Reform of the Accounting System with Special Regard to Digitalisation

Analysis of the target state and proposed solutions
("TO BE" and gap analysis of the Accounting Regulation)

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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 May 2023 to December 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 IV of the Project entitled 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 Project contractor 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").

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The purpose of this phase of the Project was to perform the so-called "TO BE" analysis, i.e. to develop recommendations for changes to the regulations to the identified in Phase II of the Project areas of discussion related to the application of the Accounting Act (Act of 29 September 1994 on Accounting (Journal of Laws of 2023, item 120), hereinafter referred to as the "Act"), as well as other applicable sources and provisions of law and regulations, including standards and statements of position of the Accounting Standards Committee and Regulations. At this stage of the Project, the list of areas for discussion has also been expanded to include additionally identified issues for which changes have also been proposed.

As part of the work on recommendations, an in-depth analysis of areas for discussion identified in Phase II of the Project was conducted and numerous meetings were held with experts who are members of the Project Team (in the areas of accounting, auditing, tax law, and modern technologies) and key stakeholders. The recommendations also take into account, where appropriate, good practices from European Union countries collected in Phase III of the Project.

Phase IV of the Project also reviewed the prioritisation methodology for the identified areas for discussion as well as the assessment of priority areas identified in Phase II of the Project. Priority areas, identified during Phase IV of the Project, including but not limited to:

- Restructuring 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, bookkeeping and stocktaking and other relevant financial and accounting processes,

were maintained.

Section 3 of this Report contains recommendations developed for the areas for discussion identified in Phase II of the Project and expanded by newly identified issues. These areas have been grouped on a thematic basis to facilitate the analysis of the document. Each of the areas in this Report is structured to include: title (summary description of the subject matter), reference to the legal act, summary description of the problem and recommendations proposed by the authors of the Report (including a description of the proposed change with reasons, indication of its location in the relevant legal act and a description of the dissenting opinions, discrepancies or decisions to be taken (if any)).

The descriptions of the areas for discussion, which were given high priority, were supplemented in Phase II with suggested further steps. In Phase IV, meanwhile, in the course of work on the analysis of the target state, while preparing recommendations for changes, these steps were re-analysed and deepened or supplemented. It should be noted that for some of the areas for discussion identified in Phase II of the Project, two alternative options have been presented which require further deepening and analysis at subsequent stages of work. This report includes also the description of areas for discussion for which no changes are recommended. If the change is not recommended, the reasons for such decision are given.

2. Work performed

Since the purpose of this phase of the Project was to conduct a “TO BE” analysis, including both recommendations for changes to the Accounting Act as well as other laws or regulations affecting the desired effects, the following works were performed:

- Developing preliminary recommendations for changes to the discussion areas identified in Phase II of the Project and identification and development of new discussion areas together with recommendations for changes;
- Conducting workshops with key stakeholders to discuss the proposed recommendations and gather feedback and include them in the recommendations (where deemed reasonable);
- Summary of good practices identified in Phase III of the Project, identification of such recommendations that could be implemented in Poland and their inclusion in the proposed recommendations;
- Include, in the final version of the recommendation, comments and feedback received from key stakeholders and the MoF working team;
- Preparation of a preliminary transition plan, i.e. a high level plan for further work and implementation of proposed recommendations.

In order to deepen the “AS IS” analysis and develop the recommended “TO BE” approach, a series of meetings were held with key stakeholders allowing for direct exchange of views on proposed changes. During Phase IV of the Project, we held 4 meetings with the members of the Polish Financial Supervision Authority. The issues raised during the meetings concerned accounting regulations applied by banks, investment funds and insurance companies. As part of a series of 5 meetings with the members of the Accounting Standards Committee, the following issues were addressed, identified as the most significant/priority from the Project perspective:

- System of the accounting regulations;
- Adoption of IFRS;
- Bookkeeping – principles, technical aspects and archiving and protection;
- Stocktaking method - use of computer systems;
- Investments and financial instruments;
- Acquisitions, business combinations and divisions of companies;
- Selected topics in the area of fixed assets, preparation of financial statements, inventories and equity.

In addition, we also held a meeting related to the bookkeeping with the tax team within the Ministry of Finance.

Apart from the above-mentioned meetings with key stakeholders, as part of our work on recommendations for changes to the provisions of the Act and other legal provisions and regulations having an indirect or direct impact on accounting regulations, we also held a series of several meetings with a team of PwC experts who are members of the Project Team (in the areas of accounting, auditing, tax law, and modern technologies).

The scope of areas excluded from the scope of the Project in Phase II, at the beneficiary's request, taking into account the availability of resources, the volume of topics and other ongoing projects, in Phase IV has been maintained unchanged and includes:

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,
   b. audit engagements: entering into and terminating contracts.

3. Recommendations for changes to the areas of discussion

As part of Phase II of the Project, 200 discussion areas were identified and grouped into 11 thematic groups of similar nature. Each of the discussion areas was assigned a reference number in 6.X.Y format.

