered.</p>
	Next steps (if any)	An in-depth needs analysis in this regard, mainly among institutional stakeholders and entities representing the financial industry.







6.2. Preparation, filing and publication of financial statements and other reporting



6.2.1. Separate identification of the responsibility of the entity's manager and regulatory authorities

	Area:	Preparation, filing and publication of financial statements and other reporting		
	Title:	Separate identification of the responsibility of the entity's manager and regulatory authorities		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 4a</p> <p>"Article 4a. 1. The entity's manager and the members of the supervisory board or other supervisory body of the entity are obliged to ensure that the financial statements, consolidated financial statements, management report on activities and group management report on activities meet the requirements prescribed in the Act.</p> <p>2. The entity's manager and the members of the supervisory board or other supervisory body of the entity assume joint and several liability to the company for losses caused by an act or omission that constitutes a breach of the duty under Section 1."</p>		
	Issue for discussion:	Under the current regulations, there exists joint liability of both the manager and supervisory bodies for financial statements; however, the functions of supervisory bodies and management are different and thus the liability should rather be aligned with the respective function they have in the company.		







		<p>The above-referenced Articles do not mention any other areas for which the entity's manager is responsible such as the statement of payments or other information statement, etc.</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	<p>It would be recommended to consider separating the provisions on an entity's manager from the provisions on supervisory bodies: the manager is responsible for preparing the statements whereas the supervisory body is responsible for supervising the financial statement preparation process; organising the provisions in this area would require a review of their admissibility from the perspective of other legislation such as, e.g., CCC and, specifically, recital (40) of the Directive.</p> <p>Consequently, as mentioned in the comment above, clarifying what statements are the responsibility of the entity's manager should be considered.</p>


6.2.2. Timeline for the preparation of financial statements

	Area:	Preparation, filing and publication of financial statements and other reporting		
	Title:	Timeline for the preparation of financial statements		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input checked="" type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 52.1 and Article 63c.2 of the Act</p> <p><i>“Article 52. 1. The entity’s manager shall ensure that the annual financial statements are prepared no later than within 3 months of the balance sheet date and shall produce them to the relevant authorities in accordance with the applicable legal regulations and the provisions of the entity’s articles of association or deed.”</i></p> <p>“Article 63c. ...</p> <p><i>2. The parent company prepares consolidated financial statements no later than within 3 months of the balance sheet date as of which the parent entity prepares its annual financial statements.”</i></p>		
	Issue for discussion:	<p>The obligation to prepare annual financial statements within 3 months of the balance sheet date is often not complied with in practice. A provision mandating that financial statements be approved within 6 months of the balance sheet date seems to be sufficient.</p> <p>Additionally, it is unclear if such financial statements, without, e.g., audit adjustments, are to be signed by the entity's manager and how statements after audit adjustments should be dealt with in that context.</p> <p>[experts; media company; institutional stakeholders: tax consultants; e-</p>		








		commerce company]
	Preliminary proposed solution/general direction for change:	Abolishing the obligation to ensure that financial statements are prepared within 3 months of the balance sheet date and leaving just the requirement concerning the approval of financial statements would be suggested as the above regulations seem to be redundant from the perspective of the accounting laws. Therefore, it would be recommended to review the provisions of Article 12.2 of the Act on closing account books no later than within 3 months of the financial year-end date.
	Next steps (if any)	Verification of possibilities in the regard with institutional stakeholders.

6.2.3. Refusal to sign financial statements

	Area:	Preparation, filing and publication of financial statements and other reporting		
	Title:	Refusal to sign financial statements		
	Priority:	<input checked="" type="checkbox"/> High	<input type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Articles 52.2b, 52.2c and 52.2e <i>"2b. If the entity is managed by a collective body, the financial statements may be signed by at least one member serving on that body after the other members serving on that body have made declarations that the financial statements comply with the requirements provided for in the act or have refused to make such declarations. A refusal to make the declaration is deemed to be a refusal to sign the financial statements and requires a written statement of reasons. Declarations that the financial statements comply with the requirements provided for in the act and refusals to make such declaration are enclosed to the financial statements.</i> <i>2c. The refusal to sign referred to in Section 2 and the declaration or refusal to make the declaration referred to in Section 2b shall refer to the financial statements concerned, specifically by stating the date and time of signing the financial statements by the person appointed to be in charge of accounting."</i> <i>"2e. If the entity is managed by a collective body and where the refusal to sign referred to in Section 2 or the declaration or refusal to make the declaration referred to in Section 2b are prepared in hardcopy with a handwritten signature, one of the members serving on that body who signs the financial statements shall ensure that electronic copies of those documents are created."</i>		
	Issue for discussion:	There are doubts around the order of signing (1) the financial statements and (2) the non-signing member of the management board, i.e. whether it is necessary for a management board member to sign the financial statements and the management report on activities (to ensure compliance with Section 2b), e.g. where the management board is also the person responsible for accounting and bookkeeping.		








		The stakeholders reported doubts about situations where it is not possible for a management board member to sign the financial statement due to their poor health condition. [experts; accounting firm]
	Preliminary proposed solution/general direction for change:	It would be recommended to consider providing clarifications of the Act in the above-mentioned respects.

6.2.4. Combined financial statements





	Area:	Preparation, filing and publication of financial statements and other reporting		
	Title:	Combined financial statements		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 51.1 <i>“Article 51. 1. An entity which includes business units preparing their separate financial statements shall prepare combined financial statements that aggregate the financial statements of the entity and all its branches (permanent establishments), excluding the following as appropriate: ...”</i>		
	Issue for discussion:	The provision lacks precision, specifically raising the following doubts: <ul style="list-style-type: none"> • Whether every branch in Poland owned by a Poland-based entity is a “self-balancing” branch; • Whether a branch registered in the National Court Register (“KRS”) is always a “self-balancing” branch; • Whether combined statements correspond to the “annual separate” financial statements of the “entity/head office”; • Whether the statements of a “self-balancing” branch are only prepared for the sole purposes of the head office and are not required to be filed or approved, etc.; or • Whether “combined” need not be prepared if the only “self-balancing” branch is immaterial; the provisions do not include an exemption on account of immateriality as is the case with consolidated statements. [experts]		
	Preliminary proposed solution/general direction for change:	It seems expedient to clarify the above-mentioned provisions since, as they now stand, they appear to give rise to doubts of interpretation. Further, simplifying the provision may be considered by setting forth that an entity with a variety of business units is required to prepare single financial		




	statements presenting financial data aggregated so as to represent the data of one single entity.
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6.2.5. Introduction of the term “core statements”






	Area:	Preparation, filing and publication of financial statements and other reporting		
	Title:	Introduction of the term “core statements”		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 3 (no quote available as this article does not have the proposed regulation)		
	Issue for discussion:	<p>A catch-all term for the following components of financial statements: balance sheet; profit and loss account; cash flow statement; and statement of changes in equity, is missing from the conceptual framework of the Act. Adding such a term would facilitate communication and bring some conceptual order and make some of the provisions simpler. Additionally, if a decision were taken to implement new financial statement formats (created for purposes other than annual statements), this would make it easier to describe the scope of such statements if it were limited compared to annual statements.</p> <p>[experts]</p>		
	Preliminary proposed solution/general direction for change:	It would be recommended to include a definition of “core statements” meaning the balance sheet, profit and loss account, cash flow statement and statement of changes in equity.		



6.2.6. Filing of annual financial statements with the court register

	Area:	Preparation, filing and publication of financial statements and other reporting		
	Title:	Filing of annual financial statements with the court register		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		






	Legal reference (if applicable):	<p>Article 69.4:</p> <p><i>“4. The manager of a parent company not preparing consolidated financial statements in accordance with Article 56.2 shall make the following filings, translated into Polish by a sworn translator, with the relevant court register:</i></p> <p><i>(1) consolidated financial statements of a higher-level parent company together with the audit report;</i></p> <p><i>(2) management report on activities of a higher-level parent company;</i></p> <p><i>within 30 days of the date of approval of the statements referred to in Paragraph 1 and not later than within 12 months of the balance sheet date of the parent company not preparing consolidated financial statements ...”</i></p>
	Issue for discussion:	<p>The Act lacks clarity about the implications of a failure to comply with the obligations associated with eligibility for exemption from preparing consolidated financial statements, i.e. what the implications are if the consolidated financial statements of a higher-level parent company together with the audit report and the management report on activities are not filed with the court register. There is a doubt whether an obligation to prepare consolidated statements will then arise.</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	<p>It would be advisable to review the applicable provisions of the Act and the Directive (Article 23) in this area with a view to include possible provisions to discipline entities to comply with the obligations set forth in Article 69.4 of the Act.</p>



6.2.7. Disclosures of financial instruments in the management report on activities

	Area:	Preparation, filing and publication of financial statements and other reporting		
	Title:	Disclosures of financial instruments in the management report on activities		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input checked="" type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 49.2:</p> <p><i>“2. The management report on activities of the entity should include material information on the asset and financial position, including a performance assessment and identification of risks and a description of threats, and in particular information on: ...</i></p> <p><i>(7) financial instruments in terms of:</i></p> <p><i>(a) the price risk, credit risk, cash flow risk and liquidity risk to which the entity is exposed; and</i></p> <p><i>(b) financial risk management objectives and methods adopted by the entity, including methods of hedging major types of anticipated transactions which are subject to hedge accounting. ...”</i></p>		







	Issue for discussion:	<p>The Act requires similar disclosures of financial instruments both in the management report on activities and in the financial statements (in line with the requirements in the Financial Instruments Regulation). That requirement leads to a need to create double disclosures for the same topic without adding any utility and increasing the burden for entities.</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	<p>It would be recommended to limit the disclosure requirements to financial statements only, subject to ensuring minimum requirements under Article 19 of the Directive, i.e. disclosing risk exposures and the financial risk management objectives and strategies where this is relevant for estimating the assets, equity and liabilities and the profit or loss of the entity.</p>


6.2.8. Management report on activities of AIFs (AICs) and insurance companies

	Area:	Preparation, filing and publication of financial statements and other reporting		
	Title:	Management report on activities of AIFs (AICs) and insurance companies		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 49.2:</p> <p><i>“2. The management report on activities of the entity should include material information on the asset and financial position, including a performance assessment and identification of risks and a description of threats, and in particular information on:</i></p> <p><i>(1) Events with a material impact on the entity’s operations which occurred in the financial year and after the year end up to the date of approval of the financial statements;</i></p> <p><i>(2) Expected growth (development) of the entity;</i></p> <p><i>(3) Major achievements in research and development;</i></p> <p><i>(4) Current and expected financial position;</i></p> <p><i>(5) Treasury shares, including:</i></p> <p><i>(a) the reason for the purchase of treasury shares during the financial year;</i></p> <p><i>(b) the number and par value of shares purchased and sold during the financial year, and where no par value is available, their carrying value and the portion of equity that those shares represent;</i></p> <p><i>(c) if purchased or sold for consideration, the value of the shares;</i></p> <p><i>(d) the number and par value of all shares purchased and retained, and where no par value is available, their carrying value and the portion of equity that those shares represent;</i></p> <p><i>(6) branches (permanent establishments) of the entity;</i></p>		








		<p>(7) financial instruments in terms of:</p> <p>(a) the price risk, credit risk, cash flow risk and liquidity risk to which the entity is exposed; and</p> <p>(b) financial risk management objectives and methods adopted by the entity, including methods of hedging major types of anticipated transactions which are subject to hedge accounting. ...”</p>
	Issue for discussion:	<p>The corresponding regulations for AIFs (AICs) and insurance companies are provided in the respective regulations: the Regulation supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision for AIFs (AICs) and the regulations on specific accounting principles, which makes some of the requirements in Article 49 inappropriate for those entities. With regard to disclosures, it is unclear what to apply and to what extent.</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	Collating the above provisions in a cohesive regulation would be recommended.

6.2.9. Events after balance sheet date

	Area:	Preparation, filing and publication of financial statements and other reporting		
	Title:	Events after balance sheet date		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 54.1</p> <p><i>“Article 54. 1. If in the period after the preparation of the annual financial statements but before their approval, an entity received information about events which have a material impact on these financial statements or invalidate the going concern assumption, the financial statements should be adjusted accordingly, and appropriate entries should be made in the books of accounts of the financial year to which the financial statements relate, and the statutory auditor who is or has audited these financial statements should be notified. If the events which occurred after the balance sheet date do not change the conditions existing as at the balance sheet date, then appropriate explanations shall be included in the notes to the financial statements.”</i></p>		
	Issue for discussion:	<p>There are doubts about the impact of events after the balance sheet date on the classification of liabilities as non-current and current liabilities, e.g. whether a liability may be classified as non-current liability if the relevant agreement, waiver or amendment to a contract is executed after the balance sheet date where covenants have been breached as at the balance sheet date. Such</p>		









		doubts are frequent in the auditing practice and concern fundamental and often critical issues from the perspective of the company's financial standing. The related regulations derived from the Act are quite general and would need some further clarification. The importance of that issue can also be seen in the changes made to NAS 1 in the recent years and addressing that very topic. [experts]
	Preliminary proposed solution/general direction for change:	It would be recommended to provide regulation of the above issues in the Act by refining the relevant provisions so that they would not be confusing for their users.

6.2.10. Adjustments of errors








	Area:	Preparation, filing and publication of financial statements and other reporting		
	Title:	Adjustments of errors		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 54.3 <i>"3. If, in a given financial year or before the approval of the financial statements for that financial year, an entity becomes aware of a fundamental error which was made in prior financial years, and due to that error the financial statements for one or more prior financial years cannot be regarded as meeting the requirements specified in Article 4.1 then the amount of the adjustment required to eliminate the error shall be recognised in equity under the "Profit (loss) carried forward".</i>		
	Issue for discussion:	The Act is not unequivocal on whether the financial data for the previous year need to be restated if an error is adjusted. On the other hand, an obligation to restate the comparative data arises from the provisions of NAS 7 Paragraph 5.7 (provided that the error concerned is material and restatement is practicable). [experts]		
	Preliminary proposed solution/general direction for change:	It would be recommended to provide regulation of the above issue by refining the relevant provisions so that they would not be confusing for their users. Additionally, the obligation to restate comparative data would be in line with IAS 8.		


6.3. Scope of information to be reported in financial statements

6.3.1. Alignment between the scope of information reported in financial statements and the entity's business operations








	Area:	Scope of information to be reported in financial statements
	Title:	Alignment between the scope of information reported in financial statements and the entity's business operations
	Priority:	<input checked="" type="checkbox"/> High <input type="checkbox"/> Medium <input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	Annex 1 to the Act
	Issue for discussion:	<p>There are diverging views among the stakeholders on the scope of information to be reported in financial statements, as follows:</p> <ul style="list-style-type: none"> • The existing scope of information to be reported in financial statements should be maintained as this reduces the cost of accounting and supports comparability; • The existing scope of information to be reported in financial statements (excluding banks, insurers and funds) should be modified; • New model forms (in a limited amount, e.g. up to 5, including model forms designed for the finance industry) which fit with the specific needs of a variety of industries (e.g. the property sector, lease companies or payment processors); except that if too many model forms are available, there may be confusion which model form is the right choice, in particular where an entity is engaged in several lines of business; • There is a view that model forms should not be multiplied (especially to account for limitations of digitalisation or for entities active in multiple industries); • Statements should be made more industry-specific by considering adding supplements to the Act that would address the need for industry-specific presentation of certain assets, equity and liabilities across some industries; further examination of the stakeholders' needs in this area would be required. <p><i>[institutional stakeholders; retail company]</i></p>
	Preliminary proposed solution/general direction for change:	None at this stage
	Next steps (if any)	<ul style="list-style-type: none"> • An in-depth strengths and weaknesses analysis of the proposed solutions; • A benchmarking study of the related solutions in place elsewhere in the EU.

6.3.2. Over Extensive scope of information to be reported in core financial statements

	Area:	Scope of information to be reported in financial statements
	Title:	Over Extensive scope of information to be reported in core financial statements
	Priority:	<input checked="" type="checkbox"/> High <input type="checkbox"/> Medium <input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input checked="" type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	Annexes 1 to 3 to the Act
	Issue for discussion:	<p>The model core statements (balance sheet, profit and loss account, statement of changes in equity and cash flow statement) seem to be excessively complex and not always fit for the purpose in terms of the entity's specificities. For instance:</p> <ul style="list-style-type: none"> • Balance sheet line item A.II. is extremely disaggregated and subdivided into the following distinctive subline items: 1. Fixed assets, further broken down into the following groups of fixed assets: (a) land; (b) buildings, premises, titles to premises ...; (c) plant and machinery, etc.; 2. Capital work in progress; 3. Prepayments for fixed assets; • Balance sheet line item A.III Non-current receivables breaks down into the following subline items: 1. From related entities; 2. From other entities in which the entity holds equity interests; 3. From other entities; that level of subdivision and disaggregation is suitable for the related-party transactions note to financial statements. • Item A.IV.3 Non-current financial assets comprises a detailed breakdown into: - shares; - other securities; - loans granted; - other non-current financial assets subdivided into: (a) in related entities; (b) in other entities in which the entity holds equity interests; (c) in other entities. <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	<p>It would be recommended for the Act to continue to have Annexes presenting model balance sheet, profit and loss account, statement of changes in equity and cash flow statement, however, these model forms could be considerably simplified, and their individual line items could be aggregated, subject to the minimum requirements set out in Annexes IV to VI of the Directive. On the other hand, it seems expedient to leave discretion to entities to expand the model form and add entity-specific positions in notes. As such, the model form could be used by a broader range of entities while ensuring greater comparability. The proposed direction for resolution is inspired by the provisions of IAS 1.</p> <p>However, the direction for change discussed above should be explored, with a focus on the following issues:</p> <ul style="list-style-type: none"> • Comparability of data which may be limited if individual entities are allowed to expand the model forms; • A simplified model form may lead to a limited amount of data available for review due to the scope of digitalised data;









		<ul style="list-style-type: none"> Considering greater aggregation at the entity level, but with the same standard detailed scope of information.
	Next steps (if any)	An in-depth stakeholder expectations analysis.

6.3.3. Scope of information to be reported in the financial statements of financial institutions




	Area:	Scope of information to be reported in financial statements		
	Title:	Scope of information to be reported in financial statements for financial institutions		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 46.5 <i>"5. A balance sheet should include information within the scope specified as follows: (1) for entities other than banks, insurance companies or reinsurance companies: in Annex 1 to the Act; (2) for banks: in Annex 2 to the Act; (3) for insurance and reinsurance companies: in Annex 3 to the Act; (4) for micro-entities eligible to prepare a simplified balance sheet: in Annex 4 to the Act; (5) for small entities eligible to prepare a simplified balance sheet: in Annex 5 to the Act; (6) for entities referred to in Article 3.2 of the Act of 24 April 2003 on Public Benefit Activities and Volunteering, except companies and entities referred to in Article 3.3(1) and (2) of that act: in Annex 6 to the Act."</i>		
	Issue for discussion:	Article 46.5 specifies what entities are eligible to use the particular model balance sheet in the relevant Annex to the Act. For some entities, doubts arise whether the model form is suitable for the business profile concerned, e.g. a branch of a bank which only operates as a shared services centre, a holding company engaged in intercompany lending, institutions engaged in debt collection, a credit card payment intermediary or a lease company. A similar comment is valid for the profit and loss account and cash flow statement. [experts]		
	Preliminary proposed solution/general direction for change:	An addition would be recommended, e.g. in the banking regulation, to the effect that the layout may be used by companies whose primary activity is The implementation of new model forms dedicated to specific institutions could be considered which would be included in a separate regulation, e.g. for lease companies. Then, the Act could be left with general model statements. However, the primary model form should be considerably simplified and more aggregated so that it could be used by a broader range of entities while ensuring greater		





		comparability. In addition, comparability could be provided at the level of certain categories, e.g. at the level of operating profit.
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6.3.4. Scope of information to be reported in the financial statements of insurers







	Area:	Scope of information to be reported in financial statements		
	Title:	Scope of information to be reported in the financial statements of insurers		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Annex 3 to the Act		
	Issue for discussion:	<p>The scope of information to be reported in financial statements as set out in Annex 3 to the Act seems to require simplifications; the part on investments, receivables and liabilities is excessively complex. By contrast, inward and outward reinsurance receivables (liabilities) that are of completely different business nature are recognised under a global item.</p> <p>In the technical (general) account, the part concerning returns on investment is also over excessive, and separation of realised profit or loss from returns on investment is unintuitive.</p> <p>[experts]</p>		
	Preliminary proposed solution/general direction for change:	<p>It would be recommended to consider the following directions for change:</p> <ul style="list-style-type: none"> • Marking balance sheet items with letters and Roman numerals only; • Segregating inward and outward reinsurance items; and • Adding items representing net returns on investment inclusive of unrealised gains or losses and presenting detailed analytics in the notes. 		
	Next steps (if any)	Further examination of the minimum expectations in this regard by stakeholders representing the financial sector.		

6.3.5. Discontinued operations

	Area:	Scope of information to be reported in financial statements		
	Title:	Discontinued operations		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low

	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	Article 47.3 <i>“3. If an entity intends to discontinue a specified part of its operations having an impact on the income and expenses of future reporting periods, on the assumption that it will continue as a going concern, the respective related income and expenses should be presented separately from income and expenses of continued operations.”</i>
	Issue for discussion:	It is unclear how (and to what level of detail) profit or loss on discontinued operations and operations intended to be discontinued should be presented. [experts]
	Preliminary proposed solution/general direction for change:	It would be recommended to consider adding more detail to the provisions so that their users will have no doubts how and to what level of detail to present the profit or loss on discontinued operations and operations intended to be discontinued. The above recommendation is inspired by IFRS 5. Work is now underway in the Accounting Standards Committee on a draft statement of position on discontinued operations.

6.3.6. Finance leases for lessees








	Area:	Scope of information to be reported in financial statements		
	Title:	Finance leases for lessees		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 48b and Annexes 1 to 3 <i>“Article 48b. 1. A cash flow statement prepared under a direct or indirect method, depending on a decision of the entity’s manager, shall present data for the current and prior financial years, including information within the scope specified as follows:”</i>		
	Issue for discussion:	The Act does not state how to recognise finance leases from the perspective of a lessee. [experts]		

	Preliminary proposed solution/general direction for change:	It would be recommended to clarify that issue and add coherence at the lessor and lessee regulation levels.
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6.3.7. Management Board remuneration

	Area:	Scope of information to be reported in financial statements
	Title:	Management Board remuneration
	Priority:	<input type="checkbox"/> High <input checked="" type="checkbox"/> Medium <input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	Annex 1, Notes: Section 5(4) <i>"5. Information on: (4) remuneration, including profit-sharing, paid or payable to members of the management or supervisory or administrative bodies of commercial companies (for each group separately) for the financial year and any liabilities for pensions and similar benefits to former members of these bodies or liabilities incurred in relation to such pensions, with the total amount for each category of governing body; ..."</i>
	Issue for discussion:	There are doubts how to interpret the requirements regarding disclosures of information on the management remuneration: <ul style="list-style-type: none"> • Should the disclosure only cover remuneration paid or should it also include remuneration accrued for the year but payable next year? • What remuneration components are to be disclosed in the note (e.g. invoices for advisory services; salary where the contract does not specifically provide for any compensation for serving as a management board member, etc.)? • Can disclosure be omitted if there is a sole management board member? <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	Clarifications of the following issues should be considered: <ul style="list-style-type: none"> • Disclosures of amounts "accrued" for the year, including the related balances (unpaid remuneration); • Obligation to disclose costs of employee benefits by type of benefit (including amounts in financial instrument equivalent (shares, options, etc.); • Availability of omitting disclosures of the management board remuneration if there is a sole management board member, subject to the shareholders' approval.






6.3.8. Related-party transactions



	Area:	Scope of information to be reported in financial statements
	Title:	Related-party transactions
	Priority:	<input type="checkbox"/> High <input checked="" type="checkbox"/> Medium <input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	Annex 1, Notes: Section 5(2) <i>"5. Information on: (2) transactions (and their amounts) not at arm's length between the entity and its related parties, which are to be understood as related parties defined in the international accounting standards adopted under Regulation 1606/2002 (EC) of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards, including information identifying the nature of the relations between the related parties and other information about the transactions which is necessary to understand their impact on the asset and financial position and the profit or loss of the entity. Information on individual transactions may be grouped by transaction type, except where information on individual transactions is necessary to assess their impact on the asset and financial position and the profit or loss of the entity; ..."</i>
	Issue for discussion:	<p>There are doubts about the obligation to disclose related-party transactions only if such transactions are not at arm's length, which may lead to failure of entities to disclose a number of material transactions with related parties that currently do not fall within the definition of related entities.</p> <p>Arguably, the current provisions of the Act are reasonable from the perspective of simplifications and any potential change to expand the above inventory would mean increasing the burden for entities.</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	<p>A step to consider would be to delete the statement "if not at arm's length" and to mandate the disclosure of transactions and balances with related parties, broadly defined as in International Accounting Standard 24: Related Party Disclosures ("IAS 24"). Any such disclosure should contain information on the type of relations and the nature of transactions.</p> <p>Transferring the definitions of related parties from IAS 24 could also be considered.</p>

6.3.9. Disclosures for the direct method








	Area:	Scope of information to be reported in financial statements		
	Title:	Disclosures for the direct method		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input checked="" type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Annex 1, Notes: Section 4 <i>"4. Explanations of the structure of cash in the cash flow statement and where the cash flow statement is prepared under the indirect method, the reconciliation of net cash flows on operating activities, prepared under the indirect method, should additionally be presented; if there are any differences between the movements in some items in the balance sheet and movements in the same items disclosed in the cash flow statement, the underlying reasons for these should be explained."</i>		
	Issue for discussion:	The reconciliation provisions of the Act referenced above seem to represent an excessive burden for an entity that has elected to apply one of the two variants acceptable under the Act. [experts]		
	Preliminary proposed solution/general direction for change:	Eliminating the obligation to do reconciliations should be considered.		

6.3.10. Disclosures of deferred tax








	Area:	Scope of information to be reported in financial statements		
	Title:	Disclosures of deferred tax		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Annex 1, Notes: Section 2(6) <i>"(6) statement of difference between income tax base and gross financial result (profit or loss);"</i>		

	Issue for discussion:	The Act as it currently stands only requires disclosures on the difference between the income tax base and the financial result (gross profit or loss). [experts]
	Preliminary proposed solution/general direction for change:	Providing for an obligation to disclose temporary differences (the carrying amount and the tax amount) and tax losses (including tax holidays) should be considered. It would also be recommended to add reconciliation of effective tax rate.





6.3.11. Impairment of fixed assets




	Area:	Scope of information to be reported in financial statements		
	Title:	Impairment of fixed assets		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Annex 1, Notes: Section 1(2) and Section 2(3) “Notes <i>Include in particular: ...</i> (2) the amount of impairment charges recognised on non-current assets during the year separately for non-current non-financial assets and non-current financial assets;” and “Notes ... <i>Include in particular: ...</i> (3) the amount and reasons for impairment charges on fixed assets; ...”		
	Issue for discussion:	The above provisions require disclosures of some information in two places (duplication of some disclosures). [experts]		
	Preliminary proposed solution/general direction for change:	It would be suggested to rearrange the provisions.		

6.3.12. Difference between the value of the financial assets received and the liability to pay for them







	Area:	Scope of information to be reported in financial statements		
	Title:	Difference between the value of the financial assets received and the liability to pay for them		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Annex 1, Notes: Section 1(14) <i>“Notes Include in particular: (14) a list of material items of prepayments and accrued income and accruals and deferred income, including the amount of prepayments representing the difference between the value of the financial assets received and the liability to pay for them: ...”</i>		
	Issue for discussion:	The provisions cited above mandates the disclosure of “the amount of prepayments representing the difference between the value of the financial assets received and the liability to pay for them”. This should not occur for entities which apply measurement at adjusted cost of acquisition. [experts]		
	Preliminary proposed solution/general direction for change:	A suggestion would be to restate the above provision.		


6.3.13. Disclosures of the current profit and profit carried forward

	Area:	Scope of information to be reported in financial statements		
	Title:	Disclosures of the current profit and profit carried forward		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		








	Legal reference (if applicable):	Annex 1, Notes: Section 1(10) “Notes Include in particular: (10) proposed appropriation of profit or coverage of loss for the financial year; ...”
	Issue for discussion:	The Act requires disclosures of the proposed appropriation of profit or coverage of loss for the financial year. The disclosure of the appropriation of profit is very limited in its scope; there are no requirements to disclose information, e.g. about any proposed dividends from profit carried forward or other equity items. [experts]
	Preliminary proposed solution/general direction for change:	It would be suggested to expand the disclosure requirements, e.g. to include recommendations on dividend distributions not only from the profit for the current year but also from retained earnings and other equity. Providing regulation on how to handle profits (losses) carried forward which are a result of an error or changes in accounting principles (policies).

6.3.14. Notes on changes in equity for entities not preparing a statement of changes in equity





	Area:	Scope of information to be reported in financial statements		
	Title:	Notes on changes in equity for entities not preparing a statement of changes in equity		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input checked="" type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Annex 1, Notes: Section 1(9) “Notes Include in particular: (9) the opening balance, additions and utilisation and the closing balance of the supplementary capitals, capital reserves and revaluation reserve unless the entity prepares a statement of changes in equity; ...”		
	Issue for discussion:	The current provision means that if the entity takes advantage of the simplification provided for in the Act and does not prepare a statement of changes in equity, the entity is then obliged to show changes in equity in a manner that approximates the content of a statement of changes in equity. [experts]		




	Preliminary proposed solution/general direction for change:	It would be recommended to simplify the above-mentioned requirements and limit the scope of information to be presented to that required under the Directive.
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6.3.15. Disclosures of financial instruments








	Area:	Scope of information to be reported in financial statements
	Title:	Disclosures of financial instruments
	Priority:	<input type="checkbox"/> High <input type="checkbox"/> Medium <input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	Annex 1, Notes: Section 1(6) <i>“Notes Include in particular: (6) the number and value of securities or rights held, including share certificates, convertible debt securities, warrants and options, with indication of the rights they carry; ...”</i>
	Issue for discussion:	The disclosure requirement is written in an obsolete way and refers to financial instruments but fails to provide a full list. [experts]
	Preliminary proposed solution/general direction for change:	A suggestion would be to restate the above provision in line with the current nomenclature. Additionally, disclosures in this respect are regulated by the Financial Instrument Regulation.

6.3.16. Disclosures of operating leases








	Area:	Scope of information to be reported in financial statements
	Title:	Disclosures of operating leases
	Priority:	<input type="checkbox"/> High <input checked="" type="checkbox"/> Medium <input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)

	Legal reference (if applicable):	Annex 1, Notes: Section 1(5) “Notes Include in particular: (5) the value of fixed assets subject to depreciation or accumulated depreciation by the entity and used under rental, tenancy and other agreements, including lease agreements; ...”
	Issue for discussion:	It is unclear what value exactly the entity is supposed to disclose in this area. [experts]
	Preliminary proposed solution/general direction for change:	It would be reasonable to consider providing clarification that minimum payments for the leaser not be discounted for a non-cancellable period of lease must be disclosed. However, if the adoption of NASs were mandatory, then the scope of the related disclosures is defined in NAS 5. As such, it would be recommended to review and restate and restructure as appropriate the provisions of the Act and NACs.








6.3.17. Disclosures of land in perpetual usufruct

	Area:	Scope of information to be reported in financial statements		
	Title:	Disclosures of land in perpetual usufruct		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Annex 1, Notes: Section 1(4) “Notes Include in particular: (4) the value of land in perpetual usufruct; ...”		
	Issue for discussion:	The Act requires that the value of land in perpetual usufruct be disclosed. However, the market practice shows that companies are in doubt whether this means the value of the land or the value of the related payments. [experts]		
	Preliminary proposed solution/general direction for change:	It would be recommended to provide clarification whether this concerns the value of future payments (whether discounted or not discounted) or the value of the land.		




6.3.18. Disclosures of impairment charges





	Area:	Scope of information to be reported in financial statements		
	Title:	Disclosures of impairment charges		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>The Act – Annex 1, Notes: Section 1(2)</p> <p>“Notes Include in particular: (2) the amount of impairment charges recognised on non-current assets during the year separately for non-current non-financial assets and non-current financial assets; ...”</p> <p>Financial Instrument Regulation – Section 40.7 “7. If, during the reporting period, impairment charges were made on financial assets or the value of an asset was increased as the reason for which such charges had been made was no longer existing, the information about the amounts of charges that reduced or increased the value of financial assets should be presented in the notes, broken down at least into categories provided under § 5.1.” as well as NAS 4 Chapter XI.</p>		
	Issue for discussion:	<p>The Act requires that only the amount of an impairment charge on non-current assets be disclosed, which is incoherent with the scope of information required by the Financial Instrument Regulation.</p> <p>[experts]</p>		
	Preliminary proposed solution/general direction for change:	<p>It would be recommended to review, restate and restructure as appropriate the scope of disclosures arising from all pieces of legislation (the Act, Financial Instrument Regulation and NAC 4). The disclosure requirements arising from the Directive could be included at a high level in the Act while the detailed requirements could be provided in individual NACs.</p>		

6.3.19. Table of movements for long-term investments







	Area:	Scope of information to be reported in financial statements		
	Title:	Table of movements for long-term investments		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Annex 1, Notes: Section 1(1) <i>“Notes Include in particular: (1) detailed movements in fixed assets, intangible assets and long-term investments by class, comprising the opening balance, additions and subtractions on account of: revaluation, acquisition, disposal or internal transfer, and the closing balance, and for depreciated property, a similar presentation of balances and movements in depreciation or accumulated depreciation; ...”</i>		
	Issue for discussion:	The Act requires presentation of a table of movements for intangible assets, property, plant and equipment and long-term investments. Furthermore, for entities not exempted under Article 28b of the Act, disclosures of financial instruments governed by the Financial Instrument Regulation apply. [experts]		
	Preliminary proposed solution/general direction for change:	It would be suggested to exclude financial instruments from the above obligation (for entities required to apply the Financial Instrument Regulation) – for instance: “Detailed movements in fixed assets, intangible assets and long-term investments other than financial instruments by class, comprising the opening balance, additions and subtractions on account of: revaluation, acquisition, disposal or internal transfer, and the closing balance, and for depreciated property, a similar presentation of balances and movements in depreciation or accumulated depreciation.”		