While working on Phase IV of the Project, some of the discussion areas were merged or grouped differently from Phase II, as some of our proposed change recommendations often impacted more than one discussion area from different topic groups. This Report therefore contains a slightly different structure of the topics, but for the sake of continuity and coherence with the Phase II Report, the name of each of the discussion areas has been retained and supplemented at the end with a number from the Phase II Report, for easier identification. A summary of the allocation of the individual discussion areas from Phase II to the Phase IV recommendations is presented in Appendix 3.

3.1. System of accounting regulations

3.1.1. System of accounting regulations and structure of the Act

- The remit of the Act and the obligation to apply National Accounting Standards/High (6.1.1.)
- Restructuring the Act/High (6.1.3.)

Reference to a legal act:

Mainly the provisions of Article 10(3) of the Act stipulating that "in matters not regulated by the Act, when adopting 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 International Accounting Standards ("IAS")."

Summary (synthetic) description of the problem:

The accounting principles (policies) are regulated in the Act, regulations, National Accounting Standards ("NAS", "Standards", "NAS Standards") and statements of position issued by the Accounting Standards Committee. NAS are not mandatory and the legal status of statements of position of the Accounting Standards Committee is not clear-cut.

Article 10(3) permits, but does not require, the adoption of NAS 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.

In addition, in the current structure of the Act, the same issues arise in several places and the scope of detail of regulations is not uniform.

Recommendation

a. Description of proposed change

Option 1:

General assumptions for the proposed regulatory structure:

As part of the reform of accounting regulations, we propose the following approach to the Act, Regulations and NAS issued by the Accounting Standards Committee:

(i) We propose that the Act includes general rules and requirements. 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 reports of certain types of undertakings ("Directive") whereas issues that require further elaboration of those provisions are addressed in individual standards issued in the form of regulations.

(ii) The Act should be supplemented by:

(a) NAS in the rank of regulations applicable to all entities with the exceptions provided for in regulations dedicated to selected types of entities (see b) – so-called **horizontal/cross-cutting standards** in the rank of regulations;

(b) For selected types of entities: sector-specific requirements with specific accounting principles dedicated for these entities (**sector-specific standards**) being sector-specific NAS in the rank of regulations.

(iii) In addition to the Act and its supplemental standards, the accounting regulations may so far be supplemented by additional guidelines, recommendations, examples, best practice descriptions or Q&A documents, the publication of which will be the responsibility of the Accounting Standards Committee in consultation with other institutions (e.g. Polish Financial Supervision Authority – "PFSA Office", Polish Chamber of Statutory Auditors – "PIBR", The Accountants Association in Poland ("SKwP", etc.).

For each horizontal standard and each sector-specific standard, a single, separate set of guidelines (NAS guidelines, application guidelines) will be issued by the NAS, which will provide guidance on how to best apply the provisions of the standard. These guidelines will not be legal but will only be auxiliary.

(iv) creating new and supplementing existing standards should be initiated by the Accounting Standards Committee, whose legal mandate and structure of cooperation with the MoF should be re-examined depending on the decision on its role (under Option 1 or Option 2). In addition, it should be left possible for the Minister of Finance to introduce a regulation other than standards, as the Accounting Standards Committee will not always initiate the introduction of regulations (e.g. minimum requirements for financial and accounting systems).

Chart presenting the target structure of regulations is presented in Appendix 5.

The above proposal means that the existing horizontal regulations (the 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 – the “Consolidation Regulation”; the Regulation of the Minister of Finance of 12 December 2001 on specific principles of recognition, valuation methods, scope of disclosure and manner of presentation of financial instruments – the “Financial Instrument Regulation”) and sector-specific regulations, e.g. concerning banking or insurance activities, should change their form into a form of a standard, which would allow for greater coherence between all sources of law supplementary to the Act. The content of existing NAS should be analysed and divided into a part which will remain the standard and be published in the form of a regulation and a part which will contain examples and further clarifications (application guidelines), which will also be published by the Accounting Standards Committee. We recommend the similar approach to the existing statements of position, i.e. after analysing their content, we recommend transferring part of the content from these statements of position to a horizontal or sector-specific standard (or create an additional standard), while transferring other content such as clarifications or examples to guidelines published by the Accounting Standards Committee.

Chart presenting the current structure of regulations and proposed target shape is attached as Appendix 6 to this Report.

Steps to be taken to obtain the target structure of sources of law	
Level of the structure	Assumptions
Act	- A level of detail not exceeding what is provided for in the Directive (may be less than in the Directive, assuming that the other elements required by the Directive are included in the NAS in the form of a regulation); - restricting the content of the Act so as to include general rules and requirements, whereas the detailed provisions would be included in the standards; - Removal of overregulated areas from the Act;

Standards in the form of an Appendix to the Regulation	- Analysis of the current content of the applicable standards from the perspective of their possible treatment as a regulation – adaptation to the requirements of the legislative technique; - Examples, clarifications, additional recommendations currently constituting the content of the standards to be transferred to the application guidelines (not constituting the source of law, but its best interpretation and providing practical assistance in the application of the law); - Creating and supplementing existing standards/regulations with the provisions deleted from the Act as too specific (e.g. reporting templates, new stocktaking standard, new sector-specific standard e.g. for real estate industry companies, lease companies, non-profit foundations/public benefit organisations)
Sector-specific regulations	Changing the current wording (formula) to standard-type wording (formula)
Horizontal Regulations	Changing the current wording (formula) to standard-type wording (formula)
Statements of position	Considering whether a statement of position should be transformed into a standard or its contents should be transferred to another horizontal or sector-specific standard. If it is necessary to issue a separate standard, change the wording (formula) to the standard-type wording formula and separation some of the contents to the guidelines to be issued by the Accounting Standards Committee
Application guidelines	Separation of content from the existing standards and statements of position that interpret the law rather than regulating it (e.g. current examples) and/or creation of new guidelines

Legislative process including adoption of standards in the form of appendices to the Regulation

1. Developing draft standard by the Accounting Standards Committee

↓

2. Submission of draft standard for public discussion by the Accounting Standards Committee * (conducting pre-consultation with the market)

↓

3. Report draft standard to MoF after pre-consultation by the Accounting Standards Committee
↓
4. Preparing the draft regulation by MoF and submitting it with a standard (in the form of an Appendix) to the arrangements and public consultations
↓
5. Consideration of comments by MoF with the involvement of the Accounting Standards Committee and development of recommendations for consideration of comments
↓
6. Further legislative procedure
↓
7. Issue by MoF of a regulation with a standard in the form of an appendix

*) in accordance with the Rules of Procedure of the Accounting Standards Committee, the Committee may submit draft standards and statements of position for public discussion. This is done through publication on the websites of MoF, SKwP, PIBR and in the monthly "Accounting". The Committee may also refer the draft standard or statement of position to selected bodies and institutions for their opinion.

Specific recommendations for regulations (currently existing and possible new ones):

We recommend supplementing 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 disclosed in the financial statements of financial entities, and in terms of possible new sector-specific regulations for those sectors that would need to have specific principles of preparing financial statements) to regulate entity-specific and business-specific issues.

We recommend that sector-specific regulations cover the following entities: banks, insurance companies, reinsurance companies, investment funds, brokerage houses and cooperatives. It is worth considering extending this group and creating sector-specific regulations in addition for entities such as real estate industry companies, leasing companies, companies granting loans, factoring companies, and NGOs (including non-profit foundations and public benefit organisations).

We recommend that sector-specific standards should be able to modify the provisions contained in horizontal standards, taking into account the specificities of the industry and specific sector-specific regulatory requirements (e.g. banking, insurance, etc.).

We also propose that "horizontal" regulations (to which all entities are subject), such as: The Financial Instrument Regulation and the Consolidation Regulation have been reformulated into standards. The provisions of the horizontal regulations would apply to all entities provided that in a given sector-specific regulation the provisions of the horizontal regulation can be modified.

Specific recommendations for the standards:

We recommend introducing the obligation to use NAS by publishing them in the form of regulations. In matters not regulated by the Act and the regulations (including standards), we suggest that it should be possible to develop accounting polices based on IFRS, while maintaining the overriding principles contained in the Act.

We call for mandatory adoption of NAS by certain entities, i.e. all entities applying the Act (and not applying IFRS), excluding small and micro entities. Simplifications for small and micro entities should be introduced in the catalogue of simplifications included in the Act. In addition, each standard should include provisions to be used for small and micro entities in a separate part of a given regulation so that these requirements are presented in a manner that is easily accessible to such entities (alternatively, a separate standard may be prepared in the form of a regulation dedicated to small and micro entities). We assume that sector-specific standards will not apply to small and micro entities.

The use of the Accounting Standards Committee's statements of position should also be regulated. In the short term, this can be achieved by introducing a provision that standards mean both the standards and the statements of position of the Accounting Standards Committee. In addition, consideration should be given to including issues currently covered by statements of position in the content of the standards, where appropriate (for example, the wording on the "Statement of Position on accounting of economic rights arising from certificates of origin for energy produced from renewable energy sources" can be included in the recommended standard on intangible assets). We propose to eventually resign from the statements of position in the future.

We propose to make the most of the existing content of the existing standards (taking into account possible changes to the standards introduced as a result of this Project), due to administrative costs related to the preparation of regulations, the time of their preparation, but above all due to burdens on entities that are familiar with the current standards.

The list of standards that should be considered at this stage of work is presented in Appendix 4 hereto.

<u>Restructuring the Act:</u>

We recommend that the Act be restructured in such a way that its structure is clearer and more organized and that similar topics should be grouped together in one place. This means, among others:

1) Definitions:

- Grouping all definitions included in the Act in one place and placing them in alphabetical order;
- The list of definitions would include the main/basic terminology, e.g. items such as assets or liabilities, IFRS, Polish accounting principles, micro/small/large entities etc. would be listed there;
- Such items as fixed assets, intangible assets, etc. could be defined in the wording of the Act itself in places where they appear for the first time – each definition should be

considered and it should be determined whether it applies in many places in the Act (and then it should be left in the “Definitions” section of the Act or it should only refer to a specific section of the Act and then be defined there).