6.3.20. Comparative data in tables of movements

	Area:	Scope of information to be reported in financial statements		
	Title:	Comparative data in tables of movements		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low








	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	Annex 1, Notes: Section 1(1) <i>“Notes Include in particular: (1) detailed movements in fixed assets, intangible assets and long-term investments by class, comprising the opening balance, additions and subtractions on account of: revaluation, acquisition, disposal or internal transfer, and the closing balance, and for depreciated property, a similar presentation of balances and movements in depreciation or accumulated depreciation; ...”</i>
	Issue for discussion:	It is not always clear if the notes are supposed to show information for the comparative period, at the same level of detail as for the current period. For instance: additional notes should include a presentation of detailed movements in fixed assets, intangible assets and long-term investments by class, comprising the opening balance of those assets ... – but it is not specified if the information is to be presented for the current period only, or it is to be disclosed at the same level of detail for the comparative period. [experts]
	Preliminary proposed solution/general direction for change:	It would be recommended to clarify the above issue in the provisions of the Act.

6.3.21. Presentation of related-party transactions





	Area:	Scope of information to be reported in financial statements		
	Title:	Presentation of related-party transactions		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Annex 1, Notes: Section 7(2) “information on related-party transactions”		
	Issue for discussion:	There are doubts of interpretation about the disclosure requirements for related-party transactions, i.e. whether information on related-party transactions is to be presented per entity (stating the name of the entity) or only globally in an aggregated manner.		




		[experts]
	Preliminary proposed solution/general direction for change:	It would be recommended to clarify the provisions of the Act in this area.

6.3.22. Presentation of adjustments





	Area:	Scope of information to be reported in financial statements		
	Title:	Presentation of adjustments		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Annex 1, Notes: Section 6(4) <i>“figures with explanations to ensure comparability of the data in the financial statements for the previous year and in the statements for the financial year.”</i>		
	Issue for discussion:	The provisions of the Act seem to lack precision: there is no information that this refers to disclosures of figures presenting adjusted items before and after adjustment and the adjustment amounts. [experts]		
	Preliminary proposed solution/general direction for change:	It would be recommended to clarify the provisions of the Act in this area.		




6.3.23. Cash flow statement in investing entities

	Area:	Scope of information to be reported in financial statements		
	Title:	Cash flow statement in investing entities		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		






	Legal reference (if applicable):	<p>Article 48b. and Annexes 1, 2 and 3:</p> <p><i>“Article 48b. 1. A cash flow statement prepared under a direct or indirect method, depending on a decision of the entity’s manager, shall present data for the current and prior financial years, including information within the scope specified as follows:</i></p> <p><i>(1) for entities other than banks, insurance companies or reinsurance companies: in Annex 1 to the Act;</i></p> <p><i>(2) for banks: in Annex 2 to the Act;</i></p> <p><i>(3) for insurance companies or reinsurance companies: in Annex 3 to the Act.</i></p> <p><i>2. If a cash flow statement is prepared for a reporting period other than the one specified in Section 1, the cash flow statement shall be prepared for the current reporting period and the corresponding reporting period of the previous financial year.</i></p> <p><i>3. A cash flow statement should include all inflows and outflows from the entity’s operating, investing and financing activities, except for inflows and outflows resulting from the purchase or sale of cash; however, for the purposes of accurate measurement of cash flows:</i></p> <p><i>(1) operating activities mean the entity’s core activities as well as other activities which were not classified as investing or financing activities;</i></p> <p><i>(2) investing activities mean the acquisition or disposal of non-current assets and current financial assets as well as all related monetary costs and proceeds;</i></p> <p><i>(3) financing activities mean obtaining or losing sources of finance [changes in the size and the ratio between equity and borrowings within the entity], as well as all related monetary costs and proceeds. ...”</i></p>
	Issue for discussion:	<p>The Act does not specify how to prepare a cash flow statement for companies whose operating activities comprise investing (AICs) or lending, or whether these represent investing or operating activities. This results in inconsistent interpretations and incomparability between cash flow statements of companies.</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	<p>It would be recommended to regulate the issue in the Act.</p>



6.3.24. Indirect method for insurance companies

	Area:	Scope of information to be reported in financial statements		
	Title:	Indirect method for insurance companies		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		







	Legal reference (if applicable):	<p>Article 48b. and Annex 3</p> <p><i>“Article 48b. 1. A cash flow statement prepared under a direct or indirect method, depending on a decision of the entity’s manager, shall present data for the current and prior financial years, including information within the scope specified as follows:</i></p> <p><i>(1) for entities other than banks, insurance companies or reinsurance companies: in Annex 1 to the Act;</i></p> <p><i>(2) for banks: in Annex 2 to the Act;</i></p> <p><i>(3) for insurance companies or reinsurance companies: in Annex 3 to the Act.</i></p> <p><i>2. If a cash flow statement is prepared for a reporting period other than the one specified in Section 1, the cash flow statement shall be prepared for the current reporting period and the corresponding reporting period of the previous financial year.</i></p> <p><i>3. A cash flow statement should include all inflows and outflows from the entity’s operating, investing and financing activities, except for inflows and outflows resulting from the purchase or sale of cash; however, for the purposes of accurate measurement of cash flows:</i></p> <p><i>(1) operating activities mean the entity’s core activities as well as other activities which were not classified as investing or financing activities;</i></p> <p><i>(2) investing activities mean the acquisition or disposal of non-current assets and current financial assets as well as all related monetary costs and proceeds;</i></p> <p><i>(3) financing activities mean obtaining or losing sources of finance [changes in the size and the ratio between equity and borrowings within the entity], as well as all related monetary costs and proceeds. ...”</i></p>
	Issue for discussion:	<p>For insurance companies, the Act does not permit any method for preparing cash flow statements other than the direct method.</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	<p>It would be recommended to allow the indirect method to be used by companies in the insurance sector for preparing their cash flow statements.</p>

6.3.25. Disclosures of financial instruments: statutory delegation

	Area:	Scope of information to be reported in financial statements		
	Title:	Disclosures of financial instruments: statutory delegation		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 81</p> <p><i>“2. The Minister competent for public finance shall, by means of a regulation:</i></p> <p><i>(1) having consulted the Chair of the Board of the Polish Financial Supervision</i></p>		

		Authority, determined specific accounting principles (policies) of investment funds, including: ...” “... (4) the detailed principles of recognition, measurement methods, scope of disclosures and presentation of financial instruments; ...”
	Issue for discussion:	It is unclear whether investment funds are supposed to follow the provisions of the Financial Instrument Regulation in matters not explicitly provided for in the sector-specific regulation (disclosures of financial instruments). The Regulation of the Minister of Finance on specific accounting principles for investment funds makes no reference to the Financial Instrument Regulation. [experts]
	Preliminary proposed solution/general direction for change:	It would be recommended to clarify this issue following a review of the available legislative options for the application of the specific regulations.

6.3.26. Disclosure of the accounting policies

	Area:	Scope of information to be reported in financial statements		
	Title:	Disclosure of the accounting policies		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Annexes 1 to 3 Introduction to Financial Statements “The introduction to the financial statements shall specifically include: ... (7) an overview of the adopted accounting principles (policies), including the measurement methods for assets, equity and liabilities (including amortisation and depreciation), the computing methods for the financial result and the preparation methods for financial statements, to the extent that the Act leaves the choice to the entity.”		
	Issue for discussion:	The provision concerning an overview of the adopted accounting principles (policies), including the measurement methods and the preparation methods for financial statements, to the extent that the Act leaves the choice to the entity, tends to raise doubts of interpretation on the part of entities. Some interpretations suggest that only issues left for choice under the Act, e.g. the historical cost or equity method or the fair value or the indirect or direct method, or the multiple-step or single-step profit and loss account, etc., should be described. [experts]		





	Preliminary proposed solution/general direction for change:	It would be recommended to possibly clarify the provisions of the Act in this area.
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6.3.27. Change in the balance of products








	Area:	Scope of information to be reported in financial statements		
	Title:	Change in the balance of products		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Annex 1 – Profit and loss account by nature of expense “A. Net revenue from sales and equivalent, of which: – from related entities I. Net revenue from sales of products II. Change the balance of in products (increase – positive value; decrease – negative value) III. Manufacturing cost of products for internal purposes IV. Net revenue from sales of goods and materials B. Operating expenses ...”		
	Issue for discussion:	In the model form, item “II. Change the balance of products (increase – positive value; decrease – negative value)” adjusts revenue. Its inclusion under revenue leads to confusion, e.g. what amount to disclose as item “A. Net revenue from sales and equivalent, of which: - from related entities”. [experts]		
	Preliminary proposed solution/general direction for change:	It would be recommended to make item “Change in the balance of products” a separate category outside sales revenue.		

6.3.28. Model statement of changes in equity








	Area:	Scope of information to be reported in financial statements		
	Title:	Model statement of changes in equity		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low

	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	Annexes 1 to 3: Model statement of changes in equity
	Issue for discussion:	In market practice, doubts arise on the part of entities in preparing financial statements about the use of the model statement of changes in equity as required by the Act. For instance, the model form provided does not make it possible to include the impact of error adjustments/changes in accounting principles (policies) in any item other than profit/loss carried forward. There are also problems with the use of the model form when turning from loss to profit between the financial years.
	Preliminary proposed solution/general direction for change:	An update to the format of the statement of changes in equity would be recommended.

6.3.29. Disclosure of exchange rates used for measurement





	Area:	Scope of information to be reported in financial statements		
	Title:	Disclosure of exchange rates used for measurement		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Annex 1, Notes: Section 3 “Notes include but are not limited to: ... 3. For foreign currency-denominated items in financial statements, the exchange rates are applied to measure them.”		
	Issue for discussion:	In market practice, there are doubts how to interpret the above provision; entities tend to be confused whether or not they should disclose the exchange rates applied to record transactions denominated in foreign currencies. [experts]		
	Preliminary proposed solution/general direction for change:	It would be recommended to possibly refine the above provisions so that entities would be expected to state the exchange rates of what bank is used and to provide the specific NBP exchange rate with respect to balance sheet items only.		





6.3.30. Presentation of discontinued operations

	Area:	Scope of information to be reported in financial statements		
	Title:	Presentation of discontinued operations		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Annex 1, Notes: Section 2(5) "5) information on income, expenses and profit or loss on operations discontinued in the financial year or intended for discontinuation in the next year; ..."		
	Issue for discussion:	<p>The requirement to disclose information on income, expenses and profit or loss on operations discontinued in the financial year or intended for discontinuation in the next year seems redundant as Article 47.3 requires that those amounts be disclosed directly in the profit and loss account.</p> <p>[experts]</p>		
	Preliminary proposed solution/general direction for change:	<p>It would be recommended to specify where the information is to be disclosed: in the profit or loss account or in the notes.</p> <p>In addition, as regards the information disclosed in the profit and loss account, it seems valid to consider whether it would be appropriate to disclose the nature of such operations, the selling price for which the operations will be sold (if known), the anticipated timing of discontinuation or any other qualitative information of relevance to the reader that would enable understanding of the impact of those operations on the entity's asset and financial position.</p>		



6.4. Financial statements other than annual financial statements







6.4.1. Timeline for preparation and format of statements other than annual statements

	Area:	Financial statements other than annual financial statements		
	Title:	Timeline for preparation and format of statements other than annual statements		
	Priority:	<input checked="" type="checkbox"/> High	<input type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations		




		<input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	<p>Article 45.1</p> <p>“Article 45. 1. Financial statements shall be prepared as at the date of closing account books, referred to in Article 12.2, and as at another balance sheet date, by applying, subject to the provisions of Sections 1a and 1b, the principles for the measurement of assets, equity and liabilities and for the determination of the financial result specified in Chapter 4, respectively.”</p>
	Issue for discussion:	<p>There is confusion how to prepare financial statements other than annual financial statements, e.g. semi-annual financial statements or statements for the purposes of the business combination, transformation or division plan or statements prepared upon change of the legal form, for the purposes of liquidation or bankruptcy or for other purposes as required by other legislation. In particular, this concerns special-purpose financial statements.</p> <p>The format of such statements is also problematic for financial institutions (e.g. funds or branches of insurance companies).</p> <p>[experts; power company]</p>
	Preliminary proposed solution/general direction for change:	<p>It would be recommended to explicitly state which provisions of the Act (e.g. provisions on measurement) apply to other statements as well (e.g. to interim statements) and which articles do not apply to interim statements and these are matters regulated otherwise, e.g. in terms of the statements approval or signing, etc.</p> <p>It would be recommended to provide regulation for the following:</p> <ul style="list-style-type: none"> • The minimum scope of statements prepared for purposes other than annual financial statements, to the extent not specifically provided for elsewhere in the legislation, e.g. the description of the accounting principles (policies) and the purpose of preparation, etc.; and • The format of the statements (e.g. whether the logical schema, also known as “schema”, of financial statements are to be used). <p>This is a very complex issue and as such, it would be recommended to provide regulation on the above points in a separate dedicated regulation that will contain low-level guidelines and information whether special-purpose statements (e.g. liquidation-related statements or statements for the purposes of a business combination) should be prepared in the so-called schema and what format should be used for KRS filing, etc.</p> <p>Alternatively, regulations targeting individual groups of entities (insurance companies, funds, banks) could provide such additional guidelines.</p>
	Next steps (if any)	<ul style="list-style-type: none"> • An in-depth user and institutional stakeholder needs analysis in that area; • Creating an inventory of situations and minimum requirements.





6.4.2. Comparative data in statements other than annual statements

	Area:	Financial statements other than annual financial statements
	Title:	Comparative data in statements other than annual statements

	Priority:	<input checked="" type="checkbox"/> High	<input type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input checked="" type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 47.2 “2. If a profit and loss account is prepared for a reporting period other than the one referred to in Section 1, in the profit and loss account shall present separately income, expenses, profits and losses as well as mandatory charges to the financial result for the current reporting period and the corresponding reporting period of the previous financial year.”		
	Issue for discussion:	<p>There is confusion around when to apply the above provision in the context of the account book closing requirement set forth in Article 12.2, e.g. whether a change of the legal form causes the financial year to end and what comparative data should be included in the financial statements prepared as at the date preceding the change of the legal form and in the financial statements prepared as at the balance sheet date for the first post-conversion period.</p> <p>If it is accepted that closing of account books (e.g. in the event of change of the legal form) causes the financial year to end, applying the requirements in Article 47.2, Article 48a.2, Article 48b.2 (i.e. presenting comparative data for the corresponding period of the previous financial year) puts an unnecessary burden on entities that are otherwise not obliged to prepare interim financial statements but only annual financial statements, while the purpose of preparing such financial statements is a mere formal requirement arising from the change of the legal form.</p> <p>Similarly, clarification would be needed on what comparative data to disclose in the event of a change in the financial year.</p> <p>[experts; institutional stakeholders; power company]</p>		
	Preliminary proposed solution/general direction for change:	It seems reasonable to have the Act permit presenting data for the previous financial year and not for the corresponding period of the previous financial year in such cases. As a consequence of taking such a direction to solve the issue, statements' users would need to be advised to note the lack of comparability and the seasonal nature of the business, where applicable, would need to be indicated (potentially with an obligation to quantify that seasonality).		
	Next steps (if any)	An in-depth user and institutional stakeholder needs analysis in that area, primarily from the perspective of the purpose of preparing the financial statements.		






6.4.3. Signing statements other than annual statements




	Area:	Financial statements other than annual financial statements		
	Title:	Signing statements other than annual statements		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low

	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	Article 52.2 “2. Financial statements shall be signed and dated by a person responsible for accounting and the entity’s manager, and if an entity is managed by a collective body, by all members of that body or by at least one member serving on that body in the manner set out in Section 2b. Refusal to sign financial statements requires a written statement of reasons to be enclosed to the financial statements.”
	Issue for discussion:	In market practice, companies reported doubts of interpretation about the requirements of the Act for signing financial statements other than annual financial statements; it is unclear for the users if similar rules for signing as apply for annual statements should be followed in such cases (special-purpose statements). [experts]
	Preliminary proposed solution/general direction for change:	A further review of the guidelines in the Act in this regard and restatement of the related provisions as appropriate would be recommended.






6.5. Consolidated financial statements




6.5.1. Pooling-of-interest method for the purposes of consolidation

	Area:	Consolidated financial statements		
	Title:	Pooling-of-interest method for the purposes of consolidation		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 59.1 and Article 60.2 “Article 59. 1. Data of a subsidiary shall be consolidated using the full consolidation method referred to in Article 60.” Article 60.2 “2. The following shall be eliminated: the value of shares at cost of acquisition held by the parent company and other consolidated entities in subsidiaries, and the portion of the net assets of subsidiaries measured at fair value which corresponds to the interest of the parent company and other consolidated group		





		companies in subsidiaries as at the date of taking control over them. ...”
	Issue for discussion:	<p>Based on the provisions of Article 59.1 and Article 60.2, there are no derogations from the application of the acquisition method for the purposes of preparing consolidated financial statements, i.e. it is not possible to use the pooling-of-interest method for common control acquisition transactions. Instead, the market practice has seen cases where the pooling-of-interest method could be considered for consolidated financial statements, e.g. where the parent company preparing consolidated financial statements acquires a member of the same group of companies that the said parent company is part of (the acquirer and the acquiree are within the same group of companies, i.e. they have the same higher-level parent company). A similar situation is where members of two groups of companies combine but they have the same higher-level parent company. Then, it is not possible to use the pooling-of-interest method at the level of consolidated financial statements (it is only available at the level of separate financial statements of the combining companies).</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	It would be recommended to allow the application of the pooling-of-interest method (mentioned in Article 44a.2 of the Act) for consolidated financial statements to account for an acquisition transaction targeting a subsidiary under common control of the same higher-level parent company.
	Next steps (if any)	An in-depth stakeholder needs analysis in this area along with an analysis of legislative options.





6.5.2. Modification of the definition of a “controlling parent company”.

	Area:	Consolidated financial statements		
	Title:	Modification of the definition of a “controlling parent company”.		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 3.1(37)</p> <p><i>“Article 3. 1. Whenever reference is made in this Act to: ... (37) parent company, it means an entity that is a commercial company or a state-owned enterprise which exercises control over a subsidiary, in particular which:</i></p> <p><i>(a) holds, directly or indirectly, the majority of the total number of votes in the governing body of the subsidiary, also based on arrangements with other holders of voting rights that exercise them in keeping with the parent company’s will; or</i></p> <p><i>(b) is a shareholder of the subsidiary and is empowered to manage the financial and operating policies of the subsidiary independently or through persons or</i></p>		







		<p>entities it has appointed under an arrangement made with other holders of voting rights that hold, under the articles of association or partnership or company deed, jointly with the parent company, a majority of the total number of the votes in the governing body; or</p> <p>(c) is a shareholder of the subsidiary and is empowered to appoint and dismiss the majority of the members of the management, supervisory or administrative bodies of that subsidiary; or</p> <p>(d) is a shareholder of a subsidiary whose more than half of the management, supervisory or administrative bodies in the previous financial year, during the current financial year and until the preparation of the financial statements for the current financial year consist of persons appointed to perform these functions as a result of the exercise by the parent company of the voting rights in the governing bodies of that subsidiary, unless another entity or person is conferred the rights referred to in Subparagraphs (a), (c) or (e) in respect of that subsidiary; or</p> <p>(e) is a shareholder of the subsidiary and is empowered to manage the financial and operating policies of the subsidiary under an arrangement made with the subsidiary or made under the articles of association or partnership or company deed of the subsidiary;"</p>
	Issue for discussion:	<p>The Act does not provide regulation for de facto control. Additionally, the Act provides for a relatively narrow range of legal forms stipulated for a parent entity, which limits the preparation of financial statements by entities of other legal forms. This may cause problems of interpretation regarding the consolidation requirement, e.g. when transitioning from IFRS to the Act.</p> <p>[experts; media company]</p>
	Preliminary proposed solution/general direction for change:	<p>It would be recommended to examine the definition of control, e.g. its possible extension to include other entities and inclusion of additional regulations on the concept of control.</p> <p>It would also be recommended to consider the need to create a separate standard on control.</p>
	Next steps (if any)	<p>The issue requires an in-depth analysis going forward and in particular consulting the Accounting Standards Committee.</p>



6.5.3. Definitions of subsidiaries and affiliates

	Area:	Consolidated financial statements		
	Title:	Definitions of subsidiaries and affiliates		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		







	Legal reference (if applicable):	Article 55.1 “Article 55. 1. A parent company with its registered office or place of executive management located in the territory of the Republic of Poland shall prepare annual consolidated financial statements for the group of companies which include data of the parent company and its subsidiaries at all levels, wherever based, compiled in such a manner as if the group of companies were a single entity; such statements shall cover data of the other subordinated companies as set forth in this Chapter.”
	Issue for discussion:	Pursuant to Article 55 of the Act, consolidated financial statements are to include subsidiaries and affiliates and these are defined as commercial law entities, which excludes investment funds, cooperatives or foundations. [experts]
	Preliminary proposed solution/general direction for change:	A possible change to the definition of subsidiaries/affiliates would be recommended.
	Next steps (if any)	An in-depth analysis of legislative options in this area.



6.5.4. Refining the definition of “related entities”

	Area:	Consolidated financial statements		
	Title:	Refining the definition of “related entities”		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 3.1(43) “Article 3. 1. Whenever reference is made in this Act to: ... (43) related entities, it means one or more members of the group of companies;”		
	Issue for discussion:	<p>The definition of a subsidiary is narrow and limited to entities which are members of a group of companies and, on top of that, refers to commercial law companies and partnerships only. This may lead to doubts on how to interpret the term “commercial law companies and partnerships” in the context of foreign entities. In addition, the definition excludes individuals.</p> <p>Further, only those related-party transactions which are not at arm’s length are required to be disclosed in financial statements.</p> <p>As a result, material transactions with a significant investor or shareholder who is an individual may not be disclosed (if they are at arm’s length) whereas such information may be relevant to the assessment of the entity’s financial standing.</p>		









		A vast share of related-party transactions may not be covered by the required disclosures. [experts]
	Preliminary proposed solution/general direction for change:	It would be recommended to consider adding a separate definition of a “related party” (similarly as in IAS 24) instead of a “related entity”. Additionally, it would be expedient to explore the possibility of adding a requirement to disclose related-party transactions whether or not at arm’s length, keeping in mind that this would put an additional burden on entities. Furthermore, eliminating the requirement to disclose related-party transactions at the balance sheet and profit and loss account level and leaving the requirement to disclose those transactions in notes may be considered.
	Next steps (if any)	An in-depth analysis of legislative options in this area, in particular from the perspective of the Directive.

6.5.5. Absence of a group of companies as at the balance sheet date









	Area:	Consolidated financial statements		
	Title:	Absence of a group of companies as at the balance sheet date		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 55.1 <i>“Article 55. 1. A parent company with its registered office or place of executive management located in the territory of the Republic of Poland shall prepare annual consolidated financial statements for the group of companies which include data of the parent company and its subsidiaries at all levels, wherever based, compiled in such a manner as if the group of companies were a single entity; such statements shall cover data of the other subordinated companies as set forth in this Chapter.”</i>		
	Issue for discussion:	Article 55 of the Act states that consolidated financial statements are to be prepared by the parent entity without specifying as at what date the definition of a parent company must be met. There are doubts if a company is required to prepare consolidated statements for the year during which the company lost control over the last subsidiary and has no subsidiaries as at the balance sheet date. The regulations fail to specify if there is a requirement to prepare consolidated financial statements where no group of companies exists (there are no subsidiaries) but a group did exist during the year for which the financial statements are prepared. [experts; power company]		

	Preliminary proposed solution/general direction for change:	None at this stage of work – a potential solution should be worked out by the Project Team in consultation with the stakeholders at later stages of the Project.
	Next steps (if any)	A stakeholder needs analysis in this area.






6.5.6. Consolidated financial statements prepared under IFRS which are not EU-IFRS and are not published as regulations of the European Commission




	Area:	Consolidated financial statements		
	Title:	Consolidated financial statements prepared under IFRS which are not EU-IFRS and are not published as regulations of the European Commission		
	Priority:	<input checked="" type="checkbox"/> High	<input type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 55.7 “7. Consolidated financial statements of lower-level parent companies being part of a group of companies where a higher-level parent company prepares consolidated financial statements under IAS may be prepared in accordance with IAS.”		
	Issue for discussion:	The Act permits the preparation of EU-IFRS consolidated financial statements for lower-level parent companies being part of a group of companies where a higher-level parent company prepares consolidated financial statements under EU-IFRS, whereby entities whose parent company is based outside the EU and prepares consolidated financial statements in accordance with IFRS and not EU-IFRS. [experts]		
	Preliminary proposed solution/general direction for change:	It would be recommended to consider permitting the preparation of EU-IFRS consolidated financial statements even if the parent entity prepares consolidated financial statements under IFRS and these are not EU-IFRS. A similar change could be made to provide the possibility to prepare EU-IFRS separate financial statements if the parent entity prepares consolidated financial statements under IFRS and these are not EU-IFRS. The reason is that there are generally no material differences between IFRS and EU-IFRS.		
	Next steps (if any)	<ul style="list-style-type: none"> • An in-depth requirements and restrictions analysis for the possible implementation of the recommendations defined above. • A benchmarking study of the solutions in place elsewhere in the EU 		

6.5.7. Discontinuation of IFRS in consolidated statements







	Area:	Consolidated financial statements		
	Title:	Discontinuation of IFRS in consolidated statements		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 55.9 “9. The approving body of the parent company may decide to discontinue IAS in the preparation of consolidated financial statements by entities if the circumstances referred to in Sections 6 and 7 no longer exist.”		
	Issue for discussion:	The Act does not provide an option to discontinue IFRS in consolidated statements other than where the circumstances referred to in Sections 6 and 7 no longer exist. [experts]		
	Preliminary proposed solution/general direction for change:	It would be recommended to consider allowing the resumption of the Act-compliant principles (policies) if an entity not required to apply IFRS would like to convert back from IFRS to the Act.		
	Next steps (if any)	An in-depth legal analysis in this regard among institutional stakeholders.		



6.5.8. Exemption from mandatory consolidation if IFRS are adopted

	Area:	Consolidated financial statements		
	Title:	Exemption from mandatory consolidation if IFRS are adopted		
	Priority:	<input checked="" type="checkbox"/> High	<input type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 56 “Article 56. 1. A parent company is not required to prepare consolidated financial statements if, as at the balance sheet date of the financial year and as at the balance sheet date of the prior financial year, the total data of the parent		



		company and all of its subsidiaries at every level: ...”
	Issue for discussion:	<p>Where the parent company has elected to adopt IFRS, it is unclear whether IFRS 10 or the provisions of the Act apply in determining eligibility for exemption from the obligation to prepare consolidated financial statements covering a group of companies in which the entity is the parent entity. Since there are material differences between those two groups of regulations (such as, e.g., de facto control, potential voting rights, special regulations for investment units, exemptions from consolidation if certain thresholds are not exceeded), consequently, this may lead to different conclusions as to the possibility to exempt an entity from the obligation to prepare consolidated financial statements.</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	It would be recommended to define the hierarchy of legal regulations, i.e. specify what legal regulations apply in this case: the Act or IFRS 10.
	Next steps (if any)	<ul style="list-style-type: none"> • An in-depth legal analysis in this regard among institutional stakeholders, in particular from the perspective of the provisions of the Directive; • A benchmarking study of the solutions in place elsewhere in the EU





6.5.9. Exemption from mandatory consolidation if the statutory thresholds are exceeded

	Area:	Consolidated financial statements		
	Title:	Exemption from mandatory consolidation if the statutory thresholds are exceeded		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Articles 56.1 and 56.1a</p> <p>“Article 56. 1. A parent company is not required to prepare consolidated financial statements if, as at the balance sheet date of the financial year and as at the balance sheet date of the prior financial year, the total data of the parent company and all of its subsidiaries at every level: ...”</p> <p>“1a. A parent company which is not required to prepare consolidated financial statements under Section 1(1) or 1(2) shall lose that right if, as at the balance sheet date of the financial year and as at the balance sheet date of the prior financial year, the parent company exceeded two of the amounts stated in Section 1(1) or 1(2), effective for the current financial year.”</p>		
	Issue for discussion:	<p>The doubts about the application of the above-referenced provisions are as follows:</p> <ul style="list-style-type: none"> • When a new entity is formed that takes over subsidiaries, thus becoming a parent company, the entity is eligible for an exemption from preparing consolidated financial statements under Article 56.1 of the Act (assuming that 		







		<p>the thresholds for the current financial year have not been exceeded). As a result, a large group of companies may be exempt from auditing consolidated financial statements in the first year of the group's formation as long as the data of the parent company for the previous year do not exceed the required thresholds.</p> <ul style="list-style-type: none"> The provisions of the Act on exemption from mandatory preparation of consolidated financial statements also raise doubts about the rationale behind them, i.e. Article 56.1 requires that certain amounts must not be exceeded in both years to be able to claim exemption from mandatory preparation of consolidated financial statements. Thus, it would be reasonable to assume that exceeding those amounts in either year results in an obligation to prepare consolidated financial statements. However, Article 56.2 states that preparation of consolidated financial statements will become required only if the specified amounts are exceeded in both years. Examples include: <ul style="list-style-type: none"> If a company emerges/grows from a small one into a large one, then the company may not prepare consolidated financial statements even if the relevant criteria are met in the current period as the criteria would have to be met in both years. As a result, an entity that is "large" in the current year may not prepare consolidated financial statements. If a company's operations are reduced and the "large" company turns small, then consolidation may only be discontinued in the following year (provided that the company continues reduced operations). As a result, an entity that is "small" in the current year will be obliged to prepare consolidated financial statements. <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	A review and restatement, where appropriate, of the provisions of the Act would be recommended to eliminate the tricky cases mentioned above, subject to the requirements of the Directive in this area.
	Next steps (if any)	An in-depth legal analysis in this regard among institutional stakeholders, in particular from the perspective of the provisions of the Directive.


6.5.10. Exemption from mandatory consolidation if IFRS 10 is adopted by a higher-level parent company

	Area:	Consolidated financial statements		
	Title:	Exemption from mandatory consolidation if IFRS 10 is adopted by a higher-level parent company		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		









	Legal reference (if applicable):	Articles 56.2 and 56.2a “2. A parent company which is a subsidiary of another entity having its registered office or the place of executive management located within the European Economic Area is not required to prepare consolidated financial statements if ...” “2a. The provision of Section 2 shall apply if all of the following conditions are jointly met: ...”
	Issue for discussion:	There are doubts whether a lower-level parent company which applies the Act may be eligible for such simplification and not prepare consolidated statements of its group, where its parent company is an investment entity and does not consolidate subsidiaries but measures them on a fair value basis as required under IFRS 10. [experts]
	Preliminary proposed solution/general direction for change:	That issue requires regulation and a wider debate in view of the diverging interpretations in this area.
	Next steps (if any)	<ul style="list-style-type: none"> • An in-depth legal analysis in this regard among institutional stakeholders; • A benchmarking study of the solutions in place elsewhere in the EU

6.5.11. Disclosure of reasons for not consolidating







	Area:	Consolidated financial statements		
	Title:	Disclosure of reasons for not consolidating		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Annex 1, Notes: Section 7(4)(b) “(4) if an entity does not prepare consolidated financial statements by taking advantage of an exemption or exclusions, information on: (b) the name and registered office of an entity preparing consolidated statements higher-up within the group of companies and their place of publication; ...”		
	Issue for discussion:	The Act requires that if an entity does not prepare consolidated financial statements by taking advantage of an exemption or exclusion, information on the name and registered office of an entity preparing consolidated statements higher-up within the group of companies and their place of publication must be disclosed. It seems redundant as Paragraph (4)(a) mandates the disclosure of information		



		on: (a) the legal basis and data supporting the decision not to consolidate whereas Paragraph (5) contains exactly the same requirement, i.e. to disclose (a) information on the name and registered office of the ultimate parent entity preparing consolidated statements within the group of companies of which the company is a subsidiary member and the place where the statements are available. [experts]
	Preliminary proposed solution/general direction for change:	It would be recommended to restate the referenced provisions so that the information required under Article 23.4(d) of the Directive is disclosed all in one place.

6.5.12. Recognition of not previously recognised assets in consolidated financial statements







	Area:	Consolidated financial statements		
	Title:	Recognition of not previously recognised assets in consolidated financial statements		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	No regulation in the Act		
	Issue for discussion:	<p>The Act does not provide regulation for the possibility to recognise not previously recognised assets on the balance sheet of the acquiree in a similar way to that under IFRS; with a wider definition of intangible assets in IFRS, a greater range of intangible assets can be identified than if the acquisition were to be accounted for in accordance with the Act.</p> <p>[experts]</p>		
	Preliminary proposed solution/general direction for change:	Allowing recognition of assets/liabilities not previously recognised on the balance sheet such as, e.g., a project backlog, management rights, future servicing rights, etc., should be considered.		
	Next steps (if any)	An additional Act user needs analysis in this area.		



6.5.13. Staged acquisition: revaluation to fair value

	Area:	Consolidated financial statements		
	Title:	Staged acquisition: revaluation to fair value		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input checked="" type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Articles 60.2 to 60.3</p> <p>“2. The following shall be eliminated: the value of shares at cost of acquisition price held by the parent company and other consolidated entities in subsidiaries, and the portion of the net assets of subsidiaries measured at fair value which corresponds to the interest of the parent company and other consolidated group companies in subsidiaries as at the date of taking control over them.” If the value of shares held and the corresponding portion of the net assets of subsidiaries, measured at their fair value, differ, then, subject to the provisions of Sections 3 and 4:</p> <p>(1) a surplus of the value of shares over the corresponding portion of the net assets measured at the fair value (goodwill) is presented in the assets of the consolidated balance sheet under a separate item of non-current assets “Goodwill of subordinated entities”; (2) a surplus of the corresponding portion of the net assets measured at the fair value over the value of shares (negative goodwill) is presented in the equity and liabilities of the consolidated balance sheet as a separate item “Negative goodwill of subordinated entities”.</p> <p>3. If exercising control over a subsidiary originates or is reinforced as a result of a number of significant transactions, or if these transactions occur within significant intervals, then the surpluses referred to in Section 2 are determined as at each date of acquisition of individual portions of shares; these surpluses are determined for the first time as at the date of establishing the subordination relationship.”</p>		
	Issue for discussion:	<p>The provisions of the Act do not provide clarity whether significant transactions or transactions occurring within significant intervals to buy additional shares in a subsidiary (e.g. to increase the shareholding from 60% to 90% in a company is continuously controlled) make it necessary to remeasure the net assets of the subsidiary to fair value in order to calculate goodwill on the acquisition of an additional interest in consolidated financial statements.</p> <p>Article 60.3 of the Accounting Act indicates the need to calculate goodwill on additionally acquired shares by following the guidelines in Article 60.2 whereas the provisions of Article 60.2 refer to the fair value assessment of net assets, which might suggest that fair value measurement as at the date of acquisition of additional shares is required. However, Article 60.2 provides that goodwill is calculated as at the date of taking control over an entity, which might suggest that the subsidiary’s assets/liabilities are not to be remeasured to fair value upon acquisition of additional shares as control over the company is retained at all times.</p> <p>On the other hand, the Consolidation Regulation states in Section 12.4 that the</p>		








		<p>fair value of net assets as at the date of acquisition of additional shares in a subsidiary should be assessed.</p> <p>Consequently, if fair value measurements as at the date of acquisition of additional shares in a subsidiary were required, then guidance is missing how to recognise the change in the fair value of the company's assets/liabilities.</p> <p>It is not clear from Article 60.3 how to recognise purchases of additional shares in a subsidiary if these are not significant transactions or these do not occur within significant intervals from the transaction establishing the subordination relationship.</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	It would be recommended that acquisition of additional shares require no fair value measurement of net assets. Such an approach would be similar to the guidelines in IFRS 3 whereby transactions with non-controlling shareholders after the date of taking over control and not resulting in loss of control are accounted for as equity transactions without an impact on goodwill. However, if the legislature chooses to require that the assets and liabilities of a subsidiary be measured at fair value as at the date of acquisition of additional shares, it would be necessary to provide guidelines on how to recognise the impact of such measurement.
	Next steps (if any)	An in-depth requirements and restrictions analysis for the possible implementation of the recommendation defined above.


6.5.14. Change in the percentage holding in a subsidiary

	Area:	Consolidated financial statements		
	Title:	Change in the percentage holding in a subsidiary		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 60.4</p> <p>“4. In the case of changes in the percentage interest of the parent company or a group of companies in the net assets of a subsidiary that resulted from the issuance of shares, the whole amount of the resulting difference referred to in Section 2 shall be recognised as the financial income or financial expenses.”</p>		
	Issue for discussion:	The guidance in Article 60.4 provides specific regulation regarding changes in the percentage interest in a subsidiary if this occurs through the issue of additional shares by the subsidiary; the amount that would represent goodwill/negative goodwill under Article 60.2 is recognised in financial income/expenses.		









		[experts]
	Preliminary proposed solution/general direction for change:	It seems unreasonable to have such transactions accounted for other than by applying the general principles for the acquisition and transfer of shares in a subsidiary; deleting this provision would be recommended. If it were decided that the provisions of Articles 60.2 and 60.3 should apply to this type of transactions, it would be reasonable to consider an analogy to IFRS, as pointed out further above.
	Next steps (if any)	An in-depth requirements and restrictions analysis for the possible implementation of the recommendation defined above.

6.5.15. Recognition of minority interests









	Area:	Consolidated financial statements		
	Title:	Recognition of minority interests		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 60.9 “9. Interest in the equity of subsidiaries held by persons or entities other than those under consolidation shall be presented in the equity and liabilities of the consolidated balance sheet under a separate item “Minority interests” beneath the equity items. The initial value of minority interests is calculated at the corresponding fair value of the net assets, determined as at the date of commencing the control. This value is increased or decreased as appropriate by changes in the net assets of subsidiaries. Profits or losses attributable to persons or entities not consolidated are recognised in the consolidated profit and loss account below “Net profit or loss” as “Profits (losses) of minority shareholders”, taking into account an adjustment to the financial result due to reasons specified in Section 6(4). If subsidiaries’ losses attributable to minority interests exceed the amounts which guarantee their coverage, then their surplus is recognised in equity of the group of companies.”		
	Issue for discussion:	Some users reported doubts how to recognise a minority interest in consolidated financial statements as at the date of taking over control if the net assets of the acquiree are negative, i.e. whether minority interests should be recognised at nil, whereby the impact of negative minority interests would affect the calculation of goodwill or not. [experts]		
	Preliminary proposed solution/general direction for change:	Providing more clarity on this issue should be considered.		

	Next steps (if any)	An in-depth stakeholder needs analysis in this area.
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6.5.16. Presentation of consolidated equity







	Area:	Consolidated financial statements		
	Title:	Presentation of consolidated equity		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	No regulation available in this area.		
	Issue for discussion:	<p>In practice, a question frequently arises how to present distribution of profits or losses of the consolidated subsidiaries between the items of equity in consolidated financial statements: whether the distribution of, e.g., retained earnings to capital reserves as authorised by resolution in a subsidiary should be reflected in the group's equity and at what value (before consolidation adjustments or after consolidation adjustments) or only movements resulting from the resolutions of the parent company should be presented in the group's equity.</p> <p>Another doubt is what item of equity should adjustments to profits or losses on intercompany transactions be eliminated from if the profit or loss which includes such profit or loss on intercompany transactions is distributed by allocation to specific equity type or distributed to shareholders.</p> <p>[experts]</p>		
	Preliminary proposed solution/general direction for change:	A recommended approach would be to present all amounts of profits or losses of subsidiaries as "Profits/losses carried forward", regardless of how the profits or losses are distributed in those companies, which is in line with the practice adopted for IFRS statements.		
	Next steps (if any)	An in-depth requirements and restrictions analysis for the possible implementation of the recommendation defined above.		

6.5.17. Staged acquisition of a co-subsiary






	Area:	Consolidated financial statements		
	Title:	Staged acquisition of a co-subsiary		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 61.3 “3. If exercising joint control over a co-subsiary originates or is reinforced as a result of a number of significant transactions, or if these transactions occur within significant intervals, then the surpluses referred to in Section 2 are determined as at each date of acquisition of individual portions of shares; these surpluses are determined for the first time as at the date of establishing the subordination relationship.”		
	Issue for discussion:	There is a similar problem with the provisions quoted above as the one reported in respect of Article 60.3, i.e.: <ul style="list-style-type: none"> • The Act does not specify if the assets/liabilities of a co-subsiary are to be measured at fair value as at the date of any significant transaction or transactions occurring within significant intervals; • If fair value measurement is required, there is no explanation how to recognise the impact of such measurement; • There are no guidelines on how to recognise additional shares if transactions are not significant or do not occur within significant intervals. <p>[experts]</p>		
	Preliminary proposed solution/general direction for change:	It would be proposed to resolve these issues in the same way as for full consolidation.		
	Next steps (if any)	An in-depth requirements and restrictions analysis for the possible implementation of the recommendation defined above.		




6.5.18. Change in the percentage holding in a co-subsiary

	Area:	Consolidated financial statements		
	Title:	Change in the percentage holding in a co-subsiary		







	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 61.4 “4. In the case of changes in the percentage share of the parent company or a group of companies in the net assets of a co-subsiary that resulted from an issue of shares, the whole amount of the resulting difference referred to in Section 2 is recognised as financial income or financial expenses.		
	Issue for discussion:	The guidance in Article 61.4 provides specific regulation regarding changes in the percentage interest in a co-subsiary if this occurs through the issue of additional shares by the co-subsiary. The amount that would represent goodwill/negative goodwill under Article 61.2 is recognised in financial expenses/income. <i>[experts]</i>		
	Preliminary proposed solution/general direction for change:	It seems unreasonable to have such transactions accounted for other than by applying the general principles for the acquisition and transfer of shares in a co-subsiary; deleting this provision would be recommended.		
	Next steps (if any)	An in-depth requirements and restrictions analysis for the possible implementation of the recommendation defined above.		

6.5.19. Proportionate consolidation

	Area:	Consolidated financial statements		
	Title:	Proportionate consolidation		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 61.1 “Article 61. 1. The proportionate consolidation method involves adding individual items of the financial statements of a co-subsiary’s shareholder in their full value and the portion of individual items of the financial statements of co-subsiaries in proportion to the shares held by the consolidated members of the group of companies, after making eliminations as set out in Sections 2 and 6 and other adjustments as set out in Section 8.”		

	Issue for discussion:	It seems unreasonable to apply proportionate consolidation outside a limited range of scenarios, such as, e.g., an investment in a simple partnership. [experts]
	Preliminary proposed solution/general direction for change:	It would be recommended to adopt an approach such that proportionate consolidation would only apply if an entity is legally liable for the liabilities and entitled to the assets of that party, and then the entity would recognise its share in the assets and liabilities of that party. Such an approach would come close to the principles derived from IFRS 11.
	Next steps (if any)	An in-depth requirements and restrictions analysis for the possible implementation of the recommendation defined above, in particular in the context of the provisions under the Directive.

6.5.20. Equity method









	Area:	Consolidated financial statements		
	Title:	Equity method		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 63.1 “Article 63. 1. The equity method involves disclosing an item “Shares in subsidiaries under the equity method” under non-current assets on the balance sheet at cost of acquisition increased or decreased by the additions or subtractions to the equity of the subordinated entity, attributable to the parent company, a co-subsidiary’s shareholder or a significant investor, which occurred from the date of taking over control or joint control or obtaining significant influence until the balance sheet date, including subtractions related to settlements with owners, however, the share in net profit (loss) of the subordinated entity is adjusted for the amortisation of goodwill or negative goodwill, in line with the principles set forth in Articles 44b.10, 44b.11 and 44b.12, and for the write-off of the difference in the measurement of net assets at fair value and carrying value for the reporting period.”		
	Issue for discussion:	As regards significant influence, it tends to be difficult to obtain sufficient data to enable reliable assessment of the fair values of assets and liabilities of an affiliate as at the date of establishing the subordination relationship. As a result, in practice, the equity method is often applied to the net assets of an affiliate at their values in the affiliate’s financial statements, after adjustments for differences in the accounting principles (policies). [experts]		

	Preliminary proposed solution/general direction for change:	There should be a debate whether the equity method is a simplified value measurement method or, conceptually, it is a “mini-consolidation”. It would be recommended to consider an approach whereby the equity method would involve measuring the investor’s share in the net assets at carrying values of the entity (after adjusting them for the purposes of uniform accounting principles) and then adjusted for the difference between that value and the price paid. The “difference” would be then tested for impairment.
	Next steps (if any)	A stakeholder needs analysis in the above area.









6.5.21. Application of the equity method

	Area:	Consolidated financial statements		
	Title:	Application of the equity method		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 63.3 “3. The equity method shall not apply in the cases specified in Article 57 and its application is optional in the cases specified in Article 58.”		
	Issue for discussion:	It seems that there can be doubts of interpretation about the provisions of Article 63.3 and Article 59.6. Article 63.3 states that the equity method shall not apply in the cases specified in Article 57, i.e. where a subsidiary is not consolidated if there exist long-term restrictions on control , among others. On the other hand, Article 59.6 points to the application of the equity method in the cases specified in Article 57.1(2) if a subsidiary has previously been consolidated (although Article 57 implies that it has not) or the parent company has assumed the rights of a significant investor or a co-subsidiary’s shareholder. [experts]		
	Preliminary proposed solution/general direction for change:	It would be recommended to restate the afore-mentioned provisions so as to eliminate any doubts that may arise.		








6.5.22. Amortisation of goodwill under the equity method


	Area:	Consolidated financial statements
	Title:	Amortisation of goodwill under the equity method
	Priority:	<input type="checkbox"/> High <input checked="" type="checkbox"/> Medium <input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	<p>Article 63.1</p> <p>“Article 63. 1. The equity method involves disclosing an item “Shares in subsidiaries under the equity method” under non-current assets on the balance sheet at cost of acquisition increased or decreased by the additions or subtractions to the equity of the subordinated entity, attributable to the parent company, a co-subsidiary’s shareholder or a significant investor, which occurred from the date of taking over control or joint control or obtaining significant influence until the balance sheet date, including subtractions related to settlements with owners, however, the share in net profit (loss) of the subordinated entity is adjusted for the amortisation of goodwill or negative goodwill, in line with the principles set forth in Articles 44b.10, 44b.11 and 44b.12, and for the write-off of the difference in the measurement of net assets at fair value and carrying value for the reporting period.”</p>
	Issue for discussion:	<p>The equity method assumes that adjustment is made for the amortisation of goodwill or negative goodwill. In practice, goodwill is difficult to determine for affiliates.</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	<p>There should be a debate whether the equity method is a simplified value measurement method or, conceptually, it is a “mini-consolidation”.</p> <p>It would be recommended to consider an approach whereby the equity method would involve measuring the investor’s share in the net assets at carrying values of the entity (after adjusting them for the purposes of uniform accounting principles) and then adjusted for the difference between that value and the price paid. The “difference” would be then tested for impairment.</p> <p>The above directions for potential change should also be explored for compatibility with Article 27 of the Directive.</p>
	Next steps (if any)	A stakeholder needs analysis in the above area.

6.5.23. Accounting policies of a group of companies

	Area:	Consolidated financial statements		
	Title:	Group accounting policies		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 63b</p> <p>“Article 63b. 1. Entities whose data are included in consolidated financial statements, in particular subsidiaries and co-subsidiaries, should apply identical measurement methods for assets, equity and liabilities and identical methods for the preparation of financial statements, which are in line with the accounting principles (policies) adopted by the parent company, subject to Section 2.</p> <p>2. If, for valid reasons, it is not possible to apply identical methods of measurement and preparation of financial statements, or if the parent company prepares its financial statements in accordance with IAS, and the entities whose data are included in consolidated financial statements do not prepare financial statements or consolidated financial statements under IAS, it is required to restate, as appropriate, the financial statements of the entities whose financial data are material for the fulfilment of the obligation specified in Article 4.1. 3. (repealed)”</p>		
	Issue for discussion:	<p>In practice, the accounting policies of the parent company may not provide for the recognition of transactions of subsidiaries/affiliates active in other industries and may not regulate adjustments in respect of mutual transactions or other consolidation adjustments.</p> <p>[experts]</p>		
	Preliminary proposed solution/general direction for change:	<p>It would be recommended to clarify in the Act that the parent company's manager develops and adopts the accounting policies of the group of companies and provides the managers of the group members with access to these accounting policies.</p> <p>As such, the group accounting policies would have to meet the requirements set out in Articles 4 to 8 of the Act and take into account the specificities of the entities within the group of companies (the same grouping of transactions of the same nature) and explain the identification of transactions between group companies, exclusions and other consolidation adjustments.</p>		
	Next steps (if any)	A stakeholder needs analysis in the above area.		







6.5.24. Consolidation packages


	Area:	Consolidated financial statements		
	Title:	Consolidation packages		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 63b</p> <p>“Article 63b. 1. Entities whose data are included in consolidated financial statements, in particular subsidiaries and co-subsidiaries, should apply identical measurement methods for assets, equity and liabilities and identical methods for the preparation of financial statements, which are in line with the accounting principles (policies) adopted by the parent company, subject to Section 2.</p> <p>2. If, for valid reasons, it is not possible to apply identical methods of measurement and preparation of financial statements, or if the parent company prepares its financial statements in accordance with IAS, and the entities whose data are included in consolidated financial statements do not prepare financial statements or consolidated financial statements under IAS, it is required to restate, as appropriate, the financial statements of the entities whose financial data are material for the fulfilment of the obligation specified in Article 4.1. 3. (repealed)”</p> <p>And, concurrently, Section 20.1(2) of the Consolidation Regulation: “20. 1. The consolidation documents include but are not limited to: “... 2) financial statements of subordinated entities aligned with the accounting principles (policies) applicable to consolidation; ...”</p>		
	Issue for discussion:	<p>The Statutory Auditors Act provides for a “review” service for so-called consolidation packages that are not expressly defined in the Act or the Consolidation Regulation.</p> <p>[experts]</p>		
	Preliminary proposed solution/general direction for change:	<p>It would be recommended to restate the existing provisions of the Act and/or the Regulation so as to provide a direct link between the Statutory Auditors Act and the Act and the Consolidation Regulation in terms of definitions. The provisions on the responsibility of the entity’s manager for preparers of consolidation packages might also be restated in the same way as set out in Article 4 of the Act.</p> <p>It would also be recommended to add provisions stating that consolidation is prepared on the basis of consolidation packages, which packages are to be prepared by subordinated entities by reference to the financial data of those entities, subject to the group accounting principles (policies) and adjusted for consolidation adjustments.</p>		

	Next steps (if any)	A stakeholder needs analysis in the above area.
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6.6. Accounting and bookkeeping; documentation of the accounting system

6.6.1. Place of keeping account books

	Area:	Accounting and bookkeeping; documentation of the accounting system		
	Title:	Place of keeping account books		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 11a “Article 11a. Where the account books are kept outside the registered office or the place of executive management, the entity’s manager is obliged to: (1) notify the competent revenue office of the place of keeping account books within 15 days after the books are issued; (2) ensure availability of account books and supporting accounting documents to the authorised external audit or supervisory authorities at the registered office or the place of executive management or elsewhere with the consent of the audit or supervisory authority.”		
	Issue for discussion:	<p>There are doubts about the place of keeping account books (and, consequently, the obligation to notify the revenue office if it is a location other than the registered office) where accounting is done outside Poland. Until recently, the problem largely concerned shared service centres used by large groups of companies and cases where the Management Board (management function) includes persons based outside Poland. As the use of cloud solutions increases and digitalisation continues, this issue is becoming more important for businesses of all sizes.</p> <p>The current regulations do not distinguish between the place of accounting and the place of bookkeeping. The regulations are not fit for cases where bookkeeping is done in one country and the server is located in another (or an entity uses the cloud) while the decision-making is done in yet another, or for e-invoices (to be retained in KSeF for 10 years). Some guidance on that issue is provided in the statement of position of the Accounting Standards Committee on certain principles of accounting and bookkeeping.</p> <p>Cloud solutions are practically used in a variety of applications, for instance, both for accounting and for data storage on servers of cloud accounting software providers, or just for making use of external computing capacity and storage spaces in real-time or for data retention. Moreover, cloud data processing services vary in their models, which are: Infrastructure as a Service (IaaS), Software as a Service (SaaS) or Platform as a Service (PaaS), of in the type of</p>		

		<p>processing (public, private or hybrid processing).</p> <p>In addition, data centres are commonly used which are typically built in several dispersed locations. Data centres often offer geo-redundancy, or data replication and storage in separate physical locations, e.g. in case of a server or an entire data centre failure.</p> <p>All this can make specifying the exact location of accounting, bookkeeping and storage problematic for users or require some generalisation, e.g. by stating that the location is multiple countries within the European Economic Area.</p> <p>[experts; manufacturing and trading company; power company]</p>
	Preliminary proposed solution/general direction for change:	<p>It seems expedient to restate the current provisions so that they would not give rise to doubts of interpretation about the legitimacy of accounting and bookkeeping in distributed systems (distributed bookkeeping locations or the use of servers located in multiple countries and cloud computing).</p> <p>It would be recommended to include a clear statement to the effect that an entity must ensure access to all documents, irrespective of the location of its systems, servers or decision-makers (place of access to books). An entity should also be required to document the principles of accounting and bookkeeping across all places/locations and the processes they handle, taking into account the requirement (or absence) of a place of e-invoice storage (to be retained in KSeF for 10 years).</p> <p>The proposed changes to the regulations should reflect the pace of technology developments which may result in an emergence of a new technology or solution that will add further complexity to the issue of accounting and bookkeeping location, and thus they should be as much technology neutral as possible but precise in their essence.</p>

6.6.2. Language of accounting

	Area:	Accounting and bookkeeping; documentation of the accounting system		
	Title:	Language of accounting		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 9 of the Act “The account books are kept in the Polish currency and in the Polish language.”		
	Issue for discussion:	<p>There are doubts about the requirement to keep account books in Polish, e.g., members of international groups of companies or foreign company branches tend to use accounting solutions that are standardised across the group. The above requirement means a need to adapt those solutions by creating special additional reports with Polish translation, including the translation of account names.</p> <p>Provisions allowing to code/mark accounting records with symbols are also</p>		






		<p>missing from the Act. Linked to the topic of accounting and bookkeeping is documentation of accounting policies. Accounting policies are often part of extensive accounting handbooks that provide a detailed description of the posting rules and process, with reference to specific operations in financial and accounting systems. For members of international groups of companies, such documentation is also maintained in English.</p> <p>[experts; accounting firm; manufacturing and trading company; retail company]</p>
	Preliminary proposed solution/general direction for change:	<p>Considering the conflicting views among the stakeholders, we make no recommendations at this stage of the Project.</p> <p>In this area, arguments for and against would have to be examined and if keeping books in English were to be allowed, this should take into account the need to translate books (or their parts) once a year (at the end of the reporting period) and at the request of the audit authorities.</p>

6.6.3. Currency of accounting





	Area:	Accounting and bookkeeping; documentation of the accounting system		
	Title:	Currency of accounting		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 9</p> <p>“The account books are kept in the Polish currency and in the Polish language.”</p>		
	Issue for discussion:	<p>The Act fails to provide clarity that the obligation to keep books in the Polish currency also applies where an IFRS adopter company’s functional currency is other than Polish zloty.</p> <p>[experts; accounting firm; power company]</p>		
	Preliminary proposed solution/general direction for change:	Clarification as described above would be expedient.		




6.6.4. Responsibility for accounting and bookkeeping

	Area:	Accounting and bookkeeping; documentation of the accounting system
	Title:	Responsibility for accounting and bookkeeping







	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Articles 52.2 and 52.2c “2. Financial statements shall be signed and dated by a person responsible for accounting and the entity’s manager, and if an entity is managed by a collective body, by all members of that body or by at least one member serving on that body in the manner set out in Section 2b. Refusal to sign financial statements requires a written statement of reasons to be enclosed to the financial statements.” “2c. The refusal to sign referred to in Section 2 and the declaration or refusal to make the declaration referred to in Section 2b shall refer to the financial statements concerned, specifically by stating the date and time of signing the financial statements by the person appointed to be in charge of accounting.”		
	Issue for discussion:	It is unclear what should be considered an appointment to be in charge of accounting and if there always is a person appointed to be responsible for accounting. Given the fact that criminal liability falls beyond the scope of this study, we would like to draw attention to the disproportionate scope of criminal liability (including the punishment of imprisonment) that is associated with failure to perform accounting in compliance with the Act (Article 77). <i>[experts; accounting firm; media company]</i>		
	Preliminary proposed solution/general direction for change:	It would be recommended to set out that an appointment to be in charge for accounting requires a documented decision of the entity’s manager and where no such decision exists, it is assumed that the entity’s manager bears the sole responsibility for accounting.		


6.6.5. Documentation of the accounting system: preparation of statements

	Area:	Accounting and bookkeeping; documentation of the accounting system		
	Title:	Documentation of the accounting system: preparation of statements		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input checked="" type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		








	Legal reference (if applicable):	<p>Article 10.1(2) and Annex 1 Introduction to Financial Statements Paragraph (7) of the Act</p> <p>“Article 10. 1. An entity should have documentation which describes, in Polish, its adopted accounting principles (policies), in particular the principles (policies) related to: ...”</p> <p>Annex 1 Introduction to Financial Statements Paragraph (7)</p> <p>“(7) an overview of the adopted accounting principles (policies), including the measurement methods for assets, equity and liabilities (including amortisation and depreciation), the computing methods for the financial result and the preparation methods for financial statements, to the extent that the Act leaves the choice to the entity.”</p>
	Issue for discussion:	<p>There is certain incoherence between the provisions in Article 10.1 and the requirements set forth in Annex 1 on the Introduction to Financial Statements, which additionally refer to the preparation method for statements; the part on the preparation method for financial statements is missing in Article 10.</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	<p>It would be recommended to ensure that Article 10 of the Act is coherent with the requirement provided in Annex 1 Paragraph (7) concerning the Introduction to Financial Statements that mandates the disclosure of the preparation method for financial statements.</p>

6.6.6. Definition of the business start date








	Area:	Accounting and bookkeeping; documentation of the accounting system		
	Title:	Definition of the business start date		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 12.1</p> <p>“Article 12. 1. Account books are opened, subject to Section 3:</p> <p>(1) as at the start date of operations, i.e. the date of the first event with an asset-related or financial impact;</p> <p>(2) as at the beginning of each subsequent financial year;</p> <p>(3) as at the date of change in the legal form;</p> <p>(4) as at the registration date of a merger or a demerger which result in a new entity (entities) being established;</p> <p>(5) as at the start date of liquidation or bankruptcy, within 15 days of the date of the event’s occurrence.”</p>		
	Issue for discussion:	<p>In practice, there tend to be doubts about what represents the first event with an asset-related or financial impact subsequently leading to the requirement to open account books, e.g. whether it is the articles of association (as this results</p>		

		in a company's claim against a shareholder for contribution) or the first transaction on the bank account. [experts]
	Preliminary proposed solution/general direction for change:	It would be recommended to clarify what that first event with an asset-related or financial impact is supposed to be.






6.6.7. Closing of books and preparation of financial statements




	Area:	Accounting and bookkeeping; documentation of the accounting system		
	Title:	Closing of books and preparation of financial statements		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 12.2 "2. Account books are closed, subject to Sections 3 to 3d: (1) as at the end date of the financial year; (2) as at the end date of the entity's operations, including its sale or the completion of liquidation or bankruptcy proceedings as long as the legal proceedings have not been discontinued; (3) as at the date preceding the change in the legal form; (4) at the acquiree's: as at the date of a merger resulting from the acquisition of the entity by another entity, that is as at the registration date of that merger; (5) as at the date preceding the date of a demerger or merger of entities, if the demerger or merger results in the establishment of a new entity, in particular as at the date preceding the registration date of the demerger or merger; (6) as at the date preceding the date of putting an entity into liquidation or declaring an entity bankrupt; (7) as at another balance sheet date specified in separate regulations, not later than within 3 months of the date of the event's occurrence."		
	Issue for discussion:	There is some confusion surrounding the issue of whether every closing of account books ends the financial year and whether annual financial statements need to be prepared as a consequence, which also affects the presentation of comparative data. [experts]		
	Preliminary proposed solution/general direction for change:	It would be recommended to provide clearer descriptions of cases where the closing of account books ends the financial year and the financial statements prepared as at that date are annual statements.		

6.6.8. Closing of books as at the business combination registration date

	Area:	Accounting and bookkeeping; documentation of the accounting system		
	Title:	Closing of books as at the business combination registration date		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 12.2(4) “2. Account books are closed, subject to Sections 3 to 3d: ... (4) at the acquiree’s: as at the date of a merger resulting from the acquisition of the entity by another entity, that is as at the registration date of that merger;”		
	Issue for discussion:	In practice, there are doubts about the closing date of account books upon a merger resulting from the acquisition of the entity by another entity. Pursuant to the provisions in the Act, the acquiree should then close its books as at the registration date of that merger. If such a merger becomes effective on the registration date, then it seems more reasonable to close books as at the date preceding the registration date. [power company]		
	Preliminary proposed solution/general direction for change:	It would be recommended to have an acquiree close the books as at the date preceding the date of a merger resulting from the acquisition of the entity by another entity.		



6.6.9. Documentation of the financial and accounting system

	Area:	Accounting and bookkeeping; documentation of the accounting system		
	Title:	Documentation of the financial and accounting system		
	Priority:	<input checked="" type="checkbox"/> High	<input type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input checked="" type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 10.1 “Article 10. 1. An entity should have documentation which describes, in Polish, its adopted accounting principles (policies), in particular the principles (policies) related to: ...		



		<p>(c) a description of the data processing system and, in the case of computerised account books, a description of the computer system, including a list of programs, procedures or functions, depending on the software structure, together with a description of algorithms and parameters, as well as logical data protection principles, in particular the methods of protecting the access to data and to the data processing system, as well as a specification of the software version and the date when it was first launched for use;</p> <p>(4) a system protecting data and data files, including supporting accounting documents, account books and other documents constituting the basis for accounting entries.”</p>
	<p>Issue for discussion:</p>	<p>The above requirement is impracticable, i.e. it is impossible to obtain such detailed system information (including a description of the algorithms used) from providers of accounting systems in use. An entity that uses such a system is significantly limited in its capacity to develop such documentation by its own means as it has no access to the complete system documentation (including the source code).</p> <p>This also applies to complex technical documentations describing the data protection arrangements that IT departments are not always willing to make more widely available for security reasons. Providers of cloud computing solutions do not share descriptions of security arrangements (trade secret).</p> <p>The stakeholders also reported that the language used in the afore-mentioned provisions is ambiguous and tends to be understood differently by accountants and IT professionals. This makes it hard to pinpoint what accounting policies should actually contain.</p> <p>On top of that, some of the provisions raise copyright concerns; the Act’s users reported difficulty arising from the fact some software companies consider descriptions of things such as algorithms and parameters used by the system to protect access to and process data to be their know-how and protected by copyright. Additionally, both users and reviewers of account books are often unable, without assistance of the software company, to verify the algorithms or parameters either on their merits or for their completeness and impact on the proper operation of the computer system.</p> <p><i>[experts; accounting firm; telecommunications company; media company]</i></p>
	<p>Preliminary proposed solution/general direction for change:</p>	<p>It would be recommended to simplify the provisions of the Act to the extent outlined above, especially in the part concerning the technical requirements and security features of financial and accounting systems, provided that it is stipulated that, e.g. an entity is required to ensure that the system and system security documentation is incorporated in other documents maintained by that entity.</p> <p>Additionally, it would be recommended to consider replacing the current provisions on the mandatory description of security arrangements with an obligation to have appropriate certificates in place; in this context, it would have to be determined what party would be responsible for obtaining such certificates.</p>
	<p>Next steps (if any)</p>	<p>A benchmarking study of the related solutions in place elsewhere in the EU.</p>





6.6.10. Specific provisions on accounting and bookkeeping techniques



	Area:	Accounting and bookkeeping; documentation of the accounting system		
	Title:	Specific provisions on accounting and bookkeeping techniques		
	Priority:	<input checked="" type="checkbox"/> High	<input type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input checked="" type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Mainly Articles 13 to 19, e.g. Articles 13.3, 13.5 and 13.6 and Article 14.4</p> <p>“3. The maintenance of accounting information resources in such form as stipulated in Section 2 is subject to the entity having appropriate software which enables obtaining legible information on the account book entries through printout or transfer to a computer-readable data storage media. ...</p> <p>5. In the case of computerised account books, automatic verification of the continuity of entries and transfers of turnover or balances must be ensured. Computer printouts of account books should consist of automatically numbered pages, the first and last being marked as such, and be added up on each subsequent page on a continuous basis during the financial year.</p> <p>6. The account books should be printed out not later than as at the end of the financial year. Transferring the content of account books to a computer data storage medium that ensures durability of the recorded information at least for the retention period required for account books shall be considered equivalent to printing.</p> <p>“4. In the case of computerised account books, an accounting entry should have an automatically assigned sequential reference number under which it is recorded in the journal, as well as data identifying the person responsible for the contents of the accounting entry.”</p>		
	Issue for discussion:	<p>Article 14.4 of the Act refers to the case of computerised account books whereas it is now the only format of accounting records in use. The Act further provides a number of guidelines for the technical aspects of recording transactions in account books, record processing and account book features. Contemporary financial and accounting systems often cannot literally reflect the provisions of the Act, which sometimes raises concerns for companies themselves (and oftentimes for revenue officers too) about accounting and bookkeeping compliance while, on the other hand, such systems provide an adequate level of quality and control over the accounting data.</p> <p>Examples include:</p> <ul style="list-style-type: none"> • Is the requirement of the chronological order of records in the journal met if transactions from several dozen dispersed company locations are simultaneously posted in the system while the company does not keep secondary journals for individual locations? • The journal generation requirements seem antiquated in light of the modern-day ERP systems. • The requirement to add up figures on each subsequent page and number each page tends to be troublesome for companies; some software programs use spreadsheet (e.g. Excel) reports or other formats designed to support the 		

		<p>processing of large amounts of data. Consequently, in order to meet the above formal requirements, companies have to adapt their software, which often involves additional financial and time expenditure. Instead, there are other ways to ensure automatic verification of the continuity of entries, e.g. through a system-provided log control system for logs of specific records in the transaction process system, an in-built transaction numbering system, subtotal alignment features, etc.</p> <ul style="list-style-type: none"> • The stakeholders reported doubts whether it is correct to keep accounting records in two general ledgers, two journals, etc. for an entity engaged in two separate lines of business (not being self-balancing branches). • There are doubts whether the requirement to print or transfer books to other media is practical or necessary, especially since books are kept in computer systems and stored in databases. <p>In addition, in the era of increasing digitalisation, companies increasingly choose to store their data in the cloud and the software delivery model evolves from the traditional licence-based model to Software as a Service (SaaS). Under this model, software access is based on a subscription or payment plan and an entity does not have its own installed software (ownership right) but only has the right to use software. Thus, there is some concern whether the Act should address the issue of software ownership under the present circumstances.</p> <p><i>[experts; accounting firm; manufacturing and trading company; retail company; power company]</i></p>
	<p>Preliminary proposed solution/general direction for change:</p>	<p>It would be necessary to rephrase the provisions so as to acknowledge that computerised books are the standard format and, consequently, to adapt the remaining provisions to reflect the capabilities and features of contemporary ERP systems.</p> <p>It should also be considered to remove the detailed provisions in the Act referring to the elements and detailed methods of accounting and bookkeeping and, instead, to set out the general principles and requirements that should be provided by a financial and accounting system and duly kept account books (e.g. ensuring the verifiability and integrity of data), without including excessively detailed regulations.</p> <p>The financial and accounting system documentation that entities would be required to prepare might cover a summary of the systems used for accounting and bookkeeping and an overview of the features used and a brief description of the data flows between modules.</p> <p>Additionally, replacing the wording “the entity having appropriate software” with: “the entity having access or the right to use appropriate software” should be considered.</p>
	<p>Next steps (if any)</p>	<ul style="list-style-type: none"> • A benchmarking study of the solutions around bookkeeping requirements (the technical aspects of the process) in place elsewhere in the EU; • Examination of the feedback from software providers in this area.