2) Obligations and exemptions:

- Grouping exemptions for defined categories of entities (small and micro entities) in one place in the Act;
- Specific instructions for simplifications for micro and small entities shall be included in individual horizontal standards or, if too complicated, the inclusion of requirements in a single standard dedicated to micro and small entities;

3) Information on WHO (which entities) applies the relevant accounting principles (IFRS, Polish Accounting Principles “PAP”, simplified principles) together with information on which chapters of the Act will apply to particular groups of entities;

4) Description of Polish Accounting Principles (PAP) covering:

   a. The general principles for the preparation of the financial statements in accordance with the PAP (principles of true and fair view, prudence, accrual basis, going concern, substance over form and others);

   b. The recognition and measurement of assets, liabilities, revenue and expenses, including those relating to financial instruments;

   c. The principles of consolidation and measurement of shares in subordinated entities in consolidated and separate financial statements;

   d. Accounting policies for business combinations in consolidated and separate financial statements;

   e. General principles of presentation in financial statements, i.e. listing elements of financial statements and their definition;

   f. Events after balance sheet date;

   g. Cross-references to horizontal and sector-specific standards.

   Two sub-chapters should also be included in the chapter on Polish Accounting Principles:

   i. full accounting; and

   ii. exemptions for small and micro entities from the principles provided for in full accounting.

5) “Common” regulations covering both PAP-compliant companies and IFRS-compliant companies, i.e.

   a. The obligation to prepare the financial statements together with the time limits and the obligation to publish and audit them;

b. Definition of the financial year and how to proceed if it is changed, when account books should be closed and opened;

c. Exemptions from the obligation to prepare consolidated statements (some apply to entities applying Polish Accounting Standards “PAS” and some apply to all entities applying both the PSR and IFRS);

d. Matters relating to adjustments of financial statements between preparation and approval;

e. Principles concerning IFRS adoption and PAP adoption (transition from IFRS to PAP);

f. General bookkeeping principles;

g. General stocktaking principles;

h. Determining, if any, which of the equities may be.

Option 2:

Alternatively, another form of publication of standards than indicated in Option 1, i.e. publication in a form other than the form of a regulation, should be considered. Determining what other form would be possible in the current legislative environment should be further developed in a wider panel of experts, taking into account the position of legal services.

In such a case, it would be necessary to:

- Enter in the Act the obligation to apply standards that would have a different status than the Regulation (such as for example the Polish standardisation committee standard);
- Determine the form in which they are to be published and made available (as the mandatory standard), ensuring availability to the public.

However, it should be noted that the obligation stipulated by the Act to apply standards in the form of standards of the Polish standardisation committee will not ensure achievement of the objective of ensuring flexibility in the context of modifying the provisions resulting from specific standards. Each standard must have a legal authority in the Act, which is additionally combined with an indication in the provisions of the Act of the specific number of the standard. Therefore, any update of the standard version in the form of a standard would result in the necessity to change the content of the Act, because as a result of such a modification, the standard number would also change and the reference in the Act would no longer apply.

In addition, it should be left possible for the Minister of Finance to introduce a regulation other than standards because the Accounting Standards Committee will not always initiate the introduction of regulations (e.g. minimum guidelines for financial and accounting systems).

As an alternative Option 2, we also note that apart from the standard structure proposed in Option 1, it would also be possible for each standard to have a structure analogous to that of

IFRS, i.e. it would include a division into the main part that repeats and develops what is included in the Act and the part that provides application guidance. As we understand based on the Accounting Act, the part of the standards concerning application guidance could not be introduced by a regulation. Existing standards should be updated in line with the same principle. We consider Option 1 to be the preferred option, although a structure similar to IFRS may also be discussed further in the subsequent stages of the Project.

<u>Reasons:</u>

The proposals presented above aim at addressing one of the key conclusions resulting from the comprehensive analysis of accounting regulations in Poland, i.e. the need to update and simplify the structure of the Act and the hierarchy of existing regulations.

The order of precedence and level of detail of the current regulations may be considered problematic from the point of view of usefulness, often raises user concerns and contains incoherences.

At present, various ranking provisions contain very detailed guidelines that make it difficult to identify general principles and model practices. The fact that some provisions are contained in a higher ranking document prevents flexible changes to that document and causes limitations such as the possibility to show an example of use.

b. **Reasons if no changes are made to a given problem area (if any)**

At this stage of the Project – not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Cross-cutting changes concerning the Act, standards, regulations and statements of position and the need to develop new standards and guidelines.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

At this stage of the Project– not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☒Developing a new Standard/Regulation
☒Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☒Need to develop complex transitional provisions
☒Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form

☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

Additional remarks – areas of additional analysis

It should be considered whether it would be possible under Polish law (legislative policy, legislation) to include additional guidelines, recommendations, best practices in the standards introduced by regulations (if the structure of the standard is to be as proposed in Option 2).