6.6.11. Supporting and other accounting documents

	<p>Area:</p>	<p>Accounting and bookkeeping; documentation of the accounting system</p>
	<p>Title:</p>	<p>Supporting and other accounting documents</p>

	Priority:	<input checked="" type="checkbox"/> High	<input type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input checked="" type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 20.1(2) and Articles 73.1 to 73.2</p> <p>“2. Entries in account books are based on the following supporting accounting documents (hereinafter referred to as “source documents”) which confirm that a given transaction actually took place: (1) third-party external source documents: received from contractors; (2) own external source documents: originals of documents submitted to contractors; and (3) internal source documents: relating to internal transactions of an entity.”</p> <p>“Article 73. 1 The originals of supporting accounting documents and stocktaking documentation shall be stored at an entity, subject to Section 4, in a defined order which is consistent with the accounting and bookkeeping approach adopted by the entity, broken down into reporting periods, in a manner which makes it easy to find them. Annual files of supporting accounting documents and stocktaking documentation shall be designated with their type name and the code of the last years and last numbers in the file.</p> <p>2. Except for documents evidencing transfers of property rights to immovable property, asset custody, significant agreements and other important documents specified by the entity’s manager, the content of supporting accounting documents may be transferred to computer-readable data storage media capable of retaining the content of the supporting documents in a lasting and unchanged form. This method of data storage is permitted on condition that an entity has equipment which allows documents to be reproduced in the form of printouts, unless other regulations provide otherwise. A printout shall be a supporting document equal to the supporting accounting document the content of which has been transferred to a computer-readable data storage medium.”</p>		
	Issue for discussion:	<p>In market practice, companies sometimes face objections to the form of documents evidencing economic transactions; for instance, where a stock transfer is documented with a document designated as “PK” (posting order) and not a document designated as “MM” (stock transfer order). Clear guidelines are missing from the act that economic transactions should be entered in compliance with the defined rules regardless of the type of document supporting their records.</p> <p>The terms “copy” and “original” no longer exist in the tax laws.</p> <p>The form of supporting accounting documents is not clearly defined in the Act, thus giving rise to doubts whether scanned hardcopies or supporting documents generated directly in the system are acceptable; concerns surrounding the interpretation of the related regulations in Act are reported by companies themselves and are often addressed by expert accounting opinions.</p> <p>As regards document retention, companies raise doubts of interpretation concerning the need to store hardcopy documents, e.g. at banks and others.</p> <p>In addition, the requirement to “have equipment” which allows supporting documents to be reproduced in the form of printouts seems excessive in the context of the purpose which is “to be able to have documents reproduced in the form of printouts”. Nowadays, entities increasingly use other forms of access to such equipment other than on the ownership basis.</p> <p><i>[experts; accounting firm; telecommunications company; manufacturing</i></p>		

		and trading company; media company; retail company; e-commerce company; power company]
	Preliminary proposed solution/general direction for change:	<p>The following approach would be recommended:</p> <ul style="list-style-type: none"> • Including the issues of digitalisation and high technology in further work. • Leaving the regulations on the internal and external supporting documents as they are; • Addressing the issue of KSeF documents as specific own external supporting documents (originally created as digital documents); • External supporting documents may be in physical form (on paper) or in electronic form; it should be made explicit that the electronic form is an acceptable form; • Introducing provisions that clearly make scans acceptable supporting documents; • Including a reference to the document characteristics, e.g. the content integrity or verifiability of the issuing person; • Considering replacing the requirement to “have equipment” with one “to be able to have documents reproduced”.
	Next steps (if any)	A benchmarking study of the related solutions in place elsewhere in the EU and an analysis of coherence with tax laws

6.6.12. Statement of turnover and balances








	Area:	Accounting and bookkeeping; documentation of the accounting system		
	Title:	Statement of turnover and balances		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input checked="" type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 18.1 and the general provisions in Article 24</p> <p>“Article 18. 1. Based on the entries in the general ledger accounts, at the end of each reporting period, at least at the end of each month, a statement of turnover and balances is prepared, including:</p> <p>(1) account symbols or names;</p> <p>(2) account balances as at the date of opening account books, turnover for the reporting period and year to date and balances at the end of the reporting period;</p> <p>(3) the total of the account balances as at the date of opening account books, turnover for the reporting period and year to date and balances at the end of the reporting period.</p> <p>The turnover in that statement should be consistent with the turnover in the journal or in the statement of turnover from subsidiary journals.”</p>		

	Issue for discussion:	<p>In the era of advanced financial and accounting systems and increasing digitalisation, a statement of turnover and balances as at a specific date can be generated at any time. The stakeholders believe that the obligation to generate such a statement at the end of each month is not required; in this respect, it would probably be enough to ensure that the system offers such capability (the system should enable creation of a statement of turnover and balances at the end of each period).</p> <p>[experts; accounting firm; retail company]</p>
	Preliminary proposed solution/general direction for change:	<p>The above provision would need to be restated as it does not reflect the specificities of computerised accounting and bookkeeping:</p> <ul style="list-style-type: none"> • The system should be able to create a statement of turnover and balances at any time and allow comparison at any time (transaction total vs. turnover total) as at any date; • A provision would be recommended to the effect that supporting documents should be entered in a chronological order.




6.6.13. Currency conversion result in a supporting accounting document






	Area:	Accounting and bookkeeping; documentation of the accounting system		
	Title:	Currency conversion result in a supporting accounting document		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input checked="" type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 21.3</p> <p>“3. A supporting accounting document in foreign currencies should include their amount converted into the Polish currency at the exchange rate prevailing as at the transaction date. The converted amount shall be shown directly on the document unless the data processing system provides automatic conversion of foreign currencies into the Polish currency, and such a conversion is confirmed with an appropriate printout.”</p>		
	Issue for discussion:	<p>In practice, financial and accounting systems do not enable conversion such as described above. The provision seems outdated. Current systems allow to verify the exchange rates and the related conversions for accuracy (e.g. in the system’s description). The system should ensure that information about how currency balances and transactions are converted is available and verifiable.</p> <p>[experts; accounting firm; power company]</p>		
	Preliminary proposed solution/general direction for change:	The above provision would need to be restated or simplified to reflect the current technological advancement of financial and accounting systems.		

6.6.14. Correcting errors in records






	Area:	Accounting and bookkeeping; documentation of the accounting system		
	Title:	Correcting errors in records		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 25.1</p> <p>“Article 25. 1. Errors identified in entries are corrected as follows: (1) by striking out the existing text and inserting a new one, while retaining the legibility of the incorrect entry and signing the correction and dating it; such corrections shall be made simultaneously in all account books and they cannot be made after the closing of a given month; or</p> <p>(2) by entering into account books a supporting accounting document which includes corrections of incorrect entries by making reversal entries of positive amounts only or of negative amounts only.</p> <p>2. If errors are identified after the closing of a month, or in the case of computerised account books, only corrections made in the manner specified in Paragraph 1(2) are allowed.”</p>		
	Issue for discussion:	<p>The above provision focuses on a manual accounting and bookkeeping system, which is virtually uncommon in the current market practice and does not reflect the current level of digitalisation of accounting processes.</p> <p><i>[experts; accounting firm; power company]</i></p>		
	Preliminary proposed solution/general direction for change:	<p>Restating the above provision should be considered in the direction to make it more general and reflect the current level of digitalisation of accounting processes and provide that an entry, once made in the system, cannot be removed from the system (it has its number and is chronological) and may only be corrected by creating a new entry that corrects the original entry.</p>		




6.6.15. Regulating the issue of mandatory record keeping of documents in the context of electronic document distribution (e-invoices)

	Area:	Accounting and bookkeeping; documentation of the accounting system		
	Title:	Regulating the issue of mandatory record keeping of documents in the context of electronic document distribution (e-invoices)		
	Priority:	<input checked="" type="checkbox"/> High	<input type="checkbox"/> Medium	<input type="checkbox"/> Low






	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	Article 10.1 (no reference to a specific quote available as no regulations exist for this issue)
	Issue for discussion:	There are concerns about the obligations to record documents where an entity uses electronic distribution of documents (also in the context of tax laws on e-invoices), which is very common in the era of financial and accounting process digitalisation. [experts]
	Preliminary proposed solution/general direction for change:	It would be recommended to provide regulation for the above issue in the Act, taking into account the market practice, the current level of digitalisation and the fact that electronic distribution of documents is a very common standard among the Act's users.
	Next steps (if any)	Not applicable



6.6.16. Reports required under the Act and implementation of electronic books vs. tax laws

	Area:	Accounting and bookkeeping; documentation of the accounting system		
	Title:	Reports required under the Act and implementation of electronic books vs. tax laws		
	Priority:	<input checked="" type="checkbox"/> High	<input type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 18.1 “Based on the entries in the general ledger accounts, at the end of each reporting period, at least at the end of each month, a statement of turnover and balances is prepared, including: (1) account symbols or names; (2) account balances as at the date of opening account books, turnover for the reporting period and year to date and balances at the end of the reporting period; (3) the total of the account balances as at the date of opening account books, turnover for the reporting period and year to date and balances at the end of the reporting period. The turnover in that statement should be consistent with the turnover in the		






		journal or in the statement of turnover from subsidiary journals.”
	Issue for discussion:	<p>Creating SAF-T logical schemas relies on the tax laws although it is an accounting schema. For JPK_KR and JPK_MAG files, these are not required under the Act and they partly replicate the data derived from accounting records. The logical schema of JPK_KR requires the disclosure of a variety of information about every journal entry:</p> <ul style="list-style-type: none"> • The Act requires that a statement of turnover and balances contains an account symbol or account name. The JPK_KR schema requires both. • The Act does not have a definition of an account type (balance sheet account; off-balance sheet account; settlement account or nominal account). The JPK_KR schema requires the account type to be provided. <p>Additionally, it is worth noting that the implementation of a requirement for computerised tax books and their submission to the revenue office on a monthly basis is expected in the near future (under the proposed amendment to the personal income tax act). Potential changes to the Act may not be in conflict with that possible change or with the progress of digitalisation of financial and accounting processes.</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	<p>It would be recommended to regulate the above issues in the Act. Adding a definition of the account type in the Act or eliminating the mandatory nature of that field in JPK_KR should be considered (not covered by this Project). JPK_KR could be a statutory requirement and should correlate with the requirements for statements of turnover and balances, journals and general ledgers.</p>
	Next steps (if any)	<ul style="list-style-type: none"> • Taking into account in further project work possible changes in tax laws to implement a requirement for computerised tax books and their submission to the revenue office on a monthly basis. • A benchmarking study of the solutions in place elsewhere in the EU.




6.6.17. Providing acceptability of keeping subsidiary inventory ledgers by way of records other than value and volume records and the obligation to prepare JPK_MAG.

	Area:	Accounting and bookkeeping; documentation of the accounting system		
	Title:	Providing acceptability of keeping subsidiary inventory ledgers by way of records other than value and volume records and the obligation to prepare JPK_MAG.		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input checked="" type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 17.2</p> <p>“Taking into account the type and value of individual classes of tangible current assets held by an entity, the entity’s manager shall decide on the use of one of the following methods for maintaining subsidiary ledger accounts for these asset</p>		

		<p>classes:</p> <p>(1) value and volume records where the turnover and balances of each asset item are recorded in volume and monetary units;</p> <p>(2) volume records for the turnover and balances, kept for individual items of assets or homogeneous classes of assets exclusively in volume units. The values of balances are measured at least as at the end of the reporting period for which an entity settles its income tax liabilities, on the basis of actual data;</p> <p>(3) value records for the turnover and balances of goods and packaging, maintained for retail outlets or storage facilities, where entries are made only for receipts, transfers and balances of total inventories;</p> <p>(4) charging to costs the value of materials and goods as at the date of their purchase, or of finished goods at the time of their manufacture, together with the calculation of balances of these assets and their measurement, as well as the adjustment of costs for the value of these balances, not later than as at the balance sheet date.”</p>
	Issue for discussion:	<p>If the entity’s manager decides to keep inventory accounts other than on a value and volume basis, then they are unable to prepare JPK_MAG for movements under these records, which makes virtually impossible to make any practical use of the simplification under Article 17.2.</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	<p>It would be recommended to provide regulation for the above issue in the Act or other legislation (e.g. by changing the JPK_MAG scheme through a change of the “volume” field into an optional field or through a provision in the relevant regulations that the obligation does not apply to those businesses which have chosen to maintain the specific records in accordance with the Act).</p>







6.6.18. Data retention and protection



	Area:	Accounting and bookkeeping; documentation of the accounting system		
	Title:	Data retention and protection		
	Priority:	<input checked="" type="checkbox"/> High	<input type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 71 [Data retention and protection] and Article 73.2</p> <p>“1. The documentation referred to in Article 10.1, account books, supporting accounting documents, stocktaking documentation and financial statements, hereinafter also referred to as “files”, shall be stored in a proper manner and protected against forbidden modifications, unauthorised distribution, damage or destruction.</p> <p>2. In the case of computerised account books, data protection should involve the use of threat-resistant data storage media, the selection of proper physical</p>		

		<p>access controls, regular back-up of computer files saved into computer-readable data storage media, provided that durability of the accounting system records is ensured for at least the minimum retention period required for account books, as well as ensuring the protection of the accounting system software and data by using appropriate software and organisational solutions which prevent unauthorised access to or damage of data.</p> <p>Article 73.2 “Except for documents evidencing transfers of property rights to immovable property, asset custody, significant agreements and other important documents specified by the entity’s manager, the content of supporting accounting documents may be transferred to computer-readable data storage media capable of retaining the content of the supporting documents in a lasting and unchanged form. This method of data storage is permitted on condition that an entity has equipment which allows documents to be reproduced in the form of printouts, unless other regulations provide otherwise. A printout shall be a supporting document equal to the supporting accounting document the content of which has been transferred to a computer-readable data storage medium.”</p>
	<p>Issue for discussion:</p>	<p>The issue of ensuring the security of accounting data is specifically provided for in the Act. Considering the relevance of the need to ensure that the account book data are effectively protected against forbidden modifications, unauthorised distribution, damage or destruction, experts raise a concern whether the provisions governing that aspect should not be more precise as to how documents are to be stored using new computer technologies.</p> <p>That issue, which is valid regardless of how accounting and bookkeeping are done, becomes particularly important in the era of increasing digitalisation and affects all users, whether they use local servers or cloud solutions with international data centres. However, if a model with an internal provider (whether of the infrastructure or software or services alone) is selected, an entity has to pay attention to the data protection aspects (and their consistency) by entering into an appropriate agreement with the service provider or upon a change of the provider of such services with an option to migrate data, both current and archival, between the systems.</p> <p>[experts]</p>
	<p>Preliminary proposed solution/general direction for change:</p>	<p>Considering the reasonability of possible clarifications on how to store and protect accounting records using new computer technologies. It would be recommended that the Act approached documentation (including electronic documentation) security at a high level by providing the framework and leaving the detailed issues to the discretion of the entity’s managers. The need to ensure data security and access should be properly prioritised in the regulations, especially in the era of increasing digitalisation and increasingly common use of cloud solutions, however the level of detail should be balanced so that the regulations would be technology neutral (i.e. they would not constrain the ability to use evolving technologies) while still prioritising and attaching the proper importance to data security and protection.</p>
	<p>Next steps (if any)</p>	<ul style="list-style-type: none"> • A benchmarking study of the solutions in place elsewhere in the EU; • Considering the nature and importance of the issue, the next steps should take into account the viewpoints of a wide group of stakeholders, including financial and accounting software providers and developers.





6.7. Stocktaking




6.7.1. Stocktaking method: use of computer systems

	Area:	Stocktaking
	Title:	Stocktaking method: use of computer systems
	Priority:	<input checked="" type="checkbox"/> High <input type="checkbox"/> Medium <input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input checked="" type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	<p>Article 26.1</p> <p>“Article 26. 1. As at the last day of each financial year, entities shall carry out the stocktaking of:</p> <p>(1) monetary assets (except for cash at bank), securities in tangible form, tangible current assets, fixed assets and immovable property classified as investments, subject to the provisions in Paragraph (3), as well as machinery and equipment included in capital work in progress, by means of a physical count, valuation of the counted quantities, comparison of their values with values in account books and resolution of and accounting for any discrepancies;</p> <p>(2) financial assets deposited in bank accounts or held with other entities, including dematerialised securities, receivables, including loans granted, subject to the provisions in Paragraph (3), as well as own assets entrusted to contractors, by receiving from banks and obtaining from contractors confirmations of accuracy of the asset balances recorded in the entity’s account books, as well as an resolution of and accounting for any discrepancies;</p> <p>(3) fixed assets which are difficult to access, land and titles, rights and interests classified as immovable property, disputable or doubtful receivables and, in the case of banks, also non-performing receivables, receivables and liabilities in respect of persons who do not keep account books, receivables and liabilities in respect of state or local authorities, as well as assets, equity and liabilities not mentioned in Paragraphs (1) and (2) and those mentioned in Paragraphs (1) and (2) if, for justified reasons, it was not possible to carry out their count or confirm them, by comparing the values in account books with the relevant documents and verifying the value of these items.”</p>
	Issue for discussion:	<p>The stocktaking methods for fixed assets do not leverage today’s technological capabilities but, instead, assume that counting teams personally visit the locations where fixed assets are located and take counts manually. In reality, companies that hold the following as fixed assets:</p> <ul style="list-style-type: none"> • terminal devices used by individual persons (or businesses); • parcel pick up stations; • technical equipment (servers, computers, aerials), etc.; • other fixed assets connected to surveillance systems or other verification systems; <p>are able to check the existence and operational status of such fixed assets by using the Internet connectivity capability of each individual fixed asset, checking</p>






		<p>the Internet signal and connecting to the specific device. Even if such device were physically damaged, e.g. had dents (which cannot be revealed remotely), this is irrelevant to the value, operability or economic usability of the device.</p> <p>In addition, the current remote monitoring systems enable keeping track of inventory levels on an ongoing basis.</p> <p>For inventories entrusted to other parties, there are technical capabilities to connect to the operator's systems; it would have to be considered if confirming the existence of the inventories this way would satisfy the stocktaking requirement.</p> <p>In addition, for taking inventory of accounts receivable and payable, there are doubts whether an electronic confirmation is sufficient. The statement of position of the Accounting Standards Committee on accounts receivable and payable states that: "Requests for confirmation of balances and the replies may be exchanged by counterparties electronically (e.g. via e-mail) if that form of confirmation of mutual accounts has been agreed by them and the information provided is properly authenticated."</p> <p><i>[experts; retail company; telecommunications company; power company]</i></p>
	Preliminary proposed solution/general direction for change:	<p>It would be recommended to modify the requirements in the Act in the area of stocktaking, starting with the identification of the ultimate purpose of stocktaking in the Act. Having regard to the ultimate purpose, the following changes should be considered:</p> <ul style="list-style-type: none"> • Allowing an intermediate stock taking method between physical count and verification, i.e. including the above issues related to advanced computer-based solutions in the regulations; • Adding a rule that the stocktaking method should be suitable for the fixed asset concerned. <p>It would be recommended that the direction for changes in this area reflect the technological developments and digitalisation and be technology neutral as much as possible so that a user could comply with the purpose but would not be constrained by any specific technology or by being unable to use technology.</p>
	Next steps (if any)	A benchmarking study of the solutions around stocktaking in place elsewhere in the EU



6.7.2. Stocktaking in automated warehouses

	Area:	Stocktaking		
	Title:	Stocktaking in automated warehouses		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		






	Legal reference (if applicable):	Article 26.2 “Article 26. 2. The stocktaking through a physical count extends to assets owned by other entities and entrusted to and held by the entity for sale, storage, processing or use, with a notification to these entities of the physical count results. This obligation does not apply to entities which provide postal, transport, forwarding and warehousing services.”
	Issue for discussion:	There are doubts about how to practically carry out a physical count of goods where the access to the “actual seller” is limited, i.e., where, for instance, the warehouse is fully automated and cannot be expected to stop its operations for the time of counts by the stocktaking board. A question arises how to proceed in the context of fully automated warehouses where a physical count is impossible or significantly hindered. The range of entities exempt from the obligation to take stock of third-party goods is worth extending to include entities providing fulfilment services (logistics order handling). [experts; e-commerce company]
	Preliminary proposed solution/general direction for change:	It would be recommended to include the above issues in the regulations and to ensure that the direction for changes in this area reflects the technological developments and digitalisation and is technology neutral as much as possible so that a user could comply with the purpose but would not be constrained by any specific technology or by being unable to use technology.



6.7.3. Stocktaking timeline

	Area:	Stocktaking		
	Title:	Stocktaking timeline		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 26.3(1)–(3) “Article 26. 3. The timing and frequency of stocktaking specified in Section 1 are regarded as met if the stocktaking of: (1) items of assets, except for monetary assets, securities, work in progress and materials, goods and finished products, as defined in Article 17.2(4), begins not earlier than 3 months before the end of the financial year and ends by the 15th day of the following year, whereas the balances are determined by adding to or deducting from the balances determined in the physical count or balance confirmation, the inflows or outflows (additions or subtractions) taking place between the physical count or balance confirmation date and the date when the balances resulting from account books are determined, with the restriction that the balances resulting from account books cannot be determined after the balance sheet date;		






		<p>(2) stocks of materials, goods, finished products and semi-finished products, located in guarded storage facilities and covered by the value and volume records is carried out once every 2 years;</p> <p>(3) immovable property classified as fixed assets and investments and other fixed assets located in a guarded area and machinery and equipment comprising capital work in progress is carried out once every 4 years;”</p>
	Issue for discussion:	<p>During conversations with companies and a review of the questions submitted as part of our accounting advisory practice, we have observed that company repeatedly raise concerns as to whether stocktaking may be performed at any time during the period or as at the balance sheet date only if the exemption under the Act is applied and stocktaking is carried out once every 2 or 4 years.</p> <p>Additionally, for assets which are difficult to access and which, in order to be taken stock of, require, e.g. a wide involvement of specialist staff/equipment, time-consuming efforts and certain weather conditions, the period of 3 months before the year end provided in the Act may be insufficient.</p> <p>There are also doubts about cycle counting; the existing regulations seem to provide insufficient clarity in this respect.</p> <p>The stocktaking timing imposed by the Accounting Act for confirming accounts receivable and payable (to be completed by the 15th day of the following year under Article 26.3(1) of the Act) give rise to practical issues for discussion where balances need to be confirmed as at 31 December. Specifically, companies with significant balances of receivables and payables argue that the timing imposed by the Act is insufficient.</p> <p>[experts; retail company; telecommunications company; media company; power company; retail company]</p>
	Preliminary proposed solution/general direction for change:	<p>It would be recommended to provide more clarity in the provisions around the above-mentioned issues and possibly allow stocktaking to be carried out within a longer period than is currently the case.</p>



6.7.4. Balance confirmations

	Area:	Stocktaking		
	Title:	Balance confirmations		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 26.1(2)</p> <p>“(2) financial assets deposited in bank accounts or held with other entities, including dematerialised securities, receivables, including loans granted, subject to the provisions in Paragraph (3), as well as own assets entrusted to contractors, by receiving from banks and obtaining from contractors confirmations of accuracy of the asset balances recorded in the entity’s account books, as well as an resolution of and accounting for any discrepancies;”</p>		

	Issue for discussion:	<p>In practice, no response from counterparties to balance confirmations is commonly the case.</p> <p>The paper form of balance confirmations is antiquated. The guidelines for the form of balance confirmations are only provided in the statement of position on accounts receivable and payable and lack precision.</p> <p>For providers of mass market services, there are concerns whether balances may be confirmed using algorithms.</p> <p>No options are available to take into account materiality in this area of the Act.</p> <p>[experts; accounting firm; telecommunications company; media company; retail company; power company]</p>
	Preliminary proposed solution/general direction for change:	<p>It would be recommended to consider the issues below:</p> <ul style="list-style-type: none"> • Considering if the form of balance confirmations and the obligation to provide response should be specified in the Act; this issue would require an analysis of potential sanctions to be possibly included. • An option to be considered would also be to provide that balances must be confirmed with a counterparty (i.e. the balance of accounts must be communicated) at least annually; at the same time, no “protest” from the counterparty in response to the balance submitted could be considered to be equivalent to such confirmation. Such confirmation might be made as at a date other than the balance sheet date as a control procedure in respect of the balance of receivables. It would be very helpful for entities that have a large number of retail customers. On the other hand, there would be no such obligation for accounts payable.








6.7.5. Clarifying the types of assets, equity and liabilities subject to stocktaking

	Area:	Stocktaking		
	Title:	Clarifying the types of assets, equity and liabilities subject to stocktaking		
	Priority:	<input checked="" type="checkbox"/> High	<input type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 26.1</p> <p>“Article 26. 1. As at the last day of each financial year, entities shall carry out the stocktaking of: ...</p> <p>(3) fixed assets which are difficult to access, land and titles, rights and interests classified as immovable property, disputable or doubtful receivables and, in the case of banks, also non-performing receivables, receivables and liabilities in respect of persons who do not keep account books, receivables and liabilities in respect of state or local authorities, as well as assets, equity and liabilities not mentioned in Paragraphs (1) and (2) and those mentioned in Paragraphs (1) and (2) if, for justified reasons, it was not possible to carry out their count or</p>		

		confirm them, by comparing the values in account books with the relevant documents and verifying the value of these items.”
	Issue for discussion:	Article 26.1(3) contains some language concerning stocktaking by comparing with the relevant documents and verifying: “as well as assets, equity and liabilities not mentioned in Paragraphs (1) and (2) and those mentioned in Paragraphs (1) and (2),”; this provision raises doubts what assets, equity and liabilities are concerned here. [experts]
	Preliminary proposed solution/general direction for change:	It would be expedient to provide clarifications of the referenced provision in the Act or in lower-ranking legislation .








6.8. Classification and measurement of assets, equity and liabilities; recognition of transactions

6.8.1. Definition of intangible assets




	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Definition of intangible assets		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 3.1(14) “intangible assets, it means, subject to Paragraph 17 below, any property rights acquired by an entity and classified as non-current assets and fit for use in business, with a foreseeable useful life of longer than one year, that are intended for own use by the entity, including in particular: ...”		
	Issue for discussion:	There are doubts what represents intangible assets; specifically, this concerns various benefits acquired when taking control over other companies, situations with transactions for the acquisition of an organised part of an enterprise and whether interests or rights, e.g. to commercial contracts, that are acquired fall within the definition of intangible assets. In addition, no regulation exists for cloud computing licensing and subscriptions. [experts; retail company]		
	Preliminary proposed solution/general direction for change:	<ul style="list-style-type: none"> It would be recommended to include a definition akin to the one in International Accounting Standard 38: Intangible Assets (“IAS 38”); at the level of the Act in particular, it would be recommended to write a general 		





		<p>definition with a reference to the detailed regulations contained in a dedicated standard.</p> <ul style="list-style-type: none"> • It should be clarified that intangible assets do not include rights to receive future services, which would also solve the issue of cloud computing arrangements. • It would also be recommended to remove the requirement for a useful economic life of over 1 year from the definition. • It would be expedient to consider whether to remove the word “<i>prawne</i>”, meaning “legal” assets, from the Polish term and only leave “<i>niematerialne</i>”, meaning “intangible” assets, so as not to narrow the range of such assets to those that arise by operation of law.
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6.8.2. Definition of property under construction






	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Definition of property under construction		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 3.1(16) “Capital work in progress, it means any fixed asset classified as non-current assets in the course of their construction, assembly or in the course of improvement of an existing fixed asset;”		
	Issue for discussion:	The Act contains a definition of capital work in progress but fails to define or set out how to present and measure investment property under construction. [experts]		
	Preliminary proposed solution/general direction for change:	It could be clarified at the Act level that long-term investments: property include property under construction.		



6.8.3. Marketing and advertising materials

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Marketing and advertising materials		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low






	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	Article 3.1(19) “(19) current tangible assets, it means materials acquired for own use; finished goods (products and services) manufactured or processed by the entity which are ready for sale or work in progress, semi-finished goods and goods acquired for resale without processing;”
	Issue for discussion:	There are doubts whether marketing or advertising materials represent an expense for the period (cost of third-party services) or assets (an item of current assets or intangible assets). This concerns items such as samples, advertising videos or billboard advertisements. [experts]
	Preliminary proposed solution/general direction for change:	It would be recommended to provide clarification of these issues, e.g. within definitions, whether an advertising material of commercial value represent an asset and if so, at what point such an asset is to be recognised, e.g. once it becomes available to the entity.



6.8.4. Reclassifications between asset types

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Reclassifications between asset types		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Articles 3.1(15), 3.1(17) and 3.1(32)(c) and NAS 11 6.26(b) “(15) fixed assets, it means, subject to Paragraph 17 below, property, plant and equipment and their equivalents, with an expected useful economic life longer than one year which are complete, fit for use and intended to serve the entity’s purposes. The term includes in particular: (a) immovable property, including land, the perpetual usufruct right to land, buildings and structures, as well as premises owned on a separate basis, cooperative ownership rights to residential premises, and cooperative rights to commercial premises; (b) machinery, plant, means of transport and other movable things; (c) leasehold improvements; d) livestock. Fixed assets let for use under a rental, tenancy or lease contract are classified		





		<p>as non-current assets of one of the parties to the contract, on the terms and conditions specified in Section 4 below;”</p> <p>“(17) investments, it means assets held by the entity in order to derive economic benefits from them as a result of an increase in their value or to earn income in the form of interest, dividends (shares in profits) or other proceeds, including from commercial transactions;”</p> <p>“(32) other operating expenses and income, it means expenses and income indirectly related to the entity’s operations, including but not limited to expenses and income on: “... (c) holding immovable property and intangible assets classified as investments, inclusive of any revaluation of such investments and reclassifications of the same to fixed assets or intangible assets, as appropriate, if measurement of the investments is based either on their fair market price or on otherwise determined fair value;”</p>
	Issue for discussion:	<p>The Act does not deal with the issue of reclassification between the specific types of assets, e.g. transfers from investments to fixed assets.</p> <p>Currently, the reclassification of fixed assets to investment property, where measurement to fair value is used in respect of investment property is, the provisions permit recognition of the full impact of measurement to fair value as at the reclassification date in the profit or loss for the year.</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	<p>It would be recommended to clarify the timing and conditions for reclassification, e.g. by stating that transfers are valid upon a change to the purpose or use of the asset, which results from the actual measures taken by the entity and the measurement approach.</p>




6.8.5. Segregation of non-tangible assets, fixed assets and investments in property into long-term and short-term items

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Segregation of non-tangible assets, fixed assets and investments in property into long-term and short-term items		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Articles 3.1(14), 3.1(15) and 3.1(17)</p> <p>“(14) intangible assets, it means, subject to Paragraph 17 below, any property rights acquired by an entity and classified as non-current assets and fit for use</p>		







		<p>in business, with a foreseeable: ...”</p> <p>“(15) fixed assets, it means, subject to Paragraph 17 below, property, plant and equipment and their equivalents, with an expected useful economic life longer than one year which are complete, fit for use and intended to serve the entity’s purposes. The term includes in particular:</p> <p>(a) immovable property, including land, the perpetual usufruct right to land, buildings and structures, as well as premises owned on a separate basis, cooperative ownership rights to residential premises, and cooperative rights to commercial premises;</p> <p>(b) machinery, plant, means of transport and other movable things;</p> <p>(c) leasehold improvements;</p> <p>d) livestock.</p> <p>Fixed assets let for use under a rental, tenancy or lease contract are classified as non-current assets of one of the parties to the contract, on the terms and conditions specified in Section 4 below;”</p> <p>“(17) investments, it means assets held by the entity in order to derive economic benefits from them as a result of an increase in their value or to earn income in the form of interest, dividends (shares in profits) or other proceeds, including from commercial transactions, and in particular financial assets as well as immovable property and intangible assets that are not used by the entity but are held by the same in order to obtain such benefits. In the case of insurance and reinsurance companies, investments should be understood to mean deposits and other investments;”</p>
	<p>Issue for discussion:</p>	<p>The definition of investments does not mention any limitations of the time criterion whereas under Annex 1, investments in immovable property are only long-term investments.</p> <p>[experts]</p>
	<p>Preliminary proposed solution/general direction for change:</p>	<p>A point for consideration would be to add a separate category under assets: “long-term assets held for sale”.</p>



6.8.6. Trade receivables and liabilities as financial liabilities

	<p>Area:</p>	<p>Classification and measurement of assets, equity and liabilities; recognition of transactions</p>		
	<p>Title:</p>	<p>Trade receivables and liabilities as financial liabilities</p>		
	<p>Priority:</p>	<p><input type="checkbox"/> High</p>	<p><input checked="" type="checkbox"/> Medium</p>	<p><input type="checkbox"/> Low</p>
	<p>Type:</p>	<p><input checked="" type="checkbox"/> area for potential improvement</p> <p><input type="checkbox"/> inconsistent laws and regulations</p> <p><input type="checkbox"/> legal loophole or regulatory gap</p> <p><input type="checkbox"/> over regulated area (excessive regulatory burdens)</p>		







	Legal reference (if applicable):	<p>Article 3.1(18)</p> <p>“(b) the financial assets referred to in Paragraph 24 below – are due and payable or intended for sale within 12 months of the balance sheet date or of the date of their placement, issue or acquisition, or constitute cash or cash equivalents;</p> <p>(c) current receivables cover all trade receivables and all or some other receivables not classified as financial assets, falling due within 12 months of the balance sheet date;”</p>
	Issue for discussion:	<p>The Act does not contain a clear regulation whether trade receivables and liabilities are or are not financial instruments; instead, that issue is addressed in the statement of position on accounts receivable and payable and NAS 4 Paragraph 6.2.3.</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	<p>The proposed solution would be either to (a) explicitly exclude trade receivables and liabilities from the definition of financial instruments; or to (b) state that they are financial instruments excluded from the scope of the Financial Instruments Regulation.</p>


6.8.7. Going concern assessment

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Going concern assessment		
	Priority:	<input checked="" type="checkbox"/> High	<input type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 5.2</p> <p>“2. The adopted accounting principles (policies) are applied on the assumption that an entity will continue as a going concern in the foreseeable future, without material curtailing the scope of its operations, without being put into liquidation or declared bankrupt, unless it is in contradiction with the actual or legal status. In assessing the entity’s ability to continue as a going concern, the entity’s manager takes into account all information available as at the date of preparing the financial statements and relating to the foreseeable future, covering a period of no less than one year of the balance sheet date”</p>		
	Issue for discussion:	<p>The obligation to assess the entity’s ability to continue as a going concern rests with the entity’s manager, however, the Act does not expressly mandate that such an assessment must be documented and its outcome presented in financial statements, regardless of the entity’s financial position. In some cases, no such disclosure may raise doubts among users of financial statements.</p>		








		[experts]
	Preliminary proposed solution/general direction for change:	An mandatory review and assessment of the ability to continue as a going concern on an annual basis, regardless of the circumstances, and an obligation to document such a review and assessment, as well as a mandatory disclosure in the financial statements (in the introduction and/or notes) of the outcome of such an assessment (or, as a minimum, an obligation to provide an unequivocal statement that, based on the review, there are no circumstances or indications that would suggest that the going concern is at risk) should be considered. Guidelines for the scope of such an assessment could be articulated, e.g. as a separate NAS or a statement of position of the Accounting Standards Committee and the scope of the assessment could be determined by the nature, financial position and market position, etc., of the entity.
	Next steps (if any)	An in-depth stakeholder needs analysis in this area.

6.8.8. Measurement if no longer a going concern

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Measurement if no longer a going concern		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Articles 29.1 and 29.2 “Article 29. 1. If the going concern assumption, referred to in Article 5.2 is not valid, the assets of an entity shall be measured at the lower of the realisable net selling prices and the cost of acquisition or cost of manufacture of those assets, less accumulated depreciation or amortisation and impairment losses. In such a case an entity is also required to recognise a provision for expected additional costs and losses caused by discontinuation of operations or inability to continue as a going concern. 2. The measurement at the net selling prices and recognition of a provision shall take place in particular as at the date preceding the date of putting the entity into liquidation or declaring the entity bankrupt; as at the end of the financial year if, as at the date of approval of the financial statements for the financial year the entity discontinues its operations; as at the end of a financial year while the liquidation or bankruptcy proceedings are pending; as well as at the date preceding a transfer, demerger or sale of an entity if an appropriate agreement does not specify that the values of assets determined on the assumption of a going concern will be the basis for the related settlements.”		
	Issue for discussion:	It is unclear how to measure balance sheet items that are in principle measured at fair value as at the time of making an assumption of not continuing as a going concern and thereafter, e.g. whether it is possible to remeasure the value up and where to include the effect of such		








		remeasurement. [experts]
	Preliminary proposed solution/general direction for change:	It would be recommended to restructure and possibly restate the provisions in Article 29 of the Act and the provisions in Paragraph 5.4 of NAS 14 (where the fair value measurement method was used). It would be recommended to provide clarity in the Act that the lower of the fair value and the realisable price (net selling price) is to be applied for assets previously measured at fair value. The phrase “net selling price pending liquidation”, further explained in NAS 14, should be added in the Act.

6.8.9. Definitions of materiality and prudence

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Definitions of materiality and prudence		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 7.1 and Article 8.1 “Article 7. 1. Particular items of assets, equity and liabilities shall be measured at prices (costs) actually paid to acquire (manufacture) the same by following the prudence principle ...” “Article 8. 1. When establishing the accounting principles (policies), accounting separation of all events that are material for the evaluation of the entity’s asset and financial position as well as the financial result must be ensured by following the prudence principle referred to in Article 7.”		
	Issue for discussion:	The Act does not expressly define the prudence principle and only makes reference to it in the context of measurement, which in practice may raise doubts as to its definition and application. In the same vein, the accounting law makes little reference to the application of the materiality principle. Additionally, the term “materiality” is absent from the tax law, which results in a need for disparate treatment of transactions below the materiality threshold for tax and accounting purposes. [experts]		
	Preliminary proposed solution/general direction for change:	It would be recommended to consider including a provision to the effect that the entity’s manager determines the materiality level guided by the rule that the accepted materiality level ensures that the statements give a true and fair view of the entity’s position and that the accepted materiality level does not affect the business decisions taken by relying on the financial statements, e.g. similarly to what is stated in International Accounting Standard 1: Presentation of Financial		

	<p>Statements (“IAS 1”) and in FRS Practice Statement 2: Making Materiality Judgements.</p> <p>It also seems expedient to refine the definition of the “prudence principle” along the lines of the definition provided in the <i>Conceptual Framework for Financial Reporting</i>, which may help apply this principle in practice.</p>
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6.8.10. Fair market value and fair value

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions
	Title:	Fair market value and fair value
	Priority:	<input type="checkbox"/> High <input checked="" type="checkbox"/> Medium <input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	<p>Article 28.1(3)–(4)</p> <p>“Article 28. 1. Assets, equity and liabilities shall be measured at least as at the balance sheet date in the following manner: ... (3) shares in other entities and other investments included in non-current assets not mentioned in Paragraph (1a): at cost of acquisition, less impairment losses, or at fair value or adjusted acquisition price if the asset has finite maturity; the value at the acquisition price may be remeasured to the value at fair market price, and the revaluation difference shall be accounted for in accordance with Article 35.4; (4) shares in subordinated entities included in non-current assets: in accordance with the principles specified in Paragraph (3) or under the equity method, provided that this method is consistently applied to all subordinated entities;”</p>
	Issue for discussion:	<p>Article 28.1(3) of the Act refers to both fair value and fair market value. This raises doubts about the interchangeability of the term “fair value” and “fair market value”. For instance, for the measurement of shares in subordinated entities the phrase “remeasured to ... fair market price” is used in the context of an alternative recognition of fair value measurement. Then, the fair value measurement is included directly in the profit and loss account. As such, it is unclear if what is meant is the remeasurement to fair market prices, which is governed by Article 35.4 of the Act. There are concerns whether the fair market value is equivalent to fair value.</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	<p>It would be recommended to restate the Act so that its provisions would only refer to fair value as a measurement method and the detailed fair value assessment principles and relations between the fair market value and fair value would be compiled as a separate document.</p> <p>Additionally, it would be reasonable to abandon one of the measurement methods of subordinated entities; currently, the Act permits as many as three methods for measurement. Moreover, it should be considered whether the equity method should not be the prevailing method.</p>






6.8.11. Refining the definition of the cost of acquisition



	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions
	Title:	Refining the definition of the cost of acquisition
	Priority:	<input type="checkbox"/> High <input type="checkbox"/> Medium <input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	<p>Article 28.2</p> <p>“Article 28.2 The cost of acquisition referred to in Section 1 is the purchase price of an asset, comprising the amount due to the seller, less the value added tax and excise duty and, in the case of import, the relevant taxes and duties and plus costs directly attributable to the purchase and making the asset usable or marketable, including expenses relating to transport, loading and unloading, storage or marketing, less any rebates, discounts and similar reductions and recoveries. If it is not possible to determine an asset’s cost of acquisition, in particular where an asset is received free of charge, including through a gift or donation, its value measurement is based on the selling price of an identical or similar asset.”</p>
	Issue for discussion:	<p>The definition of the cost of acquisition needs some clarification as it fails to address aspects such as discounting, fair value or non-monetary forms. The absence of any regulation in this respect leads to practical concerns, e.g. in the case of deferred payments or sales at a token price of PLN 1.</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	<ul style="list-style-type: none"> • It should be clarified, depending on the decision how to approach measurement of liabilities, whether the amount due to the seller should be a discounted value, where payment is deferred; • For the item “Amount due to the seller”, it would be recommended to use the term “fair value payable to the seller”, which is a broader term not restricted to cash payment and would also address the issue of discounting (see above); • In addition, it seems expedient to make a reference to the “economic substance” of a transaction in the definition; as such, the relevant sentence would have to be complemented to read as follows: “If it is not possible to determine an asset’s cost of acquisition, in particular where an asset is received free of charge, including through a gift or donation, its value measurement is based on the fair value or other value arising from the economic substance of the transaction.”

6.8.12. Need for aligning the provisions on impairment between the Act and NAS 4






	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions
	Title:	Need for aligning the provisions on impairment between the Act and NAS 4
	Priority:	<input type="checkbox"/> High <input checked="" type="checkbox"/> Medium <input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	Article 28.7 “7. Impairment of an asset occurs when it becomes highly probable that an asset controlled by the entity will not generate in the future all or significantly all expected economic benefits. This justifies an impairment charge to write the value of an asset as recorded in account books down to its net selling price, and if none, to its fair value determined otherwise”
	Issue for discussion:	Article 28.7 states that if impairment occurs, an impairment charge is recognised to write the value of an asset as recorded in account books down to its net selling price, and if none, to its fair value determined otherwise. These regulations give rise to doubts of interpretation in light of the guidelines in NAS 4, which require writing the value down to the recoverable amount (as a higher of: (a) market value or (b) value in use). [experts]
	Preliminary proposed solution/general direction for change:	Restructuring and possible restatement of the provisions in the Act and in NAS 4 in the above-described area should be considered.



6.8.13. Harmonising tax and accounting laws for currency measurement

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions
	Title:	Harmonising tax and accounting laws for currency measurement
	Priority:	<input type="checkbox"/> High <input checked="" type="checkbox"/> Medium <input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input checked="" type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	Article 30.2






		<p>“Article 30. 2. Business transactions denominated in foreign currencies shall be recognised in account books as at the transaction dates unless otherwise provided in separate legislation governing funds from the European Union or other European Economic Area Member States and non-refundable funds from foreign sources, at the following exchange rates, as appropriate:</p> <p>(1) at the actual rate applied on that day and determined by the nature of the transaction, for sales or purchases of foreign currencies or payments of receivables or liabilities;</p> <p>(2) at the average exchange rate fixed for the currency by the National Bank of Poland on the day before that date, for payments of receivables or liabilities, unless it is reasonable to apply the exchange rate in Paragraph (1), and for other transactions.”</p>
	Issue for discussion:	<p>The measurement principles for business transactions in foreign currencies for accounting purposes differ from those applied by entities for tax purposes in many cases, e.g. measurement for the purposes of customs clearance; measurement for VAT purposes; or measurement for CIT purposes.</p> <p>Therefore, practical problems occur in view of the obligation to apply different measurement principles for different purposes and the need to maintain separate records.</p> <p>Additionally, challenges were reported around the need to specially adapt the use of financial and accounting systems to support the complex rules for calculating exchange rate gains and losses on a foreign currency cash account.</p> <p><i>[experts; retail company; telecommunications company; e-commerce company; power company]</i></p>
	Preliminary proposed solution/general direction for change:	<p>It would be recommended to consider possible harmonisation of the tax laws and accounting laws in this respect to simplify the practical application of the regulations.</p>



6.8.14. Measurement of non-monetary assets

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Measurement of non-monetary assets		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 30.1</p> <p>“Article 30. 1. The following items denominated in foreign currencies shall be measured at least as at each balance sheet date: (1) assets (except for shares in subordinated entities measured under the equity method) and equity and liabilities: at the average exchange rate fixed for the currency by the National Bank of Poland prevailing on that date, subject to Paragraph (2); (2) cash held by entities which buy and sell foreign currencies, at the lower of their buying rate</p>		








		and the average exchange rate as at the measurement date fixed by the National Bank of Poland.”
	Issue for discussion:	<p>In practice, there are doubts what assets denominated in a foreign currency are to be measured as at the balance sheet date, specifically:</p> <ul style="list-style-type: none"> • shares in another entity acquired for a price set in a foreign currency; entities report concerns whether these need to be measured as at the balance sheet date at the average exchange rate of the National Bank of Poland (“NBP”) if the investment is measured at cost of acquisition less impairment losses; • investments in immovable property measured at fair value; valuation reports most commonly specify the fair value in a foreign currency and entities report concerns whether changes in value resulting from changes in exchange rates should be presented separately as exchange gains or losses. <p><i>[experts]</i></p>
	Preliminary proposed solution/general direction for change:	<p>Clarifications in the Act to the effect that this provision does not apply to non-monetary assets should be considered (the definition of non-monetary assets is provided in the statement of position on non-monetary assets).</p> <p>It would also be recommended to provide a comprehensive regulation (e.g. as a standard) for the specific principles of calculating the cost of acquisition and cost of manufacture.</p>

6.8.15. Recognition of exchange gains and losses for debt instruments



	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Recognition of exchange gains and losses for debt instruments		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 30.4</p> <p>“Article 30. 4. Foreign exchange gains and losses on long-term investments denominated in foreign currencies, arising as at their measurement date, are accounted for as set out in Articles 35.2 and 35.4. Foreign exchange gains and losses, subject to Sections 5 to 7, which relate to other assets, equity and liabilities denominated in foreign currencies, arising as at their measurement date and upon payment of receivables and liabilities denominated in foreign currencies, as well as upon the sale of foreign currencies, are recognised as financial income or expenses, respectively, and in justified cases, as part of the cost of manufacture of products or the cost of acquisition of goods, or the acquisition price or cost of manufacture of fixed assets, capital work in progress or intangible assets.”</p>		






	Issue for discussion:	For debt instruments denominated in foreign currencies, it is unclear how to recognise foreign exchange gains and losses on changes in amortised cost and on fair value. [experts]
	Preliminary proposed solution/general direction for change:	It would be recommended to provide clarity on this issue in the Financial Instrument Regulation.

6.8.16. Measurement of investments in insurance companies







	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Measurement of investments in insurance companies		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 30.5 “Article 30. 5. Life insurance companies and reinsurance companies engaged in life reinsurance business shall recognise foreign exchange gains and losses on investments to cover technical provisions, arising as at the measurement date, as investment income or expenses, and disclose them in the technical account of life insurance.”		
	Issue for discussion:	The provision states that all foreign exchange gains and losses on investments to cover technical provisions are presented in the technical account whereas fair value remeasurement, in some cases, is included in the revaluation reserve. [experts]		
	Preliminary proposed solution/general direction for change:	It would be recommended to provide clarification that foreign exchange gains and losses arising from remeasurement of financial instruments available for sale and disclosed in equity to fair value are also recognised under revaluation reserve.		

6.8.17. Measurements of deposits and other investments in insurance companies

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Measurements of deposits and other investments in insurance companies		

	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 30.6 “Article 30. 6. Property and personal insurance companies and reinsurance companies in property and personal reinsurance business recognise foreign exchange gains and losses on investments to cover technical provisions, arising as at the measurement date, in the part relating to investment of capitalised annuities and provisions for bonuses and rebates for the insured, as investment income or expenses, and disclose them in the technical account of property and personal insurance.”		
	Issue for discussion:	This provision requires clarification in view of the ambiguities in the interpretation of the provision in Section 22.2 and Section 25.2 of the Regulation on specific accounting principles of insurance and reinsurance companies (“Insurer Accounting Regulation”). [experts]		
	Preliminary proposed solution/general direction for change:	It would be recommended to clarify where to recognise changes in measurement, including foreign exchange gains and losses on investments to cover provisions on capitalised annuities. The recommended approach would be to provide clarifications in this regard in the Insurer Accounting Regulation.		

6.8.18. Definition, recognition and measurement of crypto assets and crypto liabilities








	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Definition, recognition and measurement of crypto assets and crypto liabilities		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Not applicable – no specific regulation		
	Issue for discussion:	No specific regulation for crypto assets or crypto liabilities is provided in the accounting legislation. The laws as they currently stand allow classification and measurement of such assets and liabilities only by analogy to other classes of assets and liabilities. [experts]		

	Preliminary proposed solution/general direction for change:	<p>It would be recommended to consider making the provisions of the Act more specific, for instance, by:</p> <ul style="list-style-type: none"> • Including a definition of crypto assets as intangible assets based on blockchain technology and including a corresponding definition of crypto liabilities. • Recognising crypto assets as investments in intangible assets, provided that the definition of an investment is satisfied (holding to increase value), or otherwise as inventories.
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6.8.19. Measurement of immovable property for insurance companies




	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Measurement of immovable property for insurance companies		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 28.9</p> <p>“Article 28.9. A life insurance company shall measure investments where the related risk is borne by policyholders at fair value determined as at the balance sheet date. Differences between the fair value and the value at the cost of acquisition or at the cost of manufacture of such investments are added to or subtracted from life insurance technical provisions where investment risk is borne by policyholders, as appropriate. The fair value of immovable property is determined by a property appraiser at least once every 5 years. The fair value of immovable property located abroad and foreign financial instruments is determined in accordance with principles applicable in their countries of location or origin, respectively. If it is not possible to determine the fair value of investments other than immovable property, the investments are measured at cost of acquisition or cost of manufacture, subject to impairment losses, except for financial instruments with fixed maturity and measured at adjusted acquisition price, subject to impairment losses.”</p>		
	Issue for discussion:	<p>The provision above seems to be obsolete; the current wording of the provision reads that the fair value of immovable property at insurance companies must be determined once every 5 years and the fair value of assets located abroad must be determined in accordance with the principles applicable in the country concerned.</p> <p>[experts]</p>		
	Preliminary proposed solution/general direction for change:	<p>It would be recommended to simplify the fair value measurement principles and include an obligation to determine fair value at least once a year for immovable property.</p> <p>It would also be recommended to have such detailed accounting principles (policies) for insurers specifically provided for in a regulation rather than the Act.</p>		

6.8.20. Indefinite useful life of intangible assets







	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions
	Title:	Indefinite useful life of intangible assets
	Priority:	<input type="checkbox"/> High <input checked="" type="checkbox"/> Medium <input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	Article 28.1(1) and Article 33.1 “Article 28. 1. Assets, equity and liabilities shall be measured at least as at the balance sheet date as follows: (1) fixed assets and intangible assets: at cost of acquisition or cost of manufacture or revalued amounts (after revaluation of fixed assets), less accumulated depreciation or amortisation and impairment losses;” “Article 33. 1. The provisions of Article 31.2 and Articles 32.1 to 32.4 and 32.6 to 32.8 shall apply accordingly to the measurement, amortisation and accumulated amortisation of intangible assets.”
	Issue for discussion:	There is a controversy in the market around permissibility not to amortise intangible assets (including goodwill). [experts]
	Preliminary proposed solution/general direction for change:	The above issue should be a subject of a wider debate. Assuming that the Act is to be easier to use than IFRS, it would be recommended to prohibit the application of an indefinite useful life (and possibly include a maximum period, e.g. 20 years, for other intangible assets). On the other hand, if the intent is to approximate the IFRS guidelines, companies should be allowed to use indefinite useful lives.

6.8.21. Cost of improvement of intangible assets

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions
	Title:	Cost of improvement of intangible assets
	Priority:	<input type="checkbox"/> High <input checked="" type="checkbox"/> Medium <input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)

	Legal reference (if applicable):	Article 33.1 “Article 33. 1. The provisions of Article 31.2 and Articles 32.1 to 32.4 and 32.6 to 32.8 shall apply accordingly to the measurement, amortisation and accumulated amortisation of intangible assets.”
	Issue for discussion:	The provisions of Article 33.1 allow to conclude that Article 31.1 does not apply to the measurement of intangible assets, whereby an increase of the original value of an intangible asset by improvement costs is excluded. As a result, it is unclear how to proceed with additional expenditure on a specific intangible asset such as, e.g., additional licence fees for increased access to software or for licence renewal, software upgrade or purchase of additional modules, etc. [experts]
	Preliminary proposed solution/general direction for change:	It would be recommended to allow capitalisation of costs of improvements to intangible assets by analogy (under certain conditions) to IAS 38.

6.8.22. Clarifying the provisions on ongoing development projects









	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Clarifying the provisions on ongoing development projects		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 33.2 “Article 33. 2. The cost of a completed development project carried out by an entity for its own purposes which is incurred before the commencement of production or implementation of a technology is recognised as intangible assets if: (1) the product or production technology is clearly defined and the related development cost is reliably measured; (2) the technical usefulness of the product or technology has been ascertained and properly documented, and on that basis an entity has decided to manufacture these products or implement the technology; (3) it is expected that the development cost will be covered with the revenue from sales of these products or implementation of the technology.”		
	Issue for discussion:	Article 33.2 specifically provides that only costs of completed development projects are recognised as intangible assets. There is no regulation on how to recognise the development costs incurred which meet the criteria for capitalisation in the period they are incurred, i.e. before the project is completed. [experts; media company]		

	Preliminary proposed solution/general direction for change:	It would be recommended to provide regulation of that issue in the Act, e.g. by inserting “including any ongoing development project” in the Article.
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6.8.23. Capitalisation of research and development




	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Capitalisation of research and development		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 33.2 “Article 33. 2. The cost of a completed development project carried out by an entity for its own purposes which is incurred before the commencement of production or implementation of a technology is recognised as intangible assets if: (1) the product or production technology is clearly defined and the related development cost is reliably measured; (2) the technical usefulness of the product or technology has been ascertained and properly documented, and on that basis an entity has decided to manufacture these products or implement the technology; (3) it is expected that the development cost will be covered with the revenue from sales of these products or implementation of the technology.”		
	Issue for discussion:	The Act does not specify when the capitalisation of development expenditures should start. In practice, the timing of development cost capitalisation under the Act is earlier than under IAS 38, i.e. all costs are capitalised from the moment the project enters the development phase and the conditions provided in Article 33.2 are only used to determine when such a project can be transferred from other assets (such costs are often accumulated in prepayments and deferred expenses) to intangible assets. <i>[experts; power company]</i>		
	Preliminary proposed solution/general direction for change:	The above issue could be expressly provided for at the level of a standard on intangible assets; then, the Act should only state whether capitalisation is possible or not.		


6.8.24. Possibility to re-evaluate fixed assets

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Possibility to re-evaluate fixed assets		
	Priority:	<input checked="" type="checkbox"/> High	<input type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 28.1(1) “Article 28. 1. Assets, equity and liabilities shall be measured at least as at the balance sheet date as follows: (1) fixed assets and intangible assets: at cost of acquisition or cost of manufacture or revalued amounts (after revaluation of fixed assets), less accumulated depreciation or amortisation and impairment losses;” And Article 31.3 reads as follows: “3. The initial cost and accumulated depreciation of fixed assets may be revalued in accordance with separate regulations. The net carrying amount of a revalued fixed asset should not exceed its fair value which is economically justified to be written down over the expected remaining useful life of the asset.”		
	Issue for discussion:	The issue of revaluation of fixed assets and intangible assets is permitted only under separate regulations (Article 31.3 of the Act); that provision was applied in 1995 and no such situation has occurred ever since. [experts]		
	Preliminary proposed solution/general direction for change:	There should be a wider debate on the permissibility of revaluation. This is because there are varying opinions in this regard: <ul style="list-style-type: none"> • To permit revaluation by analogy to IFRS; • To permit or introduce mandatory revaluation of certain assets, e.g. buildings and land only. 		
	Next steps (if any)	The above issue would require an in-depth analysis going forward.		






6.8.25. Definition of the manufacturing cost of a fixed asset

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Definition of the manufacturing cost of a fixed asset		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low

	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	Articles 28.1(1), 28.1(2) and 28.3 and 28.8 “Article 28. 1. Assets, equity and liabilities shall be measured at least as at the balance sheet date as follows: (1) fixed assets and intangible assets: at cost of acquisition or cost of manufacture or revalued amounts (after revaluation of fixed assets), less accumulated depreciation or amortisation and impairment losses;” (2) capital work in progress: at total costs directly attributable to their acquisition or manufacture, less accumulated impairment losses; 3. The cost of manufacture of a product is comprises costs directly attributable to the product as well as a justified portion of costs indirectly attributable to the manufacture of that product. Direct costs include the cost of direct materials used, sourcing and processing costs directly attributable to the manufacture and other costs incurred to bring the product to its state and location as at the measurement date. A justified portion of indirect costs, appropriate to the period of manufacture of the product, includes variable indirect production costs and that portion of fixed, indirect production costs which represents the level of such costs at the normal utilisation of the production capacity. The normal level of utilisation of the production capacity is defined as the average production output to be expected in typical circumstances for a specific number of periods or seasons, taking into account planned repairs. If it is not possible to determine the cost of manufacture of a product, it is measured at the net selling price of an identical or similar product, less the average gross profit on the sale of products, and, for work in progress, taking into account its completion stage as well. The cost of manufacture of a product does not include the following costs: (1) costs resulting from underutilisation of the production capacity and production losses; (2) overhead costs which are not related to bringing a product to its state and location as at the measurement date; (3) storage costs of finished products and semi-finished products unless such costs are indispensable in the production process; (4) selling costs of products. These costs are recognised in the financial result for the reporting period in which they were incurred. ... 8. The cost of acquisition or cost of manufacture of capital work in progress, fixed assets and intangible assets comprises all costs which an entity incurred for the period of construction, assembly, preparation and improvement, until the balance sheet date or the date placed in service, including also: (1) irrecoverable value added tax and excise duty; (2) the cost of servicing liabilities incurred to finance them and related foreign exchange gains and losses, less the related income.
	Issue for discussion:	The Act provides the definition of the cost of manufacture of products and relatively limited guidelines on the cost of manufacture of fixed assets. There are doubts among the companies and other stakeholders and whether the cost of manufacture of capital work in progress also includes costs of fees for the use of third-party assets incurred during construction (e.g. lease costs). These are not incremental costs, i.e. they will continue to be incurred by an entity once the fixed asset is placed in service but the use of such assets is

		necessary in order for its own fixed asset to be operable as intended. [experts; power company]
	Preliminary proposed solution/general direction for change:	It would be recommended to provide a separate description of the cost of manufacture of non-financial items and a separate description of the cost of acquisition of financial items in the Act. Adding a definition of the cost of manufacture of non-financial assets other than inventories should also be considered. The above issues would also require regulation in the Standards.


6.8.26. Provision for costs of asset retirement or reinstatement

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Provision for costs of asset retirement or reinstatement		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 31 and Article 3.32(e)</p> <p>“Article 31. 1. The initial cost represented by the cost of acquisition or cost of manufacture of a fixed asset is increased by the costs of improvement being restructuring, expansion, upgrade or reconstruction which result in the asset’s value in use after the improvement being higher than the value in use at the time placed in service; the value in use is measured in terms of a useful life, productivity, quality of products manufactured with the use of the improved fixed asset, operating expenses or other criteria.</p> <p>2. The initial cost of fixed assets, except land other than an open pit, is decreased by depreciation charges which reflect the reduction of their value due to constant use or passage of time.</p> <p>3. The initial cost and accumulated depreciation of fixed assets may be revalued in accordance with separate regulations. The net carrying amount of a revalued fixed asset should not exceed its fair value which is economically justified to be written down over the expected remaining useful life of the asset.</p> <p>4. Any difference in the net value of fixed assets on revaluation referred to in Section 3 is recognised in the revaluation reserve and may not be distributed. The revaluation reserve, subject to Article 32.5, is reduced by the difference on revaluation recognised for previously revalued fixed assets on the sale or scrapping of fixed assets. Such differences have an impact on the supplementary or other similar capital unless otherwise provided in separate regulations.”</p> <p>“(32) other operating expenses and income, it means expenses and income indirectly related to the entity’s operations, including but not limited to expenses and income on: ...</p> <p>(e) creating and reversing provisions, except for provisions connected with financial operations; ”</p>		








	Issue for discussion:	<p>It is not clearly specified whether a provision for the cost of asset retirement and restoring of the place where the asset was located to its original condition is to be disclosed on a one-off basis in the profit and loss account at the time of the obliging event (Article 3.32e states that provisions are to be recognised in other operating expenses) or these are to be recognised as assets and depreciated over the useful life of the asset (NAS 11 only provides that such provisions are not recognised in the carrying amount of fixed assets but does not mention whether these could be recognised as, e.g., prepayments). It seems that a conclusion to be drawn from the current provisions of the Act and NACs is that such provisions are recognised in profit and loss on a one-off basis. A one-off recognition of a provision in the profit and loss account at the time of an obliging event may not be valid as this distorts the profit or loss for the period whereas the assets for which the provision is made will continue to be used for many successive years.</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	<p>It would be recommended not to recognise such provisions on a one-off basis in the profit or loss and, to this end, allow them to be accounted for as accrued expenses under the Act. Additionally, a change to this effect would have to be reflected in the definition of other operating expenses.</p>

6.8.27. Capitalisation of borrowing cost








	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Capitalisation of borrowing cost		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 28.8</p> <p>“Article 28. 8. The cost of acquisition or cost of manufacture of capital work in progress, fixed assets and intangible assets comprises all costs which an entity incurred for the period of construction, assembly, preparation and improvement, until the balance sheet date or the date placed in service, including also:</p> <p>(1) irrecoverable value added tax and excise duty;</p> <p>(2) the cost of servicing liabilities incurred to finance them and related foreign exchange gains and losses, less the related income.</p>		
	Issue for discussion:	<p>Practical problems with the capitalisation of borrowing cost were observed. For instance, it is unclear if, in the context of construction of a fixed asset or investment property, the land should be considered to be an asset that does not require adaptation, which, consequently, means that the borrowing cost is not to be capitalised in respect of the land and only to be capitalised in respect of the construction expenditures.</p>		

		[experts]
	Preliminary proposed solution/general direction for change:	It would be recommended to clarify this issue in NASs.





6.8.28. Starting point of depreciation




	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Starting point of depreciation		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 32.1 “Article 32. 1. A fixed asset is depreciated by a regular, scheduled allocation of its initial cost over a specific depreciation period. Depreciation commences no earlier than after an asset has been placed in service, and depreciation ends no later than once accumulated depreciation equals the initial cost of the fixed asset or the asset is earmarked for scrapping, sale, or identified to be missing, taking into account the expected net selling price of the remains of the fixed asset at the time of scrapping if necessary.”		
	Issue for discussion:	Article 32.1 states that depreciation commences no earlier than after a fixed asset has been placed in service. This may be understood as the point in time that a document evidencing placing in use is prepared, whereby administrative procedures may delay the commencement of depreciation. In addition, this is an area of differences from the tax laws. [experts]		
	Preliminary proposed solution/general direction for change:	It would be recommended that the Act unequivocally state that the time placed in service is not necessarily the time of completing the administrative work to prepare internal documents by entities; it would be suggested, for instance, to insert a phrase to the effect “no later than it is available for use.”		

6.8.29. Acceptable changes of the depreciation and amortisation method







	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Acceptable changes of the depreciation and amortisation method		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 32.3 “Article 32. 3. As at the date placed in service of a fixed asset, it is necessary to determine its depreciation period or rate and depreciation method. An entity should verify the correctness of the applied depreciation periods and rates for its fixed assets on a regular basis, leading to an appropriate adjustment to depreciation charges being made in subsequent financial years.”		
	Issue for discussion:	The provisions in Article 32.3 suggest that the depreciation method adopted as at the date placed in service of a fixed asset cannot be changed (which is also confirmed by NAS 11 Paragraph 2.2d), which may be unreasonable as there may be indications of a change to how benefits are derived from the asset. [experts]		
	Preliminary proposed solution/general direction for change:	It would be recommended to permit a review and change, if necessary, of the depreciation method.		

6.8.30. Removing detailed regulations of fixed asset impairment from the Act

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Removing detailed regulations of fixed asset impairment from the Act		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		

	Legal reference (if applicable):	Article 32.4 “Article 32. 4. In the event of change in the production technology, earmarking an asset for scrapping, retirement from service or other reasons which result in impairment of such an asset, an appropriate impairment charge is recognised within other operating expenses.”
	Issue for discussion:	The issues of fixed asset impairment are provided for in both the Act and in NAS 4 and, in market practice, they may be a source of concerns as to the interpretation of the detailed provisions in the Act in the context of the detailed provisions in NAS 4. For instance, the Act only refers to impairment of individual fixed assets whereas the NAS specifically provides for whole economic benefit-generating units. [experts]
	Preliminary proposed solution/general direction for change:	One of the possible directions for change could be the direction whereby the Act could include a general statement to the effect that if there are any indications of impairment, a fixed asset (or the economic benefit-generating unit (“EBGU”) of which a fixed asset is part) must be tested for impairment and an impairment charge must be recognised if that test shows the carrying amount to be lower than the recoverable amount. Further details of the methodology and practical issues could be included in NAS 4.



6.8.31. Simplified approach to low-value fixed assets

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Simplified approach to low-value fixed assets		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 32.6 “Article 32.6. In the case of fixed assets with a low unit initial cost, depreciation may be recognised in a simplified way, by making summary depreciation charges for aggregated groups of assets similar in type and application, or by recognising the cost of such assets as a one-off expense.”		
	Issue for discussion:	The Act permits recognition of fixed assets with a low unit initial costs as one-off expenses. If multiple such fixed assets are bought in a single purchase, the recognition of a one-off expense may significantly distort the profit or loss. [experts]		








	Preliminary proposed solution/general direction for change:	It would be recommended to remove such detailed provisions from the Act as these issues are partly resolved in NAS 11 and will be addressed in the emerging standard on the use of simplifications. Alternatively, the provision should be made more specific by clarifying that the recognition of a one-off expense is acceptable only if this does not distort the profit or loss or the assets.
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6.8.32. Lease classification criteria








	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Lease classification criteria		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 3.4</p> <p>“Article 3. 4. If an entity has placed in service third-party fixed assets or third-party intangible assets under an agreement whereby one party (hereinafter referred to as the “lessor”) grants the other party (hereinafter referred to as the “lessee”) the use of fixed assets or intangible assets, or also the enjoyment of the related proceeds, for a definite period of time in return for a payment, these fixed assets and intangible assets are recognised as non-current assets of the lessee, provided that the agreement meets one or more of the following criteria:</p> <p>(1) it transfers the title of ownership to the asset to the lessee at the end of the term of the agreement;</p> <p>(2) it provides the lessee with the option to purchase the asset at the end of the term of the agreement at a lower price than the fair market price as at the purchase date;</p> <p>(3) the term of the agreement covers the major part of the expected useful economic life of the asset or property right, but may not be less than three-quarters of that period. The title of ownership may be transferred to the lessee at the end of the term of the agreement;</p> <p>(4) the total lease payments, net of the related discount, determined as at the date of the agreement and due over its term, exceed 90% of the fair market price of the leased asset as at that date. The total lease payments include the residual value of the leased asset which the lessee agrees to pay in return for the transfer of the title of ownership to the asset to the lessee. The total lease payments do not include any payments to the lessor for additional services, taxes or insurance premiums related to the asset if these are borne by the lessee irrespective of the lease payments;</p> <p>(5) it includes the lessor’s commitment to enter into a subsequent lease agreement with the lessee for granting the use of the same asset in return for a payment, or to renew the existing agreement on more favourable terms than those specified in the existing agreement;</p> <p>(6) provides for an option to terminate the agreement, provided that any related costs and losses incurred by the lessor are paid by the lessee;</p> <p>(7) the leased asset is tailored to the individual needs of the lessee. The leased</p>		

		asset may be used by the lessee only, without making significant modifications to the asset.”
	Issue for discussion:	The Act details the criteria of lease classification while these are provided and described in NAS 5. At the same time, NAS 5 contains provisions that may give rise to doubts of interpretation about the classification of assets by the lessor: to be presented as investments or to be presented as receivables. [experts]
	Preliminary proposed solution/general direction for change:	It would be reasonable to remove the detailed lease classification provisions from the Act as lease classification is extensively covered in NAS 5; as such, it seems that, in this respect, the Act should not provide guidelines that are that detailed.






6.8.33. Measurement of mandatory reserves



	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Measurement of mandatory reserves		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 34.4(1) “Article 34. 4. If tangible current assets which are identical or regarded as identical due to the similarity in type and application have different costs of acquisition or purchase prices, or costs of manufacture, the closing balance of tangible current assets is measured depending on the method adopted by an entity for setting the cost of their outflow, including consumption, sale, i.e.: (1) at the average cost, that is at the weighted average price (cost) of a specific asset;”		
	Issue for discussion:	The Act does not provide regulation for how an outflow of inventories is to be calculated if an entity is obliged to keep specific levels of mandatory reserves or where using up all the reserve (e.g. the reserve of a petroleum product in an underground tank) is economically or technically unviable. [experts]		
	Preliminary proposed solution/general direction for change:	It would be recommended to provide regulation for the above issue.		

6.8.34. Measurement of own-produced films, software and similar items






	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions
	Title:	Measurement of own-produced films, software and similar items
	Priority:	<input type="checkbox"/> High <input checked="" type="checkbox"/> Medium <input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	Article 34.3 “Article 34.3. The entity’s own-produced films, computer software, standard designs and similar products held for sale are measured over the period of their economic utility, but not longer than 5 years, at the excess of their production costs over income, based on the net selling prices, earned on the sale of those products during that period. Any production costs not written off after this period are added to other operating expenses.”
	Issue for discussion:	In practice, there are doubts about the application of the above provision as it is unclear how income and expenses from such transactions are to be recognised and presented. There are also doubts if the above provisions apply to current assets. [experts]
	Preliminary proposed solution/general direction for change:	It would be recommended to reconsider the validity and to change this provision, as appropriate, and to address this issue at the level of standards.