With respect to the changes resulting from the recommendations presented, the following issues remain for further analysis and clarification:

1) at the level of the Act:
    a) Applicable provisions in the Act on the primacy of standards dedicated to sector-specific entities over "general" standards. It appears to be possible by including the relevant provisions in the regulations themselves;
    b) How solutions for individual sector-specific groups are defined in the standard in consultation with another authority;
    c) Whether the Act requires new wording as a new legal act or whether it is possible to change the existing content of the Act. Given the volume and nature of the proposed changes, modification of the existing accounting principles under the Act does not seem to improve its structure and transparency.
2) as regards standards (if they were introduced in the form of appendices to the standard introduction regulation):
    a) The possibility of introducing all "en bloc" standards in a single regulation, or each standard would have to be introduced by a separate regulation;
    b) The extent to which the design/editorial form of the standard appended to the regulation can be similar to the present one;
    c) Whether the standard, as an appendix to the regulation, could contain examples and explanations;
    d) The need to clarify the cooperation between MoF and the Accounting Standards Committee in the context of the legislative procedure: how specific and what legislation should regulate cooperation between MoF and the Accounting Standards Committee and possibly other authorities interested in the arrangements (e.g. supervisors).
3) within the scope of application guidelines (not constituting a source of law):
    a) Identifying the correct place in the law;
    b) Whether the Act would have to include a mandate for the Accounting Standards Committee to issue guidelines.

Additional comments – risks

- Standards in the form of regulations would be developed in the form of drafts by the Committee and then submitted to the MoF for an opinion on the proposed regulations, among others from the point of view of compliance with European Union ("EU") law. Therefore, there is also a risk that the legislative procedure for implementing standards will be extended (compared to the current situation).
- Due to such a large change in the legal structure, it may be necessary to consider transitional provisions and possibly significant "vacatio legis".

Additional comments – impact on stakeholders

- In connection with the above recommendation, the Accounting Standards Committee members identify risks related to the Accounting Standards Committee's current form of work (frequency of meetings, scope and scale of operations). In view of the potential change in the scale of work, it has been suggested to strengthen the Accounting Standards Committee's role as an institution, which could also involve the need to hire full-time staff so that the new scale of work of the Accounting Standards Committee can be sustained. It would also be worth considering changing the organisational structure, strengthening the Accounting Standards Committee with substantive or legal support, as well as specialists responsible for writing standards. They would not be members of the Accounting Standards Committee. The tasks of the Accounting Standards Committee members would include reviewing and approving specific content – acting as a decision-making and directing body.
- In connection with the changes proposed above regarding the transfer of some of the content from the Act to standards, Committee members raised a potential problem arising from the need for some users to use multiple sources of accounting regulations.

3.1.2. Compliance with the Act by IFRS adopters

- Obligation to apply the Act by IFRS adopters/Medium (6.1.4.)

Reference to a legal act

Article 2(3) provides that entities applying International Accounting Standards (IAS) are obliged to comply with the provisions of the Act and secondary legislation in areas not regulated by IAS.

Summary (synthetic) description of the problem

During discussions with the Act's users, interpretation concerns arose regarding the adoption by entities preparing financial statements in accordance with IFRS of selected provisions of the Act – e.g. the adoption of the obligation to disclose the statutory auditor's compensation or the treatment of matters regulated by the Act or the NAS instead of IFRS – e.g. whether an entity applying IFRS should refer to the requirements of International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors – "IAS 8" (items 10 to 12) or directly apply the principles set out in Act or NAS.

Recommendation

a. Description of proposed change

<u>In order to clarify the doubts among the Act's users</u>, we propose to introduce into the Act an explicit provision stating that:

(i) Entities applying IFRS shall apply the provisions of the Act to:

- Management report;
- Bookkeeping;
- Stocktaking;
- Other disclosures outside the scope of IFRS – in particular provisions on disclosure of the audit firm's compensation;
- Distributable/distributable equity components *[It is proposed to develop separate regulations in this area – the proposal of possible regulations will be submitted as a separate recommendation]*.

(ii) IFRS adopters, on the other hand, do not apply the provisions on recognition, derecognition, measurement, presentation and disclosure of business operations set out in the Act and its secondary legislation *[or "Polish Accounting Principles", if this term is defined as we propose]*.

(iii) If a transaction/event is not regulated by IFRS, the entity follows IFRS guidance in this respect and is not required to apply principles of the Polish Accounting Principles for measuring and disclosing transactions/events.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Supplementing the provisions of the Act – currently Article 2(3).

d. Separate statements of position, discrepancies, decisions to be taken (if any)

At this stage of the Project – not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations

☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.1.3. Voluntary IFRS adoption

- Voluntary IFRS adoption/High (6.1.5.)
- Mandatory auditing of IFRS-compliant financial statements/High (6.1.6.)
- Voluntary resumption of the Act/High (6.1.7.)
- Discontinuation of IFRS in consolidated statements/High (6.5.7.)

Reference to a legal act

Article 45(1a), (1b), (1e) permit the use of IAS for the preparation of financial statements only by: (i) issuers or entities applying for or intending to apply for the status of issuer; (ii) group entities whose parent company prepares consolidated financial statements in accordance with IAS; and (iii) branches of a foreign entrepreneur that prepares its financial statements in accordance with IAS.

In turn, Article 64(3) requires that the financial statements of entities applying IAS must be audited.

On the other hand, Articles 45(1)(d) and 55(9) set out the conditions under which an entity may discontinue the adoption of IAS to separate and consolidated financial statements, respectively.

Summary (synthetic) description of the problem

- The inability to apply IFRS on a voluntary basis is a problem, among others, for:
    - 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), including those domiciled outside the European Union ("EU)", for instance for the purpose of calculating financial covenants or monitoring performance by a stakeholder other than through annual financial statements;
    - Entities which consider going public in the long run and which, if allowed to voluntarily adopt IFRS, could embrace the regime of preparing IFRS financial

statements before even taking action on the intention to enter the public market.

- In addition, in light of the definition contained in Article 45(1b), an option to adopt IFRS is excluded for affiliates and joint ventures.
- Transition from IFRS to the Act is limited; 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.
- The provision in Article 45(1d) prevents entities being members of groups applying IFRS from transiting to the Act. A prohibition may restrict an entity that, due to a change of ownership or reorganisation, is no longer justified in applying IFRS. Similarly, the Act does not provide an option to discontinue IFRS in consolidated statements other than where the circumstances referred to in Article 55(6) and (7) no longer exist.
- In addition, there are differences of interpretation of Article 45(1d), i.e. whether the requirement that the circumstances referred to in items 1a and 1b no longer exist is to be understood in its broad or narrow sense:
    - In its broad sense, the entity acquired by a group preparing its IFRS consolidated financial statements may not convert to the Act even if it is not the same group that the entity was a member of at the time of taking the decision to adopt IFRS;
    - In its narrow sense, if the group that the entity was a member of at the time of taking the decision to adopt IFRS has changed, then the entity is allowed to convert to the Act, even if the new owner prepares IFRS consolidated financial statements.

  As a result, they may be disparate approaches to the resumption of the Act in the market.
- Further, the Act lacks specific 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).

Recommendation

a. Description of proposed change

<u>I. Adoption of IFRS</u>

<u>In order to eliminate the above-mentioned doubts and limitations</u>, we suggest modifying Article 45(1a) and (1b) so as to provide that:

- Financial statements and consolidated financial statements, [excluding funds, insurance companies, co-operative banks and cooperative savings and credit unions – catalogue of entities to be determined by the PFSA Office for the sake of participant safety and coherence of supervision], may be prepared in accordance with IFRS provided that the financial statements of such an entity are audited, with the following options to be considered:

- **<u>Option a:</u>** the audit obligation referred to above is absolute for all IFRS adopters – i.e. Article 64(3) remains unchanged.
- **<u>Option b (mitigating audit responsibilities):</u>** an entity may be exempted from audit when all of the following criteria are met:

  (i) The entity, by virtue of its size and nature, is not required to be audited under separate provisions; and

  (ii) The entity is a subsidiary and is included in full consolidation, that is:

    (a) it is consolidated in its entirety rather than using the simplified method used in International Financial Reporting Standards 5: Non-current Assets Held for Sale and Discontinued Operations ("IFRS 5"); and

    (b) the parent company of the entity is not an investment entity under International Financial Reporting Standard 10: Consolidated Financial Statements ("IFRS 10"); and

    (c) the parent company of this group (at any consolidation level) is located in Poland and prepares audited consolidated IFRS financial statements and has fulfilled its obligation to audit and publish such financial statements in respect of the year preceding the financial year.

  At the same time, it is reserved that the exemption from the audit does not apply to the year in which the entity that has previously applied the Act prepares its financial statements in accordance with IFRS for the first time.

In view of the above proposals, the wording of Article 64(3) should be modified by deleting the statement "as well as annual financial statements of entities prepared in accordance with IAS" (as this requirement would be included in the above proposed provisions); alternatively, Article 64 could contain a reference to the aforementioned provisions.

<u>II. Conditions for the resumption of the Act</u>

Entities should have the right to resumption of the Act, but by introducing provisions that will reduce hasty and too frequent decisions to change the accounting principles applied. As a result we propose:

- An entity may elect to apply the Act with effect from no earlier than the next year following the year in which the entity makes a decision to apply the Act again.

- An entity that has issued financial statements in accordance with IFRS may make a change by reapplying accounting policies compliant with the Act provided that the change has been approved by the general meeting of shareholders, provided that:

  (i) the change can only be decided upon if at least 90% of the shareholders agree; or

(ii) the controlling shareholder (if any) will vote in favour of the change and a majority will vote in favour of the change among the other shareholders.

- Financial statements prepared for the year in which the change from IFRS to the Act took place are subject to mandatory audit regardless of any other criteria.