6.8.35. Measurement of heterogeneous inventory

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions
	Title:	Measurement of heterogeneous inventory
	Priority:	<input type="checkbox"/> High <input type="checkbox"/> Medium <input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	Article 34.4(4) “Article 34. 4. If tangible current assets which are identical or regarded as

		<p>identical due to the similarity in type and application have different costs of acquisition or purchase prices, or costs of manufacture, the closing balance of tangible current assets is measured depending on the method adopted by an entity for setting the cost of their outflow, including consumption, sale, i.e.: ...</p> <p>(4) through specific identification of the actual prices (costs) of such assets which are related to strictly specified projects, irrespective of the date of their purchase or manufacture.”</p>
	Issue for discussion:	<p>Pursuant to the Act, an outflow of inventories which are identical or regarded as identical is recognised through specific identification of the actual prices (costs) of such assets which are related to strictly specified projects, irrespective of the date of their purchase or manufacture. However, it is unclear how to possibly tell that certain inventories are related to strictly specified projects if such inventories are identical/regarded as identical to other inventories. International Accounting Standard 2: Inventories (“IAS 2”) in Paragraph 24 states that “This is the appropriate treatment for items that are segregated for a specific project, regardless of whether they have been bought or produced” but simultaneously reads that “specific identification of costs is inappropriate when there are large numbers of items of inventory that are ordinarily interchangeable.”</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	<p>It would be suggested to provide clarity that the afore-mentioned provision in Paragraph (4) applies only if goods are not identical/regarded as identical (similarly as in IAS 2).</p>

6.8.36. Measurement of inventories at fixed prices

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Measurement of inventories at fixed prices		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input checked="" type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 34.2</p> <p>“Article 34. 2. Tangible current assets may be recognised in account books as at their acquisition or manufacture date at standard prices, taking into account the differences between these prices and their actual cost of acquisition or purchase price, or cost of manufacture. As at the balance sheet date, tangible current assets at standard prices are adjusted to the value specified in Section 1 or in Article 28.1(6). This does not apply to finished products, work in progress and semi-finished products if they are recorded at the budgeted cost, including standard cost, and the differences between the budgeted and the actual cost of manufacture are insignificant. The cost of acquisition or purchase price, or the budgeted cost of manufacture applied for measurement as at the balance sheet date must not exceed the net selling prices of these assets.”</p>		






	Issue for discussion:	<p>The provisions of the Act permit the measurement of inventories to be based on standard prices, taking into account the differences between these prices and the actual cost of acquisition or purchase price, or cost of manufacture, but simultaneously require that the amount of inventories be brought to the cost of acquisition/cost of manufacture (not exceeding the selling prices) as at the balance sheet date. This does not apply to finished products, work in progress and semi-finished products if they are recorded at the budgeted cost, including standard cost, and the differences between the budgeted and the actual cost of manufacture are insignificant.</p> <p>In practice, entities which use standard prices to measure inventories settle deviations between standard prices and actual prices and measure inventories as at the balance sheet date at standard prices adjusted for the settlement of deviations. However, the provisions of this Article does not make it evident that this solution is acceptable. Ensuring that goods and materials are measured at the actual cost of acquisition/cost of manufacture as at each balance sheet date may represent a significant burden for entities.</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	<p>It would be suggested to consider including a simplifying provision substantially as follows: “This requirement may be omitted if an entity uses the weighted average method and the accepted standard prices are not much different than the actual prices.”</p>

6.8.37. Absence of regulation for other tax charges

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Absence of regulation for other tax charges		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Not applicable		
	Issue for discussion:	<p>There are no regulations to allow tax and other expenses to be treated for accounting purposes as income tax or cost tax (e.g. trade tax, sugar tax, tax on assets, road toll, excise tax, Developer Guarantee Fund, etc.).</p> <p>[experts]</p>		
	Preliminary proposed solution/general direction for change:	<p>It would be recommended to include a general regulation in the act to set out that tax and duty expenses and similar are recognised and presented as a reduction of income, expense or income tax, depending on the nature of such expenses. Then, detailed solutions could be included, for instance, in NAS 2: Income Tax or in separate NAS statements of position, as appropriate; in such a case, a definition of tax and duty expenses should be introduced and the issue</p>		

	of recognising such expenses on a one-off basis in the profit and loss account or, alternatively, accruing them over time should be addressed.
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6.8.38. Allowance for accounts not yet due where the portion due is past due

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Allowance for accounts not yet due where the portion due is past due		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 35b</p> <p>“Article 35b. 1. Accounts receivable are remeasured based on the degree of probability of their payment by recognising allowances for:</p> <p>(1) amounts due from debtors under liquidation or bankruptcy or subject to pending restructuring proceedings or a petition for approval of an arrangement in the proceedings for approval of an arrangement, up to the amount due not guaranteed or otherwise secured, as reported to a receiver or judge-commissioner during bankruptcy proceedings or included in the insolvency table during restructuring proceedings;</p> <p>(2) amounts due from debtors whose bankruptcy petition has been dismissed if the debtor’s assets are not sufficient, or just enough, to cover the cost of bankruptcy proceedings, in full;</p> <p>(3) receivables disputed by debtors as well as overdue receivables, where a review of the debtor’s asset and financial position reveals that payment of the contractual amount due is not probable, up to the amount not guaranteed or otherwise secured;</p> <p>(4) receivables equivalent to the amounts that increase receivables in respect of which impairment allowances have previously been made, at these amounts, until they are received or written off;</p> <p>(5) overdue receivables or non-overdue receivables which are highly unlikely to be collected, in cases justified by the type of business or customer base, at reliably estimated amounts of allowances, including general allowances, for uncollectible receivables.</p> <p>2. The impairment allowances for receivables are recognised as other operating expenses or financial expenses, as appropriate, depending on the type of receivables concerned.</p> <p>3. Amounts receivable that are cancelled, prescribed or uncollectible reduce the previously recognised impairment allowances.</p> <p>4. The receivables referred to in Section 3 for which no impairment allowances were previously recognised or the recognised impairment allowances did not cover their full amount are recognised as other operating expenses or financial expenses, as appropriate.”</p>		






	Issue for discussion:	The Act does not provide any regulation for including receivables not yet due in allowances where the portion due is past due (e.g. for loans, financial leases, other payments in instalments) and, as a consequence, contributes to an increased credit risk of remaining exposure to a specific debtor.
		[experts]
	Preliminary proposed solution/general direction for change:	It would be recommended to add that allowance is also recognised for receivables past due and not yet due if such receivables are from a debtor with receivables past due or increased credit risk (this may apply to, e.g., lease receivables payable in instalments).

6.8.39. Allowances for doubtful accounts in the context of significantly increased risk of uncollectible accounts

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Allowances for doubtful accounts in the context of significantly increased risk of uncollectible accounts		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 35b “Article 35b. 1. Accounts receivable are remeasured based on the degree of probability of their payment by recognising allowances for:		
<p>(1) amounts due from debtors under liquidation or bankruptcy or subject to pending restructuring proceedings or a petition for approval of an arrangement in the proceedings for approval of an arrangement, up to the amount due not guaranteed or otherwise secured, as reported to a receiver or judge-commissioner during bankruptcy proceedings or included in the insolvency table during restructuring proceedings;</p> <p>(2) amounts due from debtors whose bankruptcy petition has been dismissed if the debtor’s assets are not sufficient, or just enough, to cover the cost of bankruptcy proceedings, in full;</p> <p>(3) receivables disputed by debtors as well as overdue receivables, where a review of the debtor’s asset and financial position reveals that payment of the contractual amount due is nor probable, up to the amount not guaranteed or otherwise secured;</p> <p>(4) receivables equivalent to the amounts that increase receivables in respect of which impairment allowances have previously been made, at these amounts, until they are received or written off;</p> <p>(5) overdue receivables or non-overdue receivables which are highly unlikely to be collected, in cases justified by the type of business or customer base, at reliably estimated amounts of allowances, including general allowances, for uncollectible receivables.</p> <p>2. The impairment allowances for receivables are recognised as other operating expenses or financial expenses, as appropriate, depending on the type of</p>				

		<p>receivables concerned.</p> <p>3. Amounts receivable that are cancelled, prescribed or uncollectible reduce the previously recognised impairment allowances.</p> <p>4. The receivables referred to in Section 3 for which no impairment allowances were previously recognised or the recognised impairment allowances did not cover their full amount are recognised as other operating expenses or financial expenses, as appropriate.”</p>
	Issue for discussion:	<p>The afore-mentioned provisions of the Act do not include a requirement to recognise an allowance for an increased risk of non-recoverability (except as set out in Paragraph (5)), which in practice may lead to the amount of receivables being overstated.</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	<p>Extending the above-referenced Article should be considered in order to include allowances for receivables recognised in the event of a significantly increased risk of non-recoverability in a similar way as defined in International Financial Reporting Standard 9: Financial Instruments (“IFRS 9”).</p>



6.8.40. Revision of regulations governing the recognition and measurement of financial assets and liabilities

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Revision of regulations governing the recognition and measurement of financial assets and liabilities		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Articles 28.1(7) and Article 28.11</p> <p>“Article 28. 1. Assets, equity and liabilities shall be measured at least as at the balance sheet date as follows:</p> <p>(7) receivables and loans granted: at amounts due, taking into account the prudence principle, subject to Paragraph (7a);</p> <p>(7a) receivables and loans granted classified as financial assets may be measured at adjusted cost of acquisition or, where an entity intends them for sale within 3 months, at fair market value or at otherwise determined fair value;”</p> <p>(8) liabilities: at amounts due, subject to Paragraph (8a);</p> <p>(8a) financial liabilities may be measured at adjusted cost of acquisition or, where an entity intends them for sale within 3 months, at fair market value or at otherwise determined fair value;”</p> <p>“11. The following acquired or created items shall be recognised in account books as at their acquisition or creation date: (1) inventories of tangible current assets: at cost of acquisition or cost of manufacture; (2) receivables and liabilities, including loans: at their par value.”</p>		








	Issue for discussion:	<p>Since the time of the current regulations on the recognition, measurement and presentation of financial instruments the financial market has considerably evolved and new types of financial instruments have emerged and certain transactions have become more commonly used. Other legislation has evolved too, both international and national one, e.g. the Regulation on specific accounting principles for investment funds which is largely based on IFRS 13 in terms of fair value assessment. For instance, Article 28.1(7a) and (8a) of the Act uses the expression “may be measured at adjusted cost of acquisition” in respect of the measurement of financial assets and liabilities whereas the Financial Instrument Regulation makes such measurement a requirement. The provisions on the initial recognition of financial receivables and liabilities are also incoherent (Article 28.11 of the Act: “at their par value”; Article 35.1 of the Act (assets): “at cost of acquisition”; Section 13.1 of the Financial Instrument Regulation: assets “at cost of acquisition, i.e. the fair value of expenses”; liabilities “at fair value of the amount received”).</p> <p>Concerns also remain over whether trade receivables falling due after 12 months require to be measured at adjusted cost of acquisition or at amount due.</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	<p>It would be reasonable to undertake a comprehensive review and revision of regulations in the area of financial instrument accounting.</p> <p>Transferring a brief guidance on the classification and measurement methods of financial assets and liabilities from the Financial Instrument Regulation to the Act may also be considered.</p> <p>As regards more detailed issues, clarity should be provided whether the expression “may be measured at adjusted cost of acquisition” is used to imply free discretion of an entity or to narrowly refer only to situations where an entity is not obliged to apply the Financial Instrument Regulation.</p>

6.8.41. Extension of impairment charges for investments



	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Extension of impairment charges for investments		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 35.2</p> <p>“Article 35. 2. An impairment charge reflecting impairment of investments classified as non-current assets are made no later than as at the end of the reporting period.”</p>		

	Issue for discussion:	The Article states that an impairment charge reflecting impairment of investments classified as non-current assets is made no later than as at the end of the reporting period, which means that short-term investments which may also become potentially impaired would be excluded from this requirement. [experts]
	Preliminary proposed solution/general direction for change:	It would be suggested to extend the provision beyond just non-current assets.

6.8.42. Cost of transactions and their recognition: revision of the provisions of the Act and the Financial Instruments Regulation








	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Cost of transactions and their recognition: revision of the provisions of the Act and the Financial Instruments Regulation		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 35.1 “Article 35. 1. Acquired or created financial assets as well as other investments are recognised in account books as at their purchase or creation date, at cost of acquisition or purchase price if the transaction costs are not material.”		
	Issue for discussion:	The above-referenced provisions require a review and revision, as appropriate, in the context of the provisions of the Financial Instrument Regulation on initial measurement. In addition, the reference to “investments” is unclear where the provision concerns financial assets. [experts]		
	Preliminary proposed solution/general direction for change:	It would be reasonable to undertake a comprehensive review and revision of regulations in the area of financial instrument accounting.		

6.8.43. Acceptable measurement principles: revision of the provisions of the Act and the Financial Instrument Regulation

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions
	Title:	Acceptable measurement principles: revision of the provisions of the Act and the Financial Instrument Regulation

	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Articles 35.3 and 35.4 “Article 35. 3. The effects of increases or decreases in the value of short-term investments measured at fair market price (value) are recognised as financial income or expenses, as appropriate. If an entity applies short-term investment measurement principles other than those specified in Article 28.1(5), the results of a decrease in their value are fully recognised as financial expenses, whereas the results of an increase in their value are recognised as financial income up to the amount of differences previously charged to financial expenses. 4. The effects of the revaluation of investments classified as non-current assets other than those mentioned in 28.1(1a) bringing them up to market prices are credited to the revaluation reserve. Any decrease in the value of an investment previously revalued to the amount by which revaluation reserve was increased due to the same, provided that revaluation gains or losses were not accounted for until the measurement date, reduces that reserve. Otherwise, any effects of a decrease in the value of an investment are recognised in financial expenses. An increase in the value of an investment directly associated with a previous decrease in its value, disclosed in financial expenses, is recognised up to the amount of such expenses as financial income.”		
	Issue for discussion:	Article 35.3 of the Act makes the recognition of the effect of measurement dependent on the classification of an asset as a short term item. On the other hand, the Financial Instrument Regulation makes the recognition of the effect of measurement dependent on the assigned category of an instrument, whether short-term or long-term. The Financial Instrument Regulation provides for an option to classify assets intended for trading, loans and receivables held until maturity or available for sale. For the latter ones, there is also discretion to recognise changes in fair value under the revaluation reserve. The above classification does not have to be related to the long-term or short-term nature of such assets. Similarly, Article 35.4 of the Act states that the effects of the revaluation of investments classified as non-current assets other than those mentioned in 28.1(1a) bringing them up to market prices are credited to the revaluation reserve, whereas the Financial Instrument Regulation makes the recognition of the effect of measurement dependent on the assigned category of an instrument, whether short-term or long-term. [experts]		
	Preliminary proposed solution/general direction for change:	It would be reasonable to undertake a comprehensive review and revision of regulations in the area of financial instrument accounting.		








6.8.44. Measurement of hedged assets or equity and liabilities: revision of the provisions of the Act and the Financial Instrument Regulation

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions
	Title:	Measurement of hedged assets or equity and liabilities: revision of the provisions of the Act and the Financial Instrument Regulation
	Priority:	<input type="checkbox"/> High <input checked="" type="checkbox"/> Medium <input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	Article 35a.4 “Article 35a. 4. If the conditions referred to in Section 3 are met, the measurement of hedged assets or equity and liabilities shall include the value of the related hedging instruments and changes in their value.”
	Issue for discussion:	<p>In practice, there is some confusion on how to apply the afore-mentioned provision. The above-referenced provision sets forth that “if the conditions referred to in Section 3 are met, the measurement of hedged assets or equity and liabilities shall include the value of the related hedging instruments and changes in their value.” The Regulations define a much wider list of conditions to meet to be able to use hedge accounting. In practice, compliance with the conditions under the Financial Instrument Regulation is required although the approach may vary company to company.</p> <p>Notably, the Financial Instrument Regulation treats derivative instruments as a separate item under assets and/or liabilities that needs to be measured and accounted for as appropriate in the books. This may give rise to doubts of interpretation in view of the requirements under Article 35a.4 of the Act.</p> <p>The Financial Instrument Regulation requires (in Sections 32.1 and 33.3) that the outcome of the measurement of hedging instruments for future transactions or probable future liabilities be recognised as financial income/expenses. As a result of this requirement, the objective and rationale for the use of derivative hedging instruments by companies are not reflected in books.</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	It would be reasonable to undertake a comprehensive review and revision of regulations in the area of financial instrument accounting.








6.8.45. Application of hedge accounting

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions
	Title:	Application of hedge accounting
	Priority:	<input type="checkbox"/> High <input checked="" type="checkbox"/> Medium <input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	<p>Article 35a.3</p> <p>“Article 35a.3. Contracts on financial instruments are regarded as hedging instruments to mitigate the risk related to the entity’s assets or equity and liabilities if at least:</p> <p>(1) a contract objective is set prior to the contract date and it is specified which assets or equity and liabilities are to be hedged under the contract;</p> <p>(2) the hedging financial instrument under the contract and the assets or equity and liabilities hedged by such instrument have similar characteristics, in particular the par value, maturity date and sensitivity to interest or foreign exchange rate fluctuations;</p> <p>(3) the degree of certainty concerning the expected cash flows from the contract is significant.”</p>
	Issue for discussion:	<p>The Act defines hedging financial instruments intended to mitigate risk; the inventory of financial instruments mentioned in the Act only includes currency derivatives and interest-rate instruments, which significantly limits the range of hedging derivative instruments available in the market.</p> <p>Instead, the Financial Instrument Regulation allows all possible and available types of derivatives to be used as long as these instruments can be reliably measured and are not issued options, i.e. the available inventory of hedging instruments is not restricted to the two transaction types named above (Section 29 of the Financial Instrument Regulation).</p> <p>The Act also provides that the risk being hedged against is associated with the assets, equity and liabilities of an entity. Conversely, under the Financial Instrument Regulation, it is permitted to hedge intended transactions and probable future liabilities in addition to assets, equity and liabilities.</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	<p>It would be reasonable to undertake a comprehensive review and revision of regulations in the area of financial instrument accounting.</p> <p>In addition, it would be recommended to establish a provision to the effect that hedge accounting may be applied, in particular where the proper documentation has been timely prepared; however, what the proper documentation is and when such documentation must be prepared should be explicitly provided for in separate regulations which should also detail which and what instrument to use for a specific hedge.</p>






6.8.46. Measurement of financial instruments upon reclassification



	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions
	Title:	Measurement of financial instruments upon reclassification
	Priority:	<input type="checkbox"/> High <input type="checkbox"/> Medium <input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	<p>Articles 35.6 and 35.7</p> <p>“Article 35. 6. Investments classified as non-current assets are remeasured as at the date of reclassification to short-term investments:</p> <p>(1) at the carrying amount or cost of acquisition, whichever is lower, if short-term investments are measured at the lower of the fair market value and the acquisition price;</p> <p>(2) at the carrying amount, if short-term investments are measured at fair market value. If a reclassified long-term investment was previously revalued and the revaluation effect is recognised in the revaluation reserve, then any surplus on the revaluation of the long-term investment remaining as at the reclassification date is recognised as financial expenses or financial income.</p> <p>7. Investments reclassified from short-term to long-term are measured as at their reclassification date in accordance with the principles in Section 6, however, if a short-term investment was measured at its fair market value, then its value remains unchanged, despite the reclassification.”</p>
	Issue for discussion:	<p>The Act requires an investment be re-measured and the measurement principles be changed if applicable at the time of reclassification to/from long-term assets. For some financial instruments, there is no maturity date.</p> <p>Some entities interpret the provisions of the Act as permitting measurement to be transferred from revaluation reserve to the profit and loss account at the time that the entity’s management changes the intentions for the nature of an investment, e.g. for non-listed shares in other entities.</p> <p>The afore-mentioned provisions are an apparent inconsistency with the guidelines in the Financial Instrument Regulation and may lead to diverging interpretations and errors.</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	Transferring the guidelines from the Financial Instrument Regulation to the Act should be considered. It seems reasonable to set out when assets may be reclassified to short-term assets/assets intended for trading and the related profit or loss may be disclosed or to consider if reclassification should affect measurement.

6.8.47. Recognition of liabilities for dividends declared








	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Recognition of liabilities for dividends declared		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	No regulation available in this regard		
	Issue for discussion:	Guidance on the moment of recognition of a liability for shareholder dividends declared, including interim dividends, is missing from the Act. [experts]		
	Preliminary proposed solution/general direction for change:	It would be recommended to provide regulation for the above issue.		

6.8.48. Presentation of contributions received and not registered as at the balance sheet date









	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Presentation of contributions received and not registered as at the balance sheet date		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 36.2 “Article 36. 2. The share capital of companies, as set forth in the Act of 15 September 2000 – Polish Commercial Companies Code (Dz. U. [Journal of Laws] 2022, items 1467 and 1488), subject to Section 2aa, as well as of mutual insurance companies, mutual reinsurance companies and the share fund of a co-operative is recognised at the amount stated in the articles of association or deed and registered in the court register. Capital contributions declared but not paid are recognised as called-up share capital.”		

	Issue for discussion:	The Act does not provide regulation on how to present contributions received but not registered as at the balance sheet date in equity. In practice, a separate line item is inserted under equity: "Capital paid but not registered". [experts]
	Preliminary proposed solution/general direction for change:	It would be recommended to provide regulation for that issue, including inserting a relevant line item in XML structures.





6.8.49. Simplification of regulations on conversion to equity




	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Simplification of regulations on conversion to equity		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 36.2c "Article 36. 2c Equity arising on the conversion of debt securities, liabilities and loans into shares are recognised at the par value of these debt securities, liabilities and loans, taking into account unamortised discount or premium, outstanding accrued interest as at the conversion date which will not be paid out, unrealised foreign exchange gains and losses and capitalised issue costs. If debt securities, liabilities and loans are denominated in foreign currencies, then they are governed by the provisions in Article 30."		
	Issue for discussion:	The provisions in Article 36.2c are difficult to interpret but, as one can understand, boil down to moving the properly determined carrying amount to equity without the conversion transaction itself affecting the profit and loss account. [experts]		
	Preliminary proposed solution/general direction for change:	It would be recommended to simplify the provisions in Article 36.2c of the Act by replacing the entire description of what amounts are to be disclosed upon conversion of debt instruments to equity with a statement to the effect that equity is disclosed at the amount corresponding to the carrying amount of debt securities determined in accordance with the Financial Instrument Regulation or, for entities not applying the Financial Instrument Regulation, at the carrying amount determined as required under the Act as at the moment directly preceding the conversion date.		

6.8.50. Insufficient regulation of branch accounting for branches of foreign companies, foreign credit institutions and foreign insurance companies






	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions
	Title:	Insufficient regulation of branch accounting for branches of foreign companies, foreign credit institutions and foreign insurance companies
	Priority:	<input checked="" type="checkbox"/> High <input type="checkbox"/> Medium <input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	Article 36.1 “Article 36. 1. Equity is disclosed in account books by types and in accordance with the principles provided under the relevant legal regulations and the provisions of the entity’s articles of association or deed.”
	Issue for discussion:	Regulations governing the presentation of equity for foreign company branches are missing (including regulations on how to disclose contributions made by the head office or how to disclose earned profits repatriated to the head office or other settlements with the head office or how to disclose branch losses, etc.). It may be merely presumed from the regulations in Article 51 of the Act that certain amounts are to be disclosed as “allocated capitals”. [experts]
	Preliminary proposed solution/general direction for change:	It would be recommended to provide regulation of branch accounting for branches of foreign companies, foreign credit institutions and foreign insurance companies.
	Next steps (if any)	Not applicable



6.8.51. Accounting for additional contributions

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions
	Title:	Accounting for additional contributions
	Priority:	<input type="checkbox"/> High <input type="checkbox"/> Medium <input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)








	Legal reference (if applicable):	Article 36.2e “Article 36. 2e If the shareholders of a limited liability company pass a resolution setting the date and the amount of additional share capital contributions, the amount of such additional contributions is recognised as a separate item under equity and liabilities (reserves from additional shareholder contributions) in the balance sheet and disclosed as a component of equity until it is utilised in a way that justifies its being written off; declared yet unpaid additional contributions are disclosed under an additional item of equity “Additional contributions due in respect of reserves (a negative amount)”.
	Issue for discussion:	The Act provides that declared yet unpaid additional contributions are to be disclosed under an additional item of equity “Additional contributions due in respect of reserves” whereas such a transaction rather results in a company’s claim (assets). <i>[experts]</i>
	Preliminary proposed solution/general direction for change:	If declaring additional contributions results in a company’s claim for payment of additional contributions by its shareholders, then it would be reasonable to disclose such amounts under assets, which would also be consistent with how declared yet unpaid capital contributions are to be recognised under Article 36.3 of the Act.

6.8.52. Regulation of additional capital contributions








	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Regulation of additional capital contributions		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 36.2e “Article 36. 2e If the shareholders of a limited liability company pass a resolution setting the date and the amount of additional share capital contributions, the amount of such additional contributions is recognised as a separate item under equity and liabilities (reserves from additional shareholder contributions) in the balance sheet and disclosed as a component of equity until it is utilised in a way that justifies its being written off; declared yet unpaid additional contributions are disclosed under an additional item of equity “Additional contributions due in respect of reserves (a negative amount)”.		

	Issue for discussion:	The above provision of the Act suggests that additional contributions are always recognised as an increase in equity, which may be unfounded where the terms of an additional contribution provide for its return within a specific time without related shareholder resolutions. [experts]
	Preliminary proposed solution/general direction for change:	It would be recommended to clarify the relevant provisions of the Act in correspondence with the provisions of the Polish Commercial Companies Code (“CCC”).






6.8.53. Issue of discounted securities



	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Issue of discounted securities		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 39.4 <i>“4. If, under a contract, the amount of received financial assets is lower than the amount of the related payment liability, including amounts received in respect of securities issued by an entity, then the difference represents prepaid expense and is charged to financial expenses in equal portions over the related liability period.”</i>		
	Issue for discussion:	The provision of Article 39.4 is not compatible with the provisions of the Financial Instrument Regulation. The provision implies that where an entity issues securities at a discount, then the entity receives an amount of money which is lower than the par value and the resulting difference is included in prepayments. However, such a solution does not seem valid even for entities which are under no obligation to comply with the Financial Instrument Regulation. [experts]		
	Preliminary proposed solution/general direction for change:	It would be recommended to delete this Article as such issues should rather be regulated in the definitions (in this case, under the “adjusted cost of acquisition”).		

6.8.54. Recognition of accrued expenses and deferred income and provisions






	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Recognition of accrued expenses and deferred income and provisions		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 39.2a <i>"2a. The liabilities referred to in Section 2(2) are disclosed in the balance sheet as provisions for liabilities."</i>		
	Issue for discussion:	The provisions of the Act and NAS 6 as to accruals may give rise to doubts of interpretation as certain items of accrued expenses are disclosed as provisions in the balance sheet. [experts]		
	Preliminary proposed solution/general direction for change:	Regulatory-wise, this topic should be approached in such a way as to clearly distinguish between "provisions" and "accruals" and, consequently, only items defined as provisions in the Act and NAS 6 should be required to be disclosed as provisions.		



6.8.55. Recognition of employee provisions

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Recognition of employee provisions		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Articles 39.2(2) and 39.2a "2. Entities shall recognise accrued expenses at amounts of probable liabilities falling due in the current reporting period, in particular with respect to: (1) services provided to an entity by its counterparties, where the amount payable can be reliably estimated; (2) an obligation to provide, in connection with current activities, future employee		







		benefits, including pension benefits, and future benefits to unknown persons, where the amount of such obligation can be reliably estimated although its date is not yet known, including warranty repairs and statutory warranty for defects in respect of long-lived products sold.” “2a. The liabilities referred to in Section 2(2) are disclosed in the balance sheet as provisions for liabilities.”
	Issue for discussion:	The requirement to present accrued expenses for certain employee benefits (holiday entitlements, annual bonuses) as provisions does not seem reasonable; it would be recommended to present such categories of expense accounts as accruals. [experts]
	Preliminary proposed solution/general direction for change:	It would be recommended to update Article 39.2a of the Act.


6.8.56. Restructuring the terminology for provisions in the Act and in NAS 6

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Restructuring the terminology for provisions in the Act and in NAS 6		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 35d “Article 35d. 1. Provisions are recognised for: (1) <i>certain or highly probable future liabilities the amount of which can be reliably estimated, in particular losses on business transactions in progress, including under guarantees and sureties issued, lending operations and outcomes of pending legal proceedings;</i> (2) <i>future liabilities arising from restructuring, if an entity is required to carry out the same under separate regulations or if binding agreements have been executed thereon, and the restructuring plans enable a reliable estimation of the amount of the future liabilities.</i> 2. <i>The provisions referred to in Section 1 are recognised as other operating expenses, financial expenses or extraordinary losses, as appropriate, depending on circumstances to which future liabilities relate.</i> 3. <i>If a liability for which a provision was previously recognised arises, the related provision shall be reduced accordingly.</i> 4. <i>Any unused provisions are credited to other operating income, financial income or extraordinary gains as at the date at which they are no longer required as the underlying risk has eased</i>		








		<i>or subsided.”</i>
	Issue for discussion:	The overly broad regulations under the Act may lead to provisions being recognised in too many cases in light of the quite vague provision stating that: “Provisions are recognised for: certain or highly probable future liabilities the amount of which can be reliably estimated”. Additionally, there may be doubts of interpretation in this area as the provisions of NAS 6 prescribe that provisions are recognised only if an obliging event occurs. [experts]
	Preliminary proposed solution/general direction for change:	It would be recommended to review the regulations on the recognition of provisions at the level of the Act and NAS 6 with a view to rationalising their structure where applicable. For instance, clarity might be added to Article 35d of the Act by using the definition of a provision from Nas 6 and stating specifically that a provision is recognised only if an obliging event occurs.

6.8.57. Clarifying the issues of provisions and accrued expenses








	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Clarifying the issues of provisions and accrued expenses		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 35d.2 and Articles 39.2(2) and 39.2a Article 35d “2. The provisions referred to in Section 1 are recognised as other operating expenses, financial expenses or extraordinary losses, as appropriate, depending on circumstances to which future liabilities relate.” Article 39 “2. Entities shall recognise accrued expenses at amounts of probable liabilities falling due in the current reporting period, in particular with respect to: ... (2) an obligation to provide, in connection with current activities, future employee benefits, including pension benefits, and future benefits to unknown persons, where the amount of such obligation can be reliably estimated although its date is not yet known, including warranty repairs and statutory warranty for defects in respect of long-lived products sold.”		
	Issue for discussion:	The provisions of the Act read that: “provisions ... are recognised as other operating expenses, financial expenses or extraordinary losses, as appropriate, depending on circumstances to which future liabilities relate”; however, provisions are not expected to be recognised as operating expenses. On the other hand, provisions for employee benefits representing accrued expenses are disclosed as provisions (under Annex A to NAS 6). Consequently, such “provisions” are recognised under operating expenses. This may be confusing for the Act’s users.		

		[experts]
	Preliminary proposed solution/general direction for change:	It would be recommended to restate the above-mentioned provisions; one possible solution would be to restructure them by adding appropriate changes to the balance sheet layout so as to clearly separate “provisions” recognised under Article 35d from accrued expenses disclosed under operating expenses by relying on Article 39.








6.8.58. Measurement of discounted provisions

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Measurement of discounted provisions		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 28.1(9) <i>“Article 28. 1. Assets, equity and liabilities shall be measured at least as at the balance sheet date as follows: ... (9) provisions: at justified and reliably estimated amounts; ...”</i>		
	Issue for discussion:	Pursuant to the Act, provisions are measured at justified and reliably estimated amounts; however, the Act does not address discounting (accounting for the time value of money). On the other hand, this issue is clarified in NAS 6. [experts]		
	Preliminary proposed solution/general direction for change:	It would be recommended to restate the provisions of the Act to reflect discounting.		








6.8.59. Restructuring the terminology for provisions in the Act and in NAS 6: onerous contracts

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions
	Title:	Restructuring the terminology for provisions in the Act and in NAS 6: onerous contracts
	Priority:	<input type="checkbox"/> High <input type="checkbox"/> Medium <input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	<p>Article 35d of the Act</p> <p>“Article 35d. 1. Provisions are recognised for:</p> <p>(1) certain or highly probable future liabilities the amount of which can be reliably estimated, in particular losses on business transactions in progress, including under guarantees and sureties issued, lending operations and outcomes of pending legal proceedings;</p> <p>(2) future liabilities arising from restructuring, if an entity is required to carry out the same under separate regulations or if binding agreements have been executed thereon, and the restructuring plans enable a reliable estimation of the amount of the future liabilities.</p> <p>2. The provisions referred to in Section 1 are recognised as other operating expenses, financial expenses or extraordinary losses, as appropriate, depending on circumstances to which future liabilities relate.</p> <p>3. If a liability for which a provision was previously recognised arises, the related provision shall be reduced accordingly.</p> <p>4. Any unused provisions are credited to other operating income, financial income or extraordinary gains as at the date at which they are no longer required as the underlying risk has eased or subsided.”</p>
	Issue for discussion:	<p>The Act refers to the recognition of provisions for “losses on business transactions in progress”, which may be understood to mean onerous contracts as mentioned in NAS 6.</p> <p>Yet, the provisions in NAS 6 fail to clarify whether indirect costs are to be considered in the assessment of onerous contracts.</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	<p>It would be reasonable to restructure the terminology for provisions both in the Act and in NAS 6.</p> <p>Additionally, consideration should be given to including in NAS 6 principles consistent with International Accounting Standard 37: Provisions, Contingent Liabilities and Contingent Assets for considering indirect costs in assessing onerous contracts.</p>





6.8.60. Accounting for subsidies




	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions
	Title:	Accounting for subsidies
	Priority:	<input type="checkbox"/> High <input checked="" type="checkbox"/> Medium <input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	<p>Articles 41.1(2) and 41.2</p> <p><i>“Article 41. 1. Accrued and deferred income recognised under the prudence principle comprises in particular the following: ...</i></p> <p><i>(2) cash received to finance the purchase or manufacture of fixed assets, including capital work in progress and development projects, if the same is not credited to equity under other statutes. Amounts recognised as accrued and deferred income are gradually recognised as other operating income, in parallel to depreciation charges on fixed assets or development costs financed from these sources;”</i></p> <p><i>“2. The provisions in Section 1(2) applies to capital work in progress, fixed assets and intangible assets received free of charge, including as gifts or donations.”</i></p>
	Issue for discussion:	<p>The provision in Article 41.1(2) is very broad (i.e. it refers to money received to fund the acquisition or creation of fixed assets, including capital work in progress and development projects), but it does not identify who such funds are received from.</p> <p>There is no regulation on how to proceed if the grant received exceeds the value of the fixed asset.</p> <p>In addition, there is no guidance on how a connection contract should recognise the connection fee (in relation to a heat or power supply contract with a contractor).</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	<p>It would be recommended to review the above provisions in terms of their appropriate application.</p> <p>For instance, thought should be given to whether the existing practice that uses this provision for disclosures of fixed assets or other assets is appropriate. Limiting such possibility of analogy should be considered either by making it explicit in the provision that it shall not apply to disclosures of assets or by adding more clarity to the articles on the purchase/acquisition cost and how it is to be determined if assets are received as a gift or donation or disclosed.</p>

6.8.61. Tax credits








	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Tax credits		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Articles 37.1 and 37.4 <i>“Article 37. 1. An entity as an income tax payer recognises deferred tax liabilities and deferred tax assets in respect of temporary differences between the carrying amount of assets, equity and liabilities reported in account books and their tax value, and tax loss carry forwards. ...</i> <i>4. Deferred income tax assets are recognised at amounts expected to be deducted from income tax in the future due to deductible temporary differences which will in the future result in a decrease of the income tax base and the deductible tax loss determined in accordance with the prudence principle.”</i>		
	Issue for discussion:	The Act does not address tax credits in the context of recognising a deferred tax asset/liability (e.g. for special economic zones or a research and development tax credit (“R&D Tax Credit”). Pursuant to the Act, deferred tax liabilities and deferred tax assets are recognised in respect of temporary differences occurring between the carrying amount of assets, equity and liabilities reported in account books and their tax value, and tax loss carry forwards. The afore-mentioned provisions of the Act may give rise to doubts of interpretation about the recognition of tax credit in the context of the provisions in NAS 2 Paragraph 2. [experts]		
	Preliminary proposed solution/general direction for change:	It may be recommended to restructure the provisions dealing with the definition of deferred income tax assets, for instance, by adding the issue of unused tax credits to the provisions in Article 37.4 of the Act.		