III. Principles of transition to IFRS – at the level of the Act

We propose to introduce at the level of the Act provisions stating that:

- An entity applying previously (i.e. before applying IFRS) accounting principles under the Act shall restate its financial statements as if it had never ceased to apply accounting principles under the Act.
- In turn, an entity that has not previously applied the Act shall restate its financial statements as if it had always applied the accounting principles of the Act, unless the standard (the standard that requires development relates to the principles related to the transition from IFRS to the Act) provides otherwise.
- An entity shall disclose in the notes the effect of discontinuation of IFRS and of applying the Act.
- An entity changing its accounting principles from IFRS to ones compliant with the Act is required to provide comprehensive information about the impact of the adoption of Polish accounting principles on the financial and asset position and results of the entity, together with a description of the main differences.
- The effects of a change in accounting principles are recognised in retained earnings (loss) and their allocation is decided by the general meeting.

We propose to introduce to the Act the definition of "Polish Accounting Principles" as the principles for identifying and measuring assets, liabilities, revenues and expenses and their disclosures, which result from Chapter 4 of the Act, and the regulations issued thereunder. The introduction of such a definition will simplify the legislative work as it will make it possible to precisely identify the entities using individual articles of the Act.

Proposed regulations at the Standard level

Other issues related to the principles of transforming financial statements into ones consistent with the Act should be regulated in a separate standard. The standard should govern issues such as:

- How to proceed when transforming financial statements from IFRS into the Act. The principle that an entity shall restate its financial statements as if it had never ceased to apply the accounting principles of the Act.
- Provide for simplifications or exemptions in situations where full retrospective application is practically impossible or significantly hindered.
- Regulate in detail the scope of disclosures that an entity should include in its financial statements (these disclosures are proposed below).

- The standard should clarify that:
  - The entity converts to the so-called transition date, which is the opening balance of the comparative period, and;
  - As at the transition date, an entity shall identify only those assets and liabilities that meet the definition of assets and liabilities under the Act and measure them in a manner resulting from the application of the Act as if the Act had been applied for all periods (except for exclusions provided by the standard).
- The standard could allow for the following exemptions/simplifications:
  - Goodwill that is not depreciated under IFRS: upon transition to accounting principles under the Act, it would be depreciated within 5 years of acquisition, unless the entity has previously adopted in its accounting polices a specified useful life of goodwill for external or group reporting purposes;
  - Intangible assets with indefinite useful lives could be treated analogously to the above provisions;
  - For fixed assets, an entity would be required to use valuation at cost (acquisition or construction) (i.e. it would be necessary to reverse fair values measurements when migrating to IFRS);
  - For leases, it would be necessary to assess at the transition date whether the lease meets the definition of finance lease or operating lease under the guidance of the Act. For agreements that meet the definition of operating leases, any balances (i.e. right-of-use assets and lease liabilities) identified in accordance with International Financial Reporting Standard 16: Leases ("IFRS 16") should be identified as retained earnings (loss) and remaining lease payments should be identified on a straight-line basis. If, on the other hand, a lease agreement meets the definition of a financial lease, then it should be assumed that the balances of right-of-use assets and lease liabilities are statutory balances and the agreement should be further accounted for in accordance with the principles arising from the Act;
  - The balance representing allowances for impairment on receivables calculated based on the expected credit loss methodology should be adjusted to include only losses "incurred";
  - Financial instruments classified as measured at fair value through profit or loss under IFRS should continue to be accounted for in accordance with IFRS until they expire in accordance with IFRS. (Alternatively, an entity could apply a fully retrospective approach to these instruments);
  - A similar approach should be applied to hedge accounting existing at the transition date (also with the possibility of a full retrospective approach);
  - For plans recognised as cash-settled share-based payment transactions in accordance with International Financial Reporting Standard 2: Share-based

Payment ("IFRS 2"), it would be possible to apply options to continue accounting for those plans in accordance with IFRS 2 until the end of the plan. For plans identified as equity-settled share-based payment transactions, the balances settled in equity instruments should be carried forward to retained earnings (losses), unless the entity applies a different accounting policy;

    - With respect to exchange gains and losses from the conversion of foreign entities, it would be possible to waive the full retrospective conversion and consider the balance determined as at the transition date to be the opening balance in accordance with the Act;

    - With regard to the settlement of business combinations before the transition date, it would be proposed to introduce the right of an entity to withdraw from the retrospective application of the provisions of the Act in this respect, and it would be necessary to analyse identified assets and liabilities existing as at the transition date from the point of view of meeting the identification conditions compliant with the Act. If an asset or liability does not meet the definition under the Act, it should be derecognised in correspondence with retained profit (loss). The goodwill arising from such transactions would not be reassessed, except for its depreciation in accordance with the provisions of the Act as described above;

    - For unconsolidated entities under IFRS (e.g. investment entities), simplification would be proposed to allow consolidation as at the transition date, whereby assets and liabilities of acquired entities would be measured in accordance with the provisions of the Act but without the need to measure them at fair value. On the other hand, the difference between the investment value and the net asset value determined in accordance with the Act would be identified as goodwill depreciable from the transition date;

    - Additional potential exclusion: if an IFRS adopter used to prepare a consolidation package compliant with the Act (for the purpose of any group reporting required by its parent entity or a significant investor), then, in the event of a transition from IFRS to the Act, the entity could use the values that were adopted/reported by the entity for the purposes of preparing consolidated financial statements of the group to which it belongs. At the same time, if the values calculated at the time of acquisition were identified in such a package (and if at the time of acquisition of that entity by the parent company there was a measurement to fair values), then there would be no need to adjust the balances so determined. In addition, if the acquisition took place after the transition date but before the reporting date, the above exemption would also apply.