6.8.62. Offsetting deferred tax assets and liabilities








	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Offsetting deferred tax assets and liabilities		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations		

		<input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	Article 37.7 “7. Deferred tax liability and assets are presented separately in the balance sheet. Deferred tax liabilities and assets may be offset if an entity has a legally enforceable right to net them off when calculating its tax liability.”
	Issue for discussion:	The Act as it currently stands allows an entity to choose how to present deferred tax where the offsetting criteria are met. On the same basis, NAS 2 also specifies that an entity has such a choice. This may lead to varying practices in the market. It would be reasonable to implement similar solutions in respect of deferred tax assets and liabilities to what is the case for, e.g. receivables and liabilities, i.e. if an entity has the right to offset, then such items must be disclosed in the net amount (netted off) and no choice should be left to present them in the gross amount (before netting off). [experts]
	Preliminary proposed solution/general direction for change:	It would be recommended to require an entity to perform offsetting where the offsetting criteria are met and to eliminate the varying practice in this regard.





6.8.63. Change of tax status




	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Change of tax status		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	No regulations available		
	Issue for discussion:	Regulations governing the recognition of deferred tax when an entity changes its tax status are missing; the issue has recently surfaced following changes in the taxation of limited partnerships. [experts]		
	Preliminary proposed solution/general direction for change:	It would be recommended to provide appropriate regulations to resolve the above issue.		

6.8.64. Recognition of deductible tax loss






	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Recognition of deductible tax loss		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 37.4 <i>“4. Deferred income tax assets are recognised at amounts expected to be deducted from income tax in the future due to deductible temporary differences which will in the future result in a decrease of the income tax base and the deductible tax loss determined in accordance with the prudence principle.”</i>		
	Issue for discussion:	The issue of loss recognition may trigger doubts of interpretation in the context of the provisions of the Act referenced above and the provisions read in parallel the provisions of NAS 2. Currently, under Article 37.4 of the Act, deferred income tax assets are recognised in the amount expected to be deducted in the future whereas NAS 2 provides for recognition of the full deferred tax asset and the related impairment charge. [experts]		
	Preliminary proposed solution/general direction for change:	It would be recommended to restructure the provisions of the Act and NAS 2 in this area (including an update to NAS 2).		



6.8.65. Revenue from services within 6 months

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Revenue from services within 6 months		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		







	Legal reference (if applicable):	<p>Article 3.1(30) and Article 34a.1</p> <p>“(30) income and profits, it means probable economic benefits of a reliably estimated value which may arise during a reporting period as increases in the value of assets or decreases in the value of liabilities that will result in an increase of the equity or a decrease of the equity deficit other than through contributions from shareholders or owners;”</p> <p>“Article 34a. 1. Revenue from contractual services in progress, including construction services, with a lead time of over 6 months which are substantially advanced but not completed as at the balance sheet date is determined as at the balance sheet date using the percentage-of-completion method as long as the percentage of completion and the expected total cost of service for the entire lead time can be reliably estimated.”</p>
	Issue for discussion:	<p>The Act provides very limited guidelines for the treatment of income (currently, partially complemented by NAS 15). In addition to the above-referenced definition in Article 3, the Act contains only two Articles dealing with the recognition of long-term contracts: Articles 34a to 34d). These regulations apply to contracts with a lead time of over 6 months, however, the Act provides no guidelines for the accounting treatment of services to be supplied within 6 months.</p> <p>The absence of more precise regulation in the Act may, in certain circumstances, result in income being recognised too early, e.g. as at the invoice date.</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	<p>It would be recommended to provide guidelines for services within 6 months by amending NAS 3 so that the principles under NAS 3 would apply accordingly to other services, including short-term services. An alternative would be to delete the provision on 6 months from Articles 34a to 34d.</p> <p>Another possible solution would be to add a simplification for services within 6 months whereby the related income and expense would be recognised on a one-off basis in the profit and loss account upon the completion of the service or the related income would be recognised up to the invoiced amount only.</p>


6.8.66. Imprecise definition of “other operating costs and income”: recognition of provisions

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Imprecise definition of “other operating costs and income”: recognition of provisions		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 3.1(32)</p> <p>“Article 3. 1. Whenever reference is made in this Act to:</p>		








		<p>(32) other operating expenses and income, it means expenses and income indirectly related to the entity's operations, including but not limited to expenses and income on: ...</p> <p>(e) creating and reversing provisions, except for provisions connected with financial operations; ..."</p> <p>Article 35d.2</p> <p>"2. The provisions referred to in Section 1 are recognised as other operating expenses, financial expenses or extraordinary losses, as appropriate, depending on circumstances to which future liabilities relate."</p>
	Issue for discussion:	<p>Currently, the provisions of the Act do not allow to conclude that provisions may be charged to operating expenses: based on the definition of other operating expenses, it may be assumed that provisions are always recognised under other operating expenses (or alternatively, financial expenses); this issue is further elaborated in NAS 6. At the same time, accrued expenses presented in the balance sheet as provisions are charged to operating expenses, which may be confusing.</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	<p>It would be recommended to restate the provisions of the Act in the area of provisions, accrued expenses and operating expenses and other operating expenses in order to eliminate any doubts of interpretation that may arise.</p>

6.8.67. Categories of operating income and expenses recognised as other operating income and expenses




	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Categories of operating income and expenses recognised as other operating income and expenses		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 34.5</p> <p>"Article 34. 5. Write-downs of tangible current assets due to impairment and measurement at net selling prices instead of at cost of acquisition or purchase price or cost of manufacture are recognised as other operating expenses."</p>		
	Issue for discussion:	<p>Under the Act, write-downs of tangible current assets, including due to measurement at net selling prices, are recognised as other operating expenses. Such costs are directly associated with an entity's operations and, thus, their inclusion in other operating expenses instead of operating expenses distorts the "profit/loss on sales".</p> <p>[experts]</p>		





	Preliminary proposed solution/general direction for change:	It would be recommended to revisit the guidelines in the Act as to what income and expenses are recognised as other operating income/expenses so that all costs of core operations and those incurred in the normal course of business would be disclosed under the profit/loss on sales.
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6.8.68. Absence of sufficient guidelines for the recognition of the effects of revaluation of investment property







	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Absence of sufficient guidelines for the recognition of the effects of revaluation of investment property		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 3.1(32) “(32) other operating expenses and income, it means expenses and income indirectly related to the entity’s operations, including but not limited to expenses and income on: ... (c) holding immovable property and intangible assets classified as investments, inclusive of any revaluation of such investments and reclassifications of the same to fixed assets or intangible assets, as appropriate, if measurement of the investments is based either on their fair market price or on otherwise determined fair value; ...”		
	Issue for discussion:	Currently, the approach to revaluation of investment property may only be inferred from the definition of other operating income and expenses (Article 3.1(32)(c)), which causes difficulties of interpretation for the Act’s users. [experts]		
	Preliminary proposed solution/general direction for change:	It would be recommended to add guidelines for the recognition of the effects of investment property in Article 35.4.		


6.8.69. Incentive schemes

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Incentive schemes		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low








	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	Not applicable
	Issue for discussion:	<p>There is no regulation for executive incentive plans (other than monetary compensation) or for non-compete payments.</p> <p>[experts; retail company]</p>
	Preliminary proposed solution/general direction for change:	<p>It would be recommended to add appropriate provisions in Chapter 4 of the Act. At the level of the Act, a general article should then be included to the effect that where a person who performs work or services receives the company's equity instruments as benefits, then the fair value of the benefit received is recognised in the profit and loss account in the period of service in correspondence with equity. Other detailed issues could be resolved in the relevant Standard.</p>

6.8.70. Change of depreciation/amortisation rate during the year




	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Change of depreciation/amortisation rate during the year		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 32.3</p> <p><i>"3. As at the date placed in service of a fixed asset, it is necessary to determine its depreciation period or rate and depreciation method. An entity should verify the correctness of the applied depreciation periods and rates for its fixed assets on a regular basis, leading to an appropriate adjustment to depreciation charges being made in subsequent financial years."</i></p>		
	Issue for discussion:	<p>The Act and NAS 11 do not permit changes in the depreciation rates during the year; NAS 11 Paragraph 8.42 clarifies that revised depreciation rates are applied starting from the new financial year, whereas there may be valid cases where estimates for useful life change during the year and such change in the estimate should be reflected in the period following the estimate change date without withholding the change until the beginning of the next financial year.</p> <p>[experts]</p>		





	Preliminary proposed solution/general direction for change:	It would be recommended to include the possibility to change the depreciation rate during the year in the Act.
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6.8.71. Equity in funds for liquidation






	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Equity in funds for liquidation		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 36.3 <i>“The components of equity of entities under liquidation or bankruptcy shall be combined into one single share capital as at the start date of liquidation or bankruptcy, and reduced as follows: (1) (repealed) (2) for limited liability companies, mutual insurance companies and mutual reinsurance companies: by treasury shares; (3) for joint-stock companies and simple joint-stock companies: by called-up share capital unless the parties concerned have been requested to pay their contributions, as well as by treasury shares.”</i>		
	Issue for discussion:	The above-referenced provisions of the Act state that the components of equity of entities under liquidation or bankruptcy shall be combined into one single share capital as at the start date of liquidation or bankruptcy. This issue is not addressed by the regulation on the liquidation procedure for investment funds. [experts]		
	Preliminary proposed solution/general direction for change:	It would be recommended to exclude the applicability of that provision to the liquidation of funds in the statute and to provide detailed regulations in a specific regulation.		



6.8.72. Provisions in insurance companies

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Provisions in insurance companies		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low

	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	<p>Article 38.1</p> <p><i>“Article 38. 1. Insurance companies recognise operating expenses changes in technical provisions meant to ensure full covering of the current and future liabilities which may arise under insurance and reinsurance contracts.</i></p> <p><i>1a. Reinsurance companies recognise as operating expenses changes in technical provisions meant to ensure full covering of the current and future liabilities which may arise under reinsurance contracts.</i></p> <p><i>2. Technical provisions, except for claims equalisation provisions, are determined not later than as at the balance sheet date. A claims equalisation provision shall be determined not later than as at the last day of the financial year.”</i></p>
	Issue for discussion:	<p>Provisions are recognised for future liabilities; the above provisions do not mention that this is for the purposes of meeting the obligations under insurance contracts.</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	<p>It would be recommended to consider including the following wording in the above provision: “for the purposes of meeting the obligations under insurance contracts”.</p>






6.8.73. Returns on investments for insurance companies

	Area:	Classification and measurement of assets, equity and liabilities; recognition of transactions		
	Title:	Returns on investments for insurance companies		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 44.2:</p> <p>“2. The technical financial result represents a difference between written premium income, other technical income, and claims and benefits paid, and changes in technical provisions, net of reinsurers’ share in premiums, claims and changes in technical provisions as well as overheads and other technical expenses. Where:</p> <p>(1) investment income is transferred, under other regulations, to credit technical provisions;</p> <p>(2) an insurance company engaged in the life insurance business or a</p>		

		reinsurance company engaged in life reinsurance business jointly invest funds not matching technical provisions and funds matching technical provisions, then investment income and expenses are recognised in the technical account.”
	Issue for discussion:	The above regulation seems ambiguous and may lead to diverging interpretations of the provision in Section 22.2 and Section 25.2 of the Insurer Accounting Regulation. It is not specified that investment income, including unrealised income, which is used to set the technical rate is presented in the technical account. [experts]
	Preliminary proposed solution/general direction for change:	It would be recommended to consider the change proposed above.

6.9. Business combination and division transactions



6.9.1. Limitations on the use of the acquisition method for common control transactions

	Area:	Business combination and division transactions		
	Title:	Limitations on the applicability of the acquisition method for common control transactions		
	Priority:	<input checked="" type="checkbox"/> High	<input type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Articles 44a.1 and 44a.2 “Article 44a. 1. Business combinations of commercial companies or partnerships (hereinafter referred to as “companies”) shall be accounted for and recognised as at the business combination date in the account books of the company to which the assets of the combining companies (the acquirer) or of a new company established as a result of the combination (the newly-formed company) are transferred, under the acquisition method referred to in Article 44b, subject to Section 2. 2. In the case of business combinations that do not result in a loss of control by their existing shareholders, the pooling-of-interest method referred to in Article 44c may be used; in particular, this applies to business combinations of direct or indirect subsidiaries of the same parent company or to instances where a lower-level parent company combines with its subsidiary.”		








	Issue for discussion:	<p>Article 44a permits the acquisition method to be applied to any business combination transaction, including common control business combinations, whereby the acquisition method may also be used to account for transactions having the nature of group reorganisation, for which fair value measurements as at the business combination date are not warranted. For instance, this applies to transactions transferring the existing business as an OPE to a newly formed company from another subsidiary by a parent company or mergers of a company newly formed by a parent company and an existing operating company of the same parent.</p> <p>[experts; institutional stakeholders; power company]</p>
	Preliminary proposed solution/general direction for change:	<p>It would be recommended to limit the applicability of the acquisition method for common control transactions to justified cases. As a rule, the pooling-of-interest method should be applied to common control transactions unless the acquisition method is valid because, e.g. minority shareholders are involved in the transaction. Then, it would be recommended to write into the Act specific scenarios where the acquisition method would be appropriate.</p>
	Next steps (if any)	<p>An in-depth discussion with stakeholders in this area</p>


6.9.2. Pooling-of-interest method where individuals or the State Treasury have control

	Area:	Business combination and division transactions		
	Title:	Pooling-of-interest method where individuals or the State Treasury have control		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 44a.2</p> <p>“2. In the case of business combinations that do not result in a loss of control by their existing shareholders, the pooling-of-interest method referred to in Article 44c may be used; in particular, this applies to business combinations of direct or indirect subsidiaries of the same parent company or to instances where a lower-level parent company combines with its subsidiary.”</p>		
	Issue for discussion:	<p>In the part referring to instances where the pooling-of-interest method may be applied, the provisions in Article 44a.2 may give rise to different interpretations whether or not the pooling-of-interest method is permissible for business combinations under common control of one or more natural persons or under common control of the State Treasury.</p> <p>The difference of interpretation arises from the provision of Article 44a.2, which states that the pooling-of-interest method may be used if there is no loss of control by the existing shareholders. Further, it is provided that the pooling-of-interest method applies to business combinations of direct or indirect subsidiaries of the same parent company while the parent company is defined</p>		









		as a commercial company or partnership or a state-owned company or partnership, which may lead to interpretations that the pooling-of-interest method is limited to such cases only. [experts]
	Preliminary proposed solution/general direction for change:	It would be recommended to provide clarity around the issue of accounting for business combinations (applicability of the pooling-of-interest method) by entities being combined if they are owned by a natural person or a state-owned company or partnership. Instead, consolidations of State Treasury subsidiaries fall beyond the scope of this recommendation and are part of the efforts undertaken to reform public accounting.
	Next steps (if any)	An in-depth discussion with stakeholders in this area

6.9.3. Providing clarifications in the area of “common control”









	Area:	Business combination and division transactions		
	Title:	Providing clarifications in the area of “common control”		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 44a.2 <i>“2. In the case of business combinations that do not result in a loss of control by their existing shareholders, the pooling-of-interest method referred to in Article 44c may be used; in particular, this applies to business combinations of direct or indirect subsidiaries of the same parent company or to instances where a lower-level parent company combines with its subsidiary.”</i>		
	Issue for discussion:	The phrase “lower-level” as used in Article 44a.2 to permit the pooling-of-interest method in common control business combinations narrows the applicability of the pooling-of-interest method to transactions whereby the combining parent entity is controlled by a higher-level parent. As a result, Article 44a.2 may lead to a conclusion that if a parent company combines with its subsidiary where there is no higher-level parent above the parent company, the pooling-of-interest method may not be used. In practice, the pooling-of-interest method is largely used in group restructuring so the application of the pooling-of-interest method should be available for all parent-subsidary combinations. [experts]		
	Preliminary proposed solution/general	It would be recommended to explore this issue moving forward from the perspective of other regulations in the area of consolidation and legislative		

	direction for change:	developments. For instance, it would be proposed to: Delete the text: “or to instances where a lower-level parent company combines with its subsidiary”; Possibly consider including the concept of “common control” in the Act and providing that common control transactions do not include instances where such common control is temporary.
	Next steps (if any)	An in-depth discussion with stakeholders in this area





6.9.4. Refining of the definition of combined assets, equity and liabilities





	Area:	Business combination and division transactions		
	Title:	Refining of the definition of combined assets, equity and liabilities		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 44c.1 <i>“Article 44c. 1. A business combination under the pooling-of-interest method involves adding up the relevant assets, equity and liabilities as well as income and expenses of the companies being combined as at the business combination date, after their respective amounts are established through uniform measurement methods and the exclusions referred to in Sections 2 and 3 are made.”</i>		
	Issue for discussion:	Article 44c.1 requires “adding up the relevant assets, equity and liabilities” for the purposes of the pooling-of-interest method without specifying where those amounts should be derived from. In practice, it is normally assumed that these amounts are those in the separate financial statements of the combining companies, nevertheless this is not explicitly stated in the Act. [experts]		
	Preliminary proposed solution/general direction for change:	It would be recommended to include some clarification in the piece of legislation of choice what the word “relevant” means in the circumstances described above.		
	Next steps (if any)	Exploration of the possibilities to apply the proposed solution in this regard with institutional stakeholders		

6.9.5. Capital from business combination




	Area:	Business combination and division transactions		
	Title:	Capital from business combination		
	Priority:	<input checked="" type="checkbox"/> High	<input type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 44c.2 <i>"2. The following shall be excluded: the share capital of a company whose assets are transferred to another company or to other companies, and the share capital of companies which are deregistered as a result of the business combination. As soon as such exclusion is made, the relevant items of equity of the company to which the assets of the combined companies or of the newly-formed company are transferred shall be adjusted for the difference between total assets and total equity and liabilities."</i>		
	Issue for discussion:	It is unclear what line item of equity the afore-mentioned difference between assets and equity and liabilities should be included in. [experts; institutional stakeholders]		
	Preliminary proposed solution/general direction for change:	It would be recommended to add provisions specifying what line item of equity should the difference referred to in Section 2 be included in. Further, it would be recommended that it be the supplementary capital if the amount is a positive value; for a negative amount, such difference should be included in profits carried forward.		
	Next steps (if any)	Exploration of the possibilities to apply the proposed solution in this regard with institutional stakeholders		






6.9.6. Post-acquisition comparative data under the pooling-of-interest method

	Area:	Business combination and division transactions		
	Title:	Post-acquisition comparative data under the pooling-of-interest method		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		






	Legal reference (if applicable):	<p>Article 44c.6</p> <p><i>“6. The financial statements of the company to which the assets of the combined companies or of the newly-formed company are transferred, prepared as at the end of the reporting period of the business combination, shall include comparative data for the previous financial year, determined as if the business combination took place as at the beginning of the previous financial year; provided that the individual components of equity as at the end of the previous year should be disclosed as a total of the individual components of equity.”</i></p>
	Issue for discussion:	<p>Where the pooling-of-interest method is used to account for a business combination, Article 44c.6 requires that comparative data be restated as if the business combination took place as at the beginning of the previous period. There is no clear specification what data are to be presented if:</p> <ul style="list-style-type: none"> • Common control started during the comparative period (i.e. whether data should be combined starting from the opening balance or already from the date of entry into common control); or • The acquirer is a newly formed entity which was non-existent in the comparative period; • An OPE is acquired; restatement of data tends to be difficult or impossible in practice if an OPE operated as an integral part of a larger reporting entity, in which case the separation of all income and expenses, assets and liabilities may not be straightforward. <p>[experts; institutional stakeholders; power company]</p>
	Preliminary proposed solution/general direction for change:	<p>A solution would be recommended whereby the combined presentation would apply from the moment of entry into common control as such approach is consistent with the concept behind the pooling-of-interest method as a permitted method for accounting for common control business combinations. A sample provision could read: “the data of the combining companies are presented as if the companies had been combined with each since the inception of common control.” Clarification should also be provided about what comparative data would be presented in such a model.</p> <p>An exemption from the obligation to restate data should be considered for acquisitions of OPEs based on the provisions of NAS 7 (this being “practically impossible”). Then, it should be written into the Act that if it is practically impossible to restate the data before the business combination, then the data of the combining company is disclosed starting from the business combination date.</p>
	Next steps (if any)	Exploration of the possibilities to apply the proposed solution in this regard with institutional stakeholders




6.9.7. Cost of acquisition under the pooling-of-interest method

	Area:	Business combination and division transactions		
	Title:	Cost of acquisition under the pooling-of-interest method		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low









	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	Article 44c (no quote available as no regulation exists)
	Issue for discussion:	<p>Although Article 44b.5 of the Act defines the acquisition price, in practice, there are concerns on the part of companies how to understand the purchase price in specific cases such as, e.g., the purchase price of an OPE (under the pooling-of-interest method) if business combination shares are issued.</p> <p>[experts]</p>
	Preliminary proposed solution/general direction for change:	It would be recommended to clarify the provisions of the Act in this area, e.g. by including a provision to the effect that where the issue price is not required to be set, the acquisition price is defined as the par value of the shares issued.
	Next steps (if any)	Exploration of the possibilities to apply the proposed solution in this regard with institutional stakeholders

6.9.8. Elimination of investments under the pooling-of-interest method









	Area:	Business combination and division transactions		
	Title:	Elimination of investments under the pooling-of-interest method:		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Articles 44c.2 and 44c.3 <i>“2. The following shall be excluded: the share capital of a company whose assets are transferred to another company or to other companies, and the share capital of companies which are deregistered as a result of the business combination. As soon as such exclusion is made, the relevant items of equity of the company to which the assets of the combined companies or of the newly-formed company are transferred shall be adjusted for the difference between total assets and total equity and liabilities. 2a. For simple joint-stock companies, the provision in Section 2 shall apply mutatis mutandis. 3. Exclusions also cover the following items: (1) mutual receivables and liabilities as well as other similar accounts of the combining companies; (2) income and expenses of pre-combination business transactions between the combining companies made during the financial year; and (3) profits or losses on pre-combination business transactions between the combining companies which are included in the amounts of assets and liabilities subject to the combination.”</i>		

	Issue for discussion:	It is not explicitly stated that where a parent company combines with its subsidiary, the amounts of investment in the acquiree must also be excluded. [experts]
	Preliminary proposed solution/general direction for change:	Clarifying this regulation would be recommended.
	Next steps (if any)	Exploration of the possibilities to apply the proposed solution in this regard with institutional stakeholders




6.9.9. Definition of an enterprise






	Area:	Business combination and division transactions		
	Title:	Definition of an enterprise		
	Priority:	<input checked="" type="checkbox"/> High	<input type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 44d “Article 44d. The provisions of Articles 44a to 44c apply mutatis mutandis where an entity acquires an organised part of an enterprise of another entity, including in the case of a business division.”		
	Issue for discussion:	Article 44d makes reference to “an organised part of an enterprise (“OPE”) of another entity”, however, there is no definition of “an organised part of an enterprise of another entity”. In practice, the commonly applied definition is the one provided in the CIT Act, however, such an approach may in some cases lead to a set of assets and liabilities that do not represent a business being identified as an OPE and, as such, this may result in the recognition of goodwill on the acquisition of a set of assets and liabilities. [experts; institutional stakeholders]		
	Preliminary proposed solution/general direction for change:	It would be recommended to include a definition of an enterprise and an OPE.		
	Next steps (if any)	Exploration of the possibilities to apply the proposed solution in this regard with institutional stakeholders		

6.9.10. Acquisition of an enterprise and acquisition of a group of assets





	Area:	Business combination and division transactions		
	Title:	Acquisition of an enterprise and acquisition of a group of assets		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 44b.6 “6. A surplus of the acquisition price, referred to in Section 5, over the fair value of the acquiree’s net assets shall be presented as goodwill in the assets of the company to which the assets of combined companies or the company established as a result of the combination are transferred.”		
	Issue for discussion:	The current provisions in Article 44b provide that goodwill or negative goodwill arises as a difference between the acquisition price (set at fair value) and net assets (measured at fair value). This means that goodwill may also arise on an acquisition transaction where the acquired unit is not an “enterprise” (business) but a set of assets and liabilities. A definition of an “enterprise” is missing from the Act. [experts]		
	Preliminary proposed solution/general direction for change:	It would be recommended to have goodwill or negative goodwill arise on an acquisition transaction only if the acquired unit represents a “business” (an enterprise or an organised part of an enterprise). On the other hand, if the acquired unit is a set of assets and liabilities, then the acquisition price should be allocated to the assets and liabilities acquired; no goodwill/negative goodwill would then arise. If the said allocation were to result in an adjustment to a higher value than the fair value, then such adjustment would have to be included directly in profit or loss. Therefore, it would also be recommended to add the term “enterprise”.		
	Next steps (if any)	Exploration of the possibilities to apply the proposed solution in this regard with institutional stakeholders		





6.9.11. Reverse business combination

	Area:	Business combination and division transactions		
	Title:	Reverse business combination		
	Priority:	<input checked="" type="checkbox"/> High	<input type="checkbox"/> Medium	<input type="checkbox"/> Low

	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	Articles 44a to 44c (no quote is provided for the provision here due to its length)
	Issue for discussion:	In business practice, there are concerns about the treatment of what is known as reverse business combinations under the Act; this means situations where, e.g., a newly formed parent company acquires a subsidiary from third parties (and control is taken over) and both entities are merged shortly afterwards so that the surviving entity is the subsidiary. If the provisions of the Act are directly applied in such a case, then the assets and liabilities of the parent company (as the acquiree at the time of the business combination) will be subject to fair value measurement. Consequently, if the business combination is accounted for using the carrying amounts of the assets and liabilities of the subsidiary, this will not reflect the economic substance of the transaction (the entity which has survived the merger in the legal sense is just the legal form of the transaction but the economic substance is that the subsidiary is the acquiree). As a result, both the acquisition method and the pooling-of-interest method, if applied in such a case, will lead to the recognition of identical amounts of assets and liabilities and equity.
	Preliminary proposed solution/general direction for change:	<p>It would be recommended to permit a business combination of a subsidiary and its parent with the subsidiary as the surviving entity to be accounted for under the acquisition method where the fair value measurements and goodwill would be determined by reference to the assets/liabilities of the subsidiary.</p> <p>A general provision on the acquisition method should also be included in the Act stipulating that the acquisition method includes identification of the acquirer and a specific standard should contain further information how the acquirer is to be identified and what to do if the acquirer is not the surviving company.</p> <p>[experts]</p>
	Next steps (if any)	An in-depth discussion with stakeholders in this area


6.9.12. Staged acquisition

	Area:	Business combination and division transactions		
	Title:	Staged acquisition		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		









	Legal reference (if applicable):	<p>Articles 44b.1 and 44.7</p> <p>“1. Accounting for a business combination under a purchase method involves adding up the individual items of assets, equity and liabilities of the acquirer at their carrying amount, and the relevant items of assets, equity and liabilities of the acquiree at their fair value determined as at the business combination date.</p> <p>...</p> <p>7. If a business combination is a series of transactions that follow one another, the acquisition price, a percentage of the fair value of the acquiree’s net assets corresponding to the percentage of the rights acquired to net assets and the difference between the acquisition price and the fair value of the acquiree’s net assets are determined separately as at the date of each material transaction, on the assumption that the first material transaction is made not later than as at the date when a subordination relationship arises between the acquirer and the acquiree. The final acquisition price, the fair value of the acquiree’s net assets, and the difference between</p> <p>the acquisition price and the fair value of the acquiree’s net assets as at the business combination date is the total of the relevant amounts as at the date of each material transaction.”</p>
	Issue for discussion:	<p>For business combinations accounted for under the acquisition method, where the combination is a series of transactions, the provisions of Article 44b.7 require that the final acquisition price, the fair value of the acquiree’s net assets, and the difference between the acquisition price and the fair value of the acquiree’s net assets as at the business combination date be the total of the relevant amounts as at the date of each material transaction.</p> <p>The above provisions imply that it is necessary to measure the assets and liabilities the acquiree as at the date of each material transaction, assuming that the first material transaction occurs not later than as at the date when a subordination relationship arises between the acquirer and the acquiree (such subordination relationship means significant influence, joint control or control). The requirement to perform fair value measurements as at different dates where shares are acquired in a series of transactions represents a considerable burden for entities.</p> <p>[experts; institutional stakeholders]</p>
	Preliminary proposed solution/general direction for change:	<p>It would be recommended that the fair value measurements of the assets and liabilities of the acquiree be performed once at the time of taking over control.</p> <p>It would also be recommended to transfer the provisions on the acquisition method to some other location in the Act; it would be more reasonable to combine them with the provisions on consolidation.</p> <p>It would also be recommended to clarify the treatment of previously held equity interests: whether these are to be recognised by analogy to IFRS (i.e. mandatory fair value measurement) or at carrying amounts.</p>
	Next steps (if any)	<p>An in-depth discussion with stakeholders in this area</p>

6.9.13. Provisional acquisition accounting


	Area:	Business combination and division transactions
	Title:	Provisional acquisition accounting
	Priority:	<input type="checkbox"/> High <input checked="" type="checkbox"/> Medium <input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)
	Legal reference (if applicable):	<p>Article 44b.8</p> <p><i>“8. The carrying amount of assets and liabilities determined as at the business combination date is adjusted in subsequent reporting periods, if, as a result of events that occurred or information obtained, the fair value as at the business combination date is revealed to have been incorrectly determined. In such cases, it is necessary to adjust goodwill or negative goodwill, as appropriate, provided that the entity expects to recover the adjustment amount from future economic benefits, and such an adjustment is made during the financial year of the business combination. Otherwise, such an adjustment is recognised as other operating income or expenses.”</i></p>
	Issue for discussion:	<p>Pursuant to the provisions in Article 44b.8, if the fair value as at the business combination date is revealed to have been incorrectly determined, it is possible to recognise fair value adjustments of the assets and liabilities determined as at the business combination date as well as adjustments to goodwill until the end of the financial year of the transaction and such adjustments are recognised in other operating income/expenses.</p> <p>The application of this provision is ambiguous and raises a number of doubts, i.e. it is unclear whether that incorrect fair value determination represents an error or perhaps the final determination of the previously provisional amounts. If the fair value as at the business combination date is incorrectly determined, why such adjustments are not corrections of errors that would have to be disclosed in accordance with the general requirements under Article 54 but they are recognised as other operating income/expenses?</p> <p>The Act does not provide any guidelines to allow a business combination to be accounted for provisionally and the values to be finally determined in the following financial year, so, currently, there is a problem how to account for business combinations under the acquisition method if transactions occur near the end of the financial year and it is not possible to reliably estimate fair value in time to be able to prepare financial statements within the statutory deadlines. If the guidelines in Article 44b.8 were to be applied literally, this could result in material adjustments on account of the final value determination being recognised as other operating expenses/income.</p> <p>[experts; institutional stakeholders]</p>
	Preliminary proposed solution/general direction for change:	<p>It would be recommended to consider the following changes:</p> <ul style="list-style-type: none"> • Allowing provisional accounting for business combinations (i.e. based on provisionally estimated fair value of the net assets acquired, the acquisition price and the determined goodwill) with finalisation within 12 months of the








		<p>business combination date and with retrospective recognition (by analogy to the requirements of International Financial Reporting Standard 3: Business Combinations (“IFRS 3”) in this respect).</p> <ul style="list-style-type: none"> Recognising corrections of measurement errors following the final determination of the fair value in accordance with the general guidelines in Article 54 on corrections of errors; Including a provision to the effect that changes in the estimates and amounts that are not linked to circumstances existing at the time of taking over control are not corrections of errors.
	Next steps (if any)	Exploration of the possibilities to apply the proposed solution in this regard with institutional stakeholders

6.9.14. Recognition of not previously recognised assets and liabilities







	Area:	Business combination and division transactions		
	Title:	Recognition of not previously recognised assets and liabilities		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 44b		
	Issue for discussion:	<p>The Act does not provide for the recognition of not previously recognised assets and liabilities as at the date of acquisition.</p> <p>[experts; institutional stakeholders]</p>		
	Preliminary proposed solution/general direction for change:	<p>Allowing recognition of assets or liabilities not previously recognised such as, e.g., a project backlog, management rights, future servicing rights, etc., should be considered. The place of such provisions in specific legal acts should be further examined.</p>		
	Next steps (if any)	Exploration of the possibilities to apply the proposed solution in this regard with institutional stakeholders		



6.9.15. Structuring the Act in matters of mergers and acquisitions

	Area:	Business combination and division transactions
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	Title:	Structuring the Act in matters of mergers and acquisitions		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Articles 44a to 44c		
	Issue for discussion:	The structure of the provisions governing methods for accounting for mergers vs. methods for accounting for acquisitions seems incoherent in the part related to consolidation. [experts]		
	Preliminary proposed solution/general direction for change:	Structuring the Act in the above respect would be recommended.		
	Next steps (if any)	An in-depth discussion with stakeholders in this area		








6.9.16. Providing regulation of business division transactions

	Area:	Business combination and division transactions		
	Title:	Providing regulation of business division transactions		
	Priority:	<input checked="" type="checkbox"/> High	<input type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 44d <i>“Article 44d. The provisions of Articles 44a to 44c apply mutatis mutandis where an entity acquires an organised part of an enterprise of another entity, including in the case of a business division.”</i>		
	Issue for discussion:	The treatment of business divisions is insufficiently regulated in the Act. In addition, the provision reading: “including in the case of a business division” in Article 44d is sometimes interpreted to the effect that the provision is to be understood as applying the acquisition method or the pooling-of-interest method to account for business divisions; other interpretations hold that this refers to		









		accounting for business combinations resulting from business divisions. [experts]
	Preliminary proposed solution/general direction for change:	It would be recommended to regulate the above issues in the Act.
	Next steps (if any)	An in-depth discussion with stakeholders in this area

6.10. Audits of financial statements






6.10.1. Appointment of the statutory auditor




	Area:	Audits of financial statements		
	Title:	Appointment of the statutory auditor		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 66.4 <i>"4. The appointment of an audit firm to audit the financial statements is made by the body approving the entity's financial statements unless the articles of association, the deed or other regulations binding upon the entity provide otherwise. The entity's manager is not authorised to make such an appointment."</i>		
	Issue for discussion:	The Act lacks clarity whether audits other than audits of annual financial statements (e.g. dividend distributions, financial statements for the purposes of a prospectus) or reviews require a resolution appointing the statutory auditor. [experts]		
	Preliminary proposed solution/general direction for change:	It would be recommended to provide regulation for the above issue. The provisions should be formulated so as to be practicable, i.e. once appointed to audit annual financial statements, a statutory auditor does not have to be appointed again for the purposes of auditing financial statements prepared for other purposes; appointments for multiple years or until further notice may possibly be considered.		

6.10.2. Appointment of the statutory auditor for branches








	Area:	Audits of financial statements		
	Title:	Appointment of the statutory auditor for branches		
	Priority:	<input checked="" type="checkbox"/> High	<input type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 66.4 <i>"4. The appointment of an audit firm to audit the financial statements is made by the body approving the entity's financial statements unless the articles of association, the deed or other regulations binding upon the entity provide otherwise. The entity's manager is not authorised to make such an appointment."</i>		
	Issue for discussion:	The Act does not specify who should appoint a statutory auditor for branches. <i>[experts; institutional stakeholders]</i>		
	Preliminary proposed solution/general direction for change:	It would be recommended to make the above provisions more precise, e.g. by providing that such appointment is responsibility of the head office's (parent entity's) management, however, subject to provisions on: (1) public interest entities; and (2) the functioning of the Audit Committee.		
	Next steps (if any)	Exploration of the possibilities to apply the proposed solution in this regard with institutional stakeholders		

6.10.3. Audit agreement for subfunds








	Area:	Audits of financial statements		
	Title:	Audit agreement for subfunds		
	Priority:	<input checked="" type="checkbox"/> High	<input type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input checked="" type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 66.5 <i>"5. The entity's manager shall enter into an audit engagement contract with an audit firm on a date that allows the audit entity to participate in the stocktaking of</i>		

		<i>significant assets. For statutory audits as defined in Article 2(1) of the Statutory Auditors Act, the first audit engagement contract is entered into with an audit firm for a term of not less than two years, with an option to renew for successive terms of two years or more each. The audit costs shall be responsibility of the audited entity.”</i>
	Issue for discussion:	The provision on two-year engagement contracts creates a practical problem where a subfund is established during the last year of the term of the audit engagement contract. [experts]
	Preliminary proposed solution/general direction for change:	It would be recommended to include a derogation for subfunds, investment funds with separate subfunds and for newly established funds in the case of a Poland-based investment fund company (“TFI”) whose statements and the statements of all managed investment funds are audited by the same audit firm.
	Next steps (if any)	Exploration of the possibilities to apply the proposed solution in this regard with institutional stakeholders






6.10.4. Audit agreement



	Area:	Audits of financial statements		
	Title:	Audit agreement		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 66.5 <i>“5. The entity’s manager shall enter into an audit engagement contract with an audit firm on a date that allows the audit entity to participate in the stocktaking of significant assets. For statutory audits as defined in Article 2(1) of the Statutory Auditors Act, the first audit engagement contract is entered into with an audit firm for a term of not less than two years, with an option to renew for successive terms of two years or more each. The audit costs shall be responsibility of the audited entity.”</i>		
	Issue for discussion:	There are doubts whether the execution of engagement contracts for audits and/or reviews of financial statements other than annual financial statements should require the signature of the entity’s manager. [experts]		
	Preliminary proposed solution/general direction for change:	It would be recommended to add a provision to the effect that this regulation also applies to the signing of engagement contracts for audits and reviews of financial statements other than annual financial statements.		

6.10.5. Audit cost








	Area:	Audits of financial statements		
	Title:	Audit cost		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 66.5 <i>“5. The entity’s manager shall enter into an audit engagement contract with an audit firm on a date that allows the audit entity to participate in the stocktaking of significant assets. For statutory audits as defined in Article 2(1) of the Statutory Auditors Act, the first audit engagement contract is entered into with an audit firm for a term of not less than two years, with an option to renew for successive terms of two years or more each. The audit costs shall be responsibility of the audited entity.”</i>		
	Issue for discussion:	This provision does not address the issues of bearing the costs of audits and reviews of financial statements other than annual financial statements, including voluntary audits and reviews and those concerning consolidation packages. [experts]		
	Preliminary proposed solution/general direction for change:	Recommend to add a provision to the effect that this regulation also applies to audits of financial statements other than annual financial statements.		

6.10.6. Information about the beneficial owner


	Area:	Audits of financial statements		
	Title:	Information about the beneficial owner		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 67.1 <i>“Article 67. 1. The audited entity’s manager shall ensure that the statutory auditor auditing the financial statements has access to the account books and</i>		







		<i>the documents underlying the entries made therein, as well as to any other documents. The audited entity's manager shall also provide full information, clarifications and statements as may be required to prepare the audit report."</i>
	Issue for discussion:	The Act does not provide clarity that the above obligation should also apply to information about the beneficial owner. [experts]
	Preliminary proposed solution/general direction for change:	It would be recommended to clarify that the above obligation also applies to information about the beneficial owner.

6.10.7. Access to information

	Area:	Audits of financial statements		
	Title:	Access to information		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 67.1 <i>"Article 67. 1. The audited entity's manager shall ensure that the statutory auditor auditing the financial statements has access to the account books and the documents underlying the entries made therein, as well as to any other documents. The audited entity's manager shall also provide full information, clarifications and statements as may be required to prepare the audit report."</i>		
	Issue for discussion:	In practice, there are situations where it is difficult for the statutory auditor to obtain the relevant information as entities invoke other legislation relating to, e.g., data protection or professional secrecy and privilege. [experts]		
	Preliminary proposed solution/general direction for change:	It would be recommended to add a provision in the Act stating that access to account books, documents, clarifications and statements that are necessary to prepare an audit report do not constitute a violation of regulations governing (1) professional secrecy and privilege under other legislation or (2) personal data protection.		






6.10.8. Balance confirmations



	Area:	Audits of financial statements
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	Title:	Balance confirmations		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 64 as a whole <i>“Article 64. 1. Audit shall be required in respect of annual consolidated financial statements of groups of companies and annual financial statements of the following entities which continue as a going concern: ...”</i>		
	Issue for discussion:	In practice, there are serious problems that are faced with balance confirmations and disputed issues for the purposes of audit procedures carried out by a statutory auditor. <i>[experts; accounting firm; power company]</i>		
	Preliminary proposed solution/general direction for change:	It would be recommended to provide regulation for the issue of selective confirmation of balances and disputed issues by a statutory auditor for the purposes of the audit, for example an obligation for the entity’s counterparty and a lawyer to answer questions of a statutory auditor. Then, the entity receiving a question from a statutory auditor could not avoid an answer (by invoking, e.g. personal data protection laws, trade secrets or banking secrecy, etc.).		







6.11. Other topics


6.11.1. Defining the financial year

	Area:	Other topics		
	Title:	Defining the financial year		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 3.1(9) <i>“a financial year, it means a calendar year or other period of 12 full, consecutive calendar months, also used for tax purposes. The financial year or changes to it, shall be specified in the articles of association or company or partnership deed underlying the entity’s formation. If an entity started trading in the second part of its financial year, the account books and financial statements for that period may</i>		








		<i>be combined with the account books and financial statements for the subsequent year. In the event that the financial year is changed, the first financial year after the change should be longer than 12 consecutive months.”</i>
	Issue for discussion:	<p>There are doubts about what constitutes a financial year in specific circumstances (including those arising from obligations prescribed by other legislation, e.g. what constitutes a financial year in the event of a change in the legal form or where a company is required to close its books for tax purposes for example for taxation of limited partnerships).</p> <p>Furthermore, a question arises of whether it is acceptable for a financial year not to correspond to the tax year.</p> <p>In practice, there are also situations where the first year after the change in the tax year is extremely prolonged.</p> <p>[experts; accounting firm]</p>
	Preliminary proposed solution/general direction for change:	<p>The definition of a financial year may require detailed regulation in view of the difficulties of the interpretation as mentioned above.</p> <p>It would be recommended to modify the provision on the first year after a change in the financial year: we suggest that it should read “shall not be longer than 12 consecutive months” instead of “should be longer than 12 consecutive months”.</p> <p>An option to consider for changes in the financial year would be to provide mechanisms to discourage such changes, e.g. by adding a requirement of a mandatory audit.</p>

6.11.2. No definition of annual financial statements





	Area:	Other topics		
	Title:	No definition of annual financial statements		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	<p>Article 45.1</p> <p>“Article 45. 1. Financial statements shall be prepared as at the date of closing account books, referred to in Article 12.2, and as at another balance sheet date, by applying, subject to the provisions of Sections 1a and 1b, the principles for the measurement of assets, equity and liabilities and for the determination of the financial result specified in Chapter 4, respectively.”</p>		
	Issue for discussion:	<p>The Act contains references to “annual” financial statements. However, it fails to provide a clear definition and/or clarification as to what “annual” financial statements prepared in accordance with Article 12 of the Act are “statutory” annual statements. This is considered of high importance for the preparation of mandatory audit, publication and approval of such statements.</p>		




		[experts]
	Preliminary proposed solution/general direction for change:	It is recommended to provide clarity if and when financial statements prepared on account of the closing of account books or otherwise for other purposes are required to be audited and/or approved and require appointment of an audit firm/statutory auditor as well as to state what comparative data should be included in such statements.

6.11.3. Use of the abbreviation IFRS








	Area:	Other topics		
	Title:	Use of the abbreviation IFRS		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	A number of provisions in the Act and the Standards.		
	Issue for discussion:	Currently, the applied term is IFRS, however both the Act and the Standards should use the abbreviation IAS. [experts]		
	Preliminary proposed solution/general direction for change:	It is recommended to use the abbreviation EU-IFRS as a reference to the standards endorsed for use in the European Union to provide clarity of the legislation.		

6.11.4. No definitions for a transaction or a balance

	Area:	Other topics		
	Title:	No definitions for a transaction or a balance		
	Priority:	<input type="checkbox"/> High	<input type="checkbox"/> Medium	<input checked="" type="checkbox"/> Low
	Type:	<input checked="" type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input type="checkbox"/> over regulated area (excessive regulatory burdens)		

	Legal reference (if applicable):	Not applicable.
	Issue for discussion:	The Act does not contain definitions of a transaction or a balance, which may be relevant, for example for disclosures in the area of related-party transactions or for the provision that an account book is opened as at the date when the first transaction occurs. [experts]
	Preliminary proposed solution/general direction for change:	It would be recommended to add the definitions of a transaction and a balance in the Act.

6.11.5. Definitions of related entities

	Area:	Other topics		
	Title:	Definitions of related entities		
	Priority:	<input type="checkbox"/> High	<input checked="" type="checkbox"/> Medium	<input type="checkbox"/> Low
	Type:	<input type="checkbox"/> area for potential improvement <input type="checkbox"/> inconsistent laws and regulations <input type="checkbox"/> legal loophole or regulatory gap <input checked="" type="checkbox"/> over regulated area (excessive regulatory burdens)		
	Legal reference (if applicable):	Article 3.1(37)–(43) “(37) parent company, it means an entity that is a commercial company or a state-owned enterprise which exercises control over a subsidiary, in particular which: (a) holds, directly or indirectly, the majority of the total number of votes in the governing body of the subsidiary, also based on arrangements with other holders of voting rights that exercise them in keeping with the parent company’s will; or (b) is a shareholder of the subsidiary and is empowered to manage the financial and operating policies of the subsidiary independently or through persons or entities it has appointed under an arrangement made with other holders of voting rights that hold, under the articles of association or partnership or company deed, jointly with the parent company, a majority of the total number of the votes in the governing body; or ...”		
	Issue for discussion:	The Act contains complex and detailed provisions governing the definitions of subsidiaries, co-subsidiaries and affiliates, e.g. entities in which the entity holds equity interests; related entities; subordinated entities; related parties, etc. This may lead to inconsistent interpretations and impede the understanding of the requirements under the Act. [experts]		
	Preliminary proposed solution/general direction for change:	It would be recommended to rationalise the structure of the provisions in the Act in this respect.		

Appendix 1 – Glossary of Abbreviations and Acronyms

AIF	Alternative Investment Fund
AIC	Alternative Investment Company
CIT	Corporate Income Tax
DG REFORM	European Commission’s Directorate-General for Structural Reform Support
Annual Financial Statements Directive, Directive	Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC
ERP	Enterprise Resource Planning systems
SAF-T or JPK	Standard Audit File for Tax (Polish: <i>Jednolity Plik Kontrolny</i>) – account books and documents maintained in an appropriate format using computer software and provided at the request by a tax authority (mandated by Article 193a of the Tax Ordinance)
JPK_KR	SAF-T for Account Books (Polish: <i>księgi rachunkowe</i>)
JPK_MAG	SAF-T for Warehouse Management (Polish: <i>magazyn</i>)
PIE	Public Interest Entity
KRS	National Court Register (Polish: <i>Krajowy Rejestr Sądowy</i>)
KSeF	National System of e-Invoices (Polish: <i>Krajowy System e-Faktur</i>)
CCC	Polish Commercial Companies Code
NASs, Standards, NAS Standards	National Accounting Standards published by the Accounting Standards Committee
NAS 1	National Accounting Standard 1: Cash Flow Statement
NAS 2	National Accounting Standard 2: Income Tax
NAS 3	National Accounting Standard 3: Outstanding Construction Services
NAS 4	National Accounting Standard 4: Impairment of Assets
NAS 5	National Accounting Standard 5: Leases
NAS 6	National Accounting Standard 6: Provisions, Accrued Expenses and Contingent Liabilities
NAS 7	National Accounting Standard 7: Changes in Accounting Principles (Policies) and Estimates, Errors, Events After Balance Sheet Date – Recognition and Presentation
NAS 11	National Accounting Standard 11: Fixed Assets

NAS 14	National Accounting Standard 14: Going Concern and Entity Accounting Not on a Going Concern Basis
NAS 15	National Accounting Standard 15: Revenue from Sales of Products, Semi-Finished Products, Goods and Materials
MoF	Ministry of Finance, Beneficiary
IAS	International Accounting Standards
IAS 1	International Accounting Standard 1 Presentation of Financial Statements
IAS 2	International Accounting Standard 2 Inventories
IAS 8	International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors
IAS 24	International Accounting Standard 24: Related Party Disclosures
IAS 37	International Accounting Standard 37: Provisions, Contingent Liabilities and Contingent Assets
IAS 38	International Accounting Standard 38: Intangible Assets
IFRS	IAS, IFRS and the related interpretations
EU-IFRS ¹	IASs, IFRSs and the related interpretations (“IFRS”) published as regulations of the European Commission
IFRS 3	International Financial Reporting Standard 3: Business Combinations
IFRS 5	International Financial Reporting Standard 5: Non-current Assets Held for Sale and Discontinued Operations
IFRS 9	International Financial Reporting Standard 9: Financial Instruments
IFRS 10	International Financial Reporting Standard 10: Consolidated Financial Statements
IFRS 11	International Financial Reporting Standard 11: Joint Arrangements
IFRS 13	International Financial Reporting Standard 13: Fair Value Measurement
NBP	National Bank of Poland
Tax Law	Certain legislation governing the tax system in Poland, including but not limited to: - Act of 15 February 1992 on Corporate Income Tax (consolidated text: Dz. U. [<i>Journal of Laws</i>] 2022, item 2587, as amended). - Act of 11 March 2004 on Value-Added Tax (consolidated text: Dz. U. [<i>Journal of Laws</i>] 2022, item 931, as amended). - Act of 29 August 1997 – Tax Ordinance (Dz. U. [<i>Journal of Laws</i>] 1997, No. 137, item 926).
Project	Project called Reform of the Accounting System with Special Regard to Digitalisation REFORM/SC2022/132
PwC	PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością sp. k.
Financial Instrument Regulation	Regulation of the Minister of Finance of 12 December 2001 on specific principles of recognition, methods of measurement, scope of disclosure and manner of presentation of financial instruments (Dz. U. [<i>Journal of Laws</i>] 2017, item 277)

Consolidation Regulation	Regulation of the Minister of Finance of 25 September 2009 on specific principles of preparation of group consolidated financial statements by entities other than banks or insurance or reinsurance companies (Dz. U. [<i>Journal of Laws</i>] 2017, item 676)
Insurer Accounting Regulation	Regulation of the Minister of Finance of 12 April 2016 on specific accounting principles of insurance and reinsurance companies
Schema	Logical schema of financial statements
TFI	Investment fund company based in Poland (Polish: <i>Towarzystwo Funduszy Inwestycyjnych</i>)
EU	European Union
R&D Tax Credit	Research and development tax credit
Act	Act of 29 September 1994 on Accounting (Dz. U. [<i>Journal of Laws</i>] 2023, item 120)
Statutory Auditors Act	Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Dz. U. [<i>Journal of Laws</i>] of 2022, items 1302, 2640);
VAT	Value Added Tax
OPE	Organised Part of an Enterprise
Project Team	Team or Project Team, including the partner responsible for engagement, quality control partner, field expert, Project manager

Appendix 2 – List of entities participating in the Project

List of institutional stakeholders attending workshops

1	ACCA
2	Bank Guarantee Fund (<i>Bankowy Fundusz Gwarancyjny</i>)
3	FCCA
4	Chamber of Fund and Asset Management (<i>Izba Zarządzających Funduszami i Aktywami</i>)
5	Accounting Standards Committee (<i>Komitet Standardów Rachunkowości</i>)
6	National Chamber of Tax Advisers (<i>Krajowa Izba Doradców Podatkowych</i>)
7	National Co-operative Savings and Credit Union (<i>Krajowa Spółdzielcza Kasa Oszczędnościowo-Kredytowa</i>)
8	Ministry of Finance
9	Ministry of Development and Technology
10	Ministry of Justice
11	National Bank of Poland
12	National Freedom Institute – Centre for Civil Society Development (<i>Narodowy Instytut Wolności – Centrum Rozwoju Społeczeństwa Obywatelskiego</i>)
13	PFR Ventures
14	Polish Agency for Audit Oversight (<i>Polska Agencja Nadzoru Audytowego</i>)
15	Polish Chamber of Statutory Auditors (<i>Polska Izba Biegłych Rewidentów</i>)
16	Polish Chamber of Insurance (<i>Polska Izba Ubezpieczeń</i>)
17	Polish Private Equity and Venture Capital Association (<i>Polskie Stowarzyszenie Inwestorów Kapitałowych</i>)
18	Employers of Poland (<i>Pracodawcy RP</i>)
19	PZU S.A.
20	Public Benefit Activity Board (<i>Rada Działalności Pożytku Publicznego</i>)
21	Polish Association of Listed Companies (<i>Stowarzyszenie Emitentów Giełdowych</i>)
22	Accountants Association in Poland (<i>Stowarzyszenie Księgowych w Polsce</i>)
23	Polish Financial Supervision Authority Office (<i>Urząd Komisji Nadzoru Finansowego</i>)
24	Polish Bank Association (<i>Związek Banków Polskich</i>)

List of companies (Act's users) attending workshops

	Company	Industry	Applicability
1	restricted name	media	The Act and IFRS
2	restricted name	e-commerce	IFRS
3	restricted name	manufacturing and commerce	The Act and IFRS
4	restricted name	retail	IFRS
5	restricted name	telecommunications	The Act and IFRS
6	restricted name	power and utilities	The Act and IFRS
7	restricted name	manufacturing, mining	The Act and IFRS
8	restricted name	transport	The Act
9	restricted name	retail	The Act and IFRS
10	restricted name	banking	The Act and IFRS
11	restricted name	retail	The Act

Appendix 3 – Mapping the provisions of the Act to identified issues for discussion

The below table articulates the issues. If any provision of the Act does not have a number of the corresponding issue, this means that the review has not identified any areas for discussion in connection with that provision at this stage and the provision has not been identified as an area for discussion by the stakeholders.

ARTICLE	Issue	Priority
Article 1. [Scope of the Act]	(none)	N/A
Article 2. [Applicability of the Act]	6.1.4	Medium
	6.1.8	High
Article 3. [Definitions]	6.1.8	High
	6.2.5	Low
	6.5.2	Medium
	6.5.4	Medium
	6.8.1	Medium
	6.8.2	Medium
	6.8.3	Medium
	6.8.4	Medium
	6.8.5	Medium
	6.8.6	Medium
	6.8.26	Low
	6.8.32	Medium
	6.8.65	Medium
	6.8.66	Medium
	6.8.68	Low
	6.11.1	Medium
	6.11.5	Medium
Article 4. [Obligations and rights of entities in accounting; scope of accounting]	(none)	N/A
Article 4a. [Responsibility of the entity's manager and the supervisory authority for the entity's statements]	6.2.1	Medium
Article 5. [Principle of consistency and going concern]	6.8.7	High
Article 6. [Principle of accrual accounting and matching principle]	(none)	N/A
Article 7. [Historical cost principle, prudence principle and no-offsetting principle]	6.1.3	High

ARTICLE	Issue	Priority
	6.8.9	Low
Article 8. [Principle of materiality; permitted derogations from the principle of continuity]	6.8.9	Low
Article 9. [Language and currency of accounting]	6.6.2	Medium
	6.6.3	Low
Article 10. [Documentation of the system of accounting]	6.1.1	High
	6.6.5	Low
	6.6.9	High
	6.6.15	High
Article 11. [Accounting entity]	(none)	N/A
Article 11a. [Place of keeping account books]	6.6.1	Medium
Article 12. [Opening and closing of account books]	6.6.6	Medium
	6.6.7	Medium
	6.6.8	Medium
	6.6.10	High
Article 13. [General bookkeeping requirements]		
Article 14. [Definition and creation of a journal]	6.6.10	High
Art. 15. [General ledger accounts]	6.6.10	High
Article 16. [Subsidiary ledger accounts]	6.6.10	High
Article 17. [Scope of keeping subsidiary ledger accounts]	6.6.10	High
	6.6.17	Low
Article 18. [Statement of turnover and balances]	6.6.10	High
	6.6.12	Medium
	6.6.16	High
Article 19. [Inventory]	6.6.10	High
Article 20. [Accounting record]	6.6.11	High
Article 21. [Formal requirements for accounting documents]	6.6.13	Medium
Article 22. [Substantive requirements for accounting documents]	(none)	N/A
Article 23. [Formal requirements for accounting records]	(none)	N/A
Article 24. [Quality characteristics of account books]	6.6.12	Medium
Article 25. [Adjusting errors in accounting records]	6.6.14	Medium
Article 26. [Scope, methods and frequency of stocktaking]	6.7.1	High

ARTICLE	Issue	Priority
	6.7.2	Medium
	6.7.3	Medium
	6.7.4	Medium
	6.7.5	Low
Article 27. [Documenting and accounting for a stocktaking exercise]	(none)	N/A
Article 28. [General asset, equity and liability measurement principles; definitions of basic valuation parameters]	6.8.10	Medium
	6.8.11	Low
	6.8.12	Medium
	6.8.19	Low
	6.8.20	Medium
	6.8.24	High
	6.8.25	Medium
	6.8.27	Low
	6.8.40	Medium
	6.8.58	Low
Article 28a. [Asset and liability measurement principles for micro entities]	6.1.3	High
Article 28b. [Simplification of not applying the provisions of the Regulation of the Minister of Finance of 12 December 2001 on the specific principles of recognition, methods of measurement, scope of disclosure and manner of presentation of financial instruments]	(none)	N/A
Article 29. [Measurement of assets, equity and liabilities for discontinued operations]	6.8.8	Medium
Article 30. [Measurement of assets, equity and liabilities in foreign currencies]	6.8.13	Medium
	6.8.14	Low
	6.8.15	Low
	6.8.16	Low
	6.8.17	Low
Article 31. [Measurement of fixed assets]	6.8.26	Low
Article 32. [Fixed asset depreciation]	6.1.3	High
	6.8.28	Low
	6.8.29	Low
	6.8.30	Medium

ARTICLE	Issue	Priority
	6.8.31	Medium
	6.8.70	Medium
Article 33. [Measurement and amortisation of intangible assets]	6.8.20	Medium
	6.8.21	Medium
	6.8.22	Low
	6.8.23	Medium
Article 34. [Special measurement principles for tangible components of current assets]	6.8.33	Medium
	6.8.34	Medium
	6.8.35	Low
	6.8.36	Low
	6.8.67	Medium
Article 34a. [Determining income on outstanding long-term service agreements]	6.8.65	Medium
Article 34b. [Determining cost]	(none)	N/A
Article 34c. [Accounting for cost of outstanding service contracts]	(none)	N/A
Article 34d. [Option not to apply the specific method of accounting for income and expenses on outstanding long-term service contracts]	(none)	N/A
Article 35. [Special measurement principles for financial assets]	6.8.41	Low
	6.8.42	Low
	6.8.43	Low
	6.8.46	Low
Article 35a. [Special measurement principles for financial instruments]	6.8.44	Medium
	6.8.45	Medium
Article 35b. [Revaluation of receivables]	6.8.38	Medium
	6.8.39	Medium
Article 35c. [Reversal of allowances]	(none)	N/A
Article 35d. [Provisions for liabilities]	6.8.56	Medium
	6.8.57	Medium
	6.8.59	Low
	6.8.66	Medium
Article 36. [Equity]	6.8.48	Low
	6.8.49	Low

ARTICLE	Issue	Priority
	6.8.50	High
	6.8.51	Low
	6.8.52	Low
	6.8.71	Medium
Article 36a. [Profit or loss on sale/redemption of treasury shares]	(none)	N/A
Article 37. [Deferred tax assets and liabilities]	6.8.61	Medium
	6.8.62	Medium
	6.8.64	Medium
Article 38. [Technical provisions]	6.8.72	Low
Article 39. [Prepaid and accrued expenses]	6.8.53	Medium
	6.8.54	Medium
	6.8.55	Medium
	6.8.57	Medium
Article 41. [Accrued and deferred income]	6.8.60	Medium
Article 42. [Components of net profit or loss of entities other than banks and insurance and reinsurance companies]	(none)	N/A
Article 43. [Components of net profit or loss of banks]	(none)	N/A
Article 44. [Components of net profit or loss of insurance and reinsurance companies]	6.8.73	Medium
Article 44a. [Business combination methods and date]	6.9.1	High
	6.9.2	Medium
	6.9.3	Low
	6.9.11	High
	6.9.15	Medium
Article 44b. [Acquisition method]	6.1.3	High
	6.9.10	Medium
	6.9.11	High
	6.9.12	Medium
	6.9.13	Medium
	6.9.14	Medium
	6.9.15	Medium
Article 44c. [Pooling-of-interest method]	6.9.4	Medium

ARTICLE	Issue	Priority
	6.9.5	High
	6.9.6	Medium
	6.9.7	Low
	6.9.8	Low
	6.9.11	High
	6.9.15	Medium
Article 44d. [Extended application of acquisition method]	6.9.9	High
	6.9.16	Medium
Article 45. [Components and language and currency of financial statements]	6.1.5	High
	6.1.7	High
	6.4.1	High
	6.11.2	Medium
Article 46. [Balance sheet]	6.1.3	High
	6.3.3	Medium
Article 47. [Profit and loss account]	6.3.5	Medium
	6.4.2	High
Article 48. [Notes]	(none)	N/A
Article 48a. [Statement of changes in equity]	(none)	N/A
Article 48b. [Cash flow statement]	6.3.6	Medium
	6.3.23	Medium
	6.3.24	Medium
Article 49. [Management report on activities]	6.2.7	Medium
	6.2.8	Medium
Article 49a. [Reliability of financial statements of micro entities]	6.1.3	High
Article 49b. [Non-financial information statement]	(none)	N/A
Article 50. [Level of detail of financial statements]	(none)	N/A
Article 51. [Combined financial statements]	6.2.4	Medium
Article 52. [Timeline for preparation and sign-off of financial statements]	6.2.2	High
	6.2.3	Medium
	6.4.3	Medium
	6.6.4	Medium

ARTICLE	Issue	Priority
Article 53. [Authorisation of financial statements]	6.1.8	High
Article 54. [Events after balance sheet date; errors]	6.2.9	Medium
	6.2.10	Medium
Article 55. [Obligation to prepare and scope of consolidated financial statements]	6.5.3	Medium
	6.5.5	Medium
	6.5.6	High
	6.5.7	Medium
Article 56 [Exemptions from consolidation]	6.5.8	High
	6.5.9	Medium
	6.5.10	Medium
Article 57. [Exclusions from consolidation]	(none)	N/A
Article 58. [Further exemptions from consolidation]	(none)	N/A
Article 59. [Consolidation methods]	6.5.1	Medium
Article 60. [Full consolidation]	6.1.3	High
	6.5.1	Medium
	6.5.13	Medium
	6.5.14	Medium
	6.5.15	Medium
Article 61. [Proportionate consolidation]	6.5.17	Medium
	6.5.18	Medium
	6.5.19	Medium
Article 63. [Equity method in separate financial statements]	6.5.20	Medium
	6.5.21	Low
	6.5.22	Medium
Art. 63a. [Write-off of goodwill due to impairment of shares]	(none)	N/A
Article 63b. [Requirements to be met by financial statements under consolidation]	6.5.23	Medium
	6.5.24	Medium
Article 63c. [Requirements to be met by consolidated financial statements]	6.2.2	High
Article 63d. [Consolidated financial statements of issuers of securities]	(none)	N/A
Article 63e. [Definitions]	(none)	N/A
Article 63f. [Entities obliged to prepare statements of payments]	(none)	N/A

ARTICLE	Issue	Priority
Article 63g. [Obligation to prepare consolidated statements of payments]	(none)	N/A
Article 63h. [Exclusions from obligation to prepare consolidated statements of payments]	(none)	N/A
Article 63i. [Publication of statement of payments and consolidated statement of payments]	(none)	N/A
Article 63j. [Sign-off of statement of payments and consolidated statement of payments]	(none)	N/A
Article 63k. [Preparation of statement of payments and consolidated statement of payments]	(none)	N/A
Article 64. [Scope of mandatory auditing of financial statements]	6.1.6	High
	6.10.8	Medium
Article 64a. (repealed)	(none)	N/A
Article 64b. (repealed)	(none)	N/A
Article 65. (repealed)	(none)	N/A
Article 66. [Impartial and independent status of statutory auditor]	6.10.1	Medium
	6.10.2	High
	6.10.3	High
	6.10.4	Medium
	6.10.5	Medium
Art. 67. [Rights and disclosure obligations of statutory auditor]	6.10.6	Medium
	6.10.7	Medium
Article 67a. (repealed)	(none)	N/A
Article 68. [Timeline for making available annual financial statements, management reports on activities and audit report]	(none)	N/A
Article 69. [Filing of annual financial statements with the court register]	6.1.8	High
	6.2.6	Medium
Article 70. [Publication of annual financial statements]	(none)	N/A
Article 70a. [Statement of no obligation to prepare and file annual financial statements]	(none)	N/A
Article 71. [Data retention and protection]	6.6.18	High
Article 72. [Form of retained computer-processed data]	(none)	N/A
Article 73. [Data retention locations and methods]	6.6.11	High
	6.6.18	High
Article 74. [Data retention periods]	(none)	N/A

ARTICLE	Issue	Priority
Article 75. [Data sharing]	(none)	N/A
Article 76. [Data retention for entities which are no longer a going concern]	(none)	N/A
Article 76a. [Scope of accounting and bookkeeping services and requirements for persons engaged in such activity]	(none)	N/A
Article 76b. (repealed)	(none)	N/A
Article 76c. (repealed)	(none)	N/A
Article 76d. (repealed)	(none)	N/A
Article 76e. (repealed)	(none)	N/A
Article 76f. (repealed)	(none)	N/A
Article 76g. (repealed)	(none)	N/A
Article 76h. [Obligation to have insurance for businesses engaged in accounting and bookkeeping services]	(none)	N/A
Article 76i. (repealed)	(none)	N/A
Article 77. [Liability for breach of obligations with respect to accounting and bookkeeping and preparing financial statements]	(none)	N/A
Article 78. [Responsibility of the statutory auditor for their opinion]	(none)	N/A
Article 79. [Liability for violation of other provisions of the Act]	(none)	N/A
Article 80. [Restriction of application of certain provisions of the Act]	(none)	N/A
Article 80a. (repealed)	(none)	N/A
Article 81. [Delegations to make secondary legislation]	6.3.25	Medium
Art. 82. [Powers of the Minister of Finance]	(none)	N/A
Article 83. [Model charts of accounts]	(none)	N/A
Article 84. (omitted)	(none)	N/A
Article 85. [Repeal]	(none)	N/A
Article 86. [Effective date]	(none)	N/A
Annex 1	6.3.1	High
	6.3.2	High
	6.3.6	Medium
	6.3.7	Medium
	6.3.8	Medium
	6.3.9	Medium
	6.3.10	Medium
	6.3.11	Low

ARTICLE	Issue	Priority
	6.3.12	Low
	6.3.13	Medium
	6.3.14	Medium
	6.3.15	Low
	6.3.16	Medium
	6.3.17	Low
	6.3.18	Medium
	6.3.19	Low
	6.3.20	Medium
	6.3.21	Medium
	6.3.22	Low
	6.3.23	Medium
	6.3.26	Low
	6.3.27	Medium
	6.3.28	Medium
	6.3.29	Low
	6.3.30	Medium
	6.5.11	Low
	6.6.5	Low
Annex 2	6.3.2	High
	6.3.6	Medium
	6.3.23	Medium
	6.3.26	Low
	6.3.28	Medium
Annex 3	6.3.2	High
	6.3.4	High
	6.3.6	Medium
	6.3.23	Medium
	6.3.24	Medium
	6.3.26	Low
	6.3.28	Medium

ARTICLE	Issue	Priority
Annex 4	(none)	N/A
Annex 5	(none)	N/A
Annex 6	(none)	N/A
(No regulations exist)	6.1.2	High
(No regulations exist)	6.5.12	Medium
(No regulations exist)	6.5.16	Medium
(No regulations exist)	6.8.18	Low
(No regulations exist)	6.8.37	Medium
(No regulations exist)	6.8.47	Low
(No regulations exist)	6.8.63	Medium
(No regulations exist)	6.8.69	Medium
(No regulations exist)	6.11.3	Low
(No regulations exist)	6.11.4	Low

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