- With respect to disclosures, the Standard would require:

    - Presentation of the full restatement of the profit and loss account and balance sheet for all periods presented;

- Identify any adjustments to the cash flow statement separately for operating, investment and financial activities;
- The restatement should contain sufficient figures to understand which adjustments have been made and which items are concerned;
- The above-mentioned restatement and presentation obligation would apply to data for both the comparative period and the restated period.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

- Changes in the aforesaid provisions of the Act and introduction of the aforesaid provisions concerning the principles of the transition from IFRS to the Act
- Developing a standard that provides specific guidance on the transition from IFRS to Act
- A standard published in the form of a regulation (general, common), without the need for sector-specific adjustments

d. Separate statements of position, discrepancies, decisions to be taken (if any)

<u>Additional issues to be considered:</u>

If exemptions are applied (option b described above) from the audit obligation, practical issues related to the fulfilment of the obligation to audit and publish the consolidated financial statements of the parent company (due to the lack of influence of the subsidiary on the parent company in the context of the fulfilment of the parent company's obligations) – e.g. introduction of an obligation for the obliged parent company to present a written statement/commitment to audit and publish consolidated financial statements.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☒Developing a new Standard/Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form

☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.1.4. Consolidated financial statements prepared in accordance with non-EU IFRS

- Consolidated financial statements in groups of companies preparing financial statements in accordance with that are not adopted by the European Commission ("EU IFRS")/High (6.5.6.)

Reference to a legal act

Article 55(7) provides that the consolidated financial statements of intermediate parent companies that are part of a group in which the original parent company prepares consolidated financial statements in accordance with IAS may prepare their financial statements in accordance with IAS. IAS should be understood as EU IFRS.

Summary (synthetic) description of the problem

The Act permits the preparation in accordance with EU IFRS of consolidated financial statements of intermediate parent companies that are group entities in which the original parent company prepares consolidated financial statements in accordance with EU IFRS. Therefore, this right cannot be exercised by entities whose parent company is outside the EU and prepares consolidated financial statements in accordance with IFRS rather than IFRS adopted for use in the EU.

Stakeholders included demands that:

- Consider permitting the preparation of EU IFRS consolidated financial statements even if the parent company prepares consolidated financial statements under IFRS and these are not EU IFRS;
- A similar change shall be made to provide the possibility to prepare EU IFRS separate financial statements if the parent company prepares consolidated financial statements under IFRS and these are not EU IFRS.

Recommendation

a. **Description of proposed change**

No separate change proposed for this item.

b. **Reasons if no changes are made to a given problem area (if any)**

- **If the provisions allowing voluntary use of IFRS described above are introduced, this recommendation will not be necessary as companies will be free to make decisions regardless of the existing conditions.**

- However, if restrictions are introduced on the use of IFRS in Poland and exemptions from these restrictions are considered, it is not recommended to allow the use of IFRS other than EU IFRS, due to doubts about the scope of non-EU IFRS. In other words, if the adoption of IFRS is limited, an entity should not be allowed to apply EU IFRS merely because its parent company, located e.g. in Australia, applies Australian IFRS in accordance with local regulations.

c. Indication of the location in the relevant legal act and where in the structure

Not applicable.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

At this stage of the Project – not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☒ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.1.5. Exemption from the obligation to prepare consolidated financial statements when applying IFRS

- Exemption from mandatory consolidation if IFRS are adopted/High (6.5.8.)

- Exemption from consolidation when International Financial Reporting Standards 10: Consolidated Financial Statements ("IFRS 10") are applied by the original parent company/Medium (6.5.10.)

Reference to a legal act

Article 56(1) and (3) provides that a parent company may avoid preparing consolidated financial statements in particular circumstances (quantitative criteria, immateriality, acquisition of an entity for the sole purpose of subsequent resale, limitation of control or disproportionate costs). At the same time, Article 56(2) and (2a) provide that the parent company which is a subsidiary of another undertaking having its registered office or place of management within the European Economic Area may not prepare its consolidated financial statements under certain conditions which are described in those paragraphs.

Summary (synthetic) description of the problem

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 this entity is the parent company. Since there are material differences between those two groups of regulations (such as, e.g., de facto control, potential voting rights, 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.

In particular, here are doubts whether an intermediate 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.

Recommendation

a. **Description of proposed change**

<u>In order to eliminate the above-mentioned doubts</u>, we suggest introducing provisions to the Act which expressly state that:

- The provisions of Article 56(1) and (3) apply only to undertakings applying the Act;

With respect to Article 56(3) – this paragraph provides for exemption from consolidation in the cases described in Articles 57 and 58 of the Act. Such exemption may be in direct conflict with IFRS 10. In addition, Article 56(1) introduces size thresholds below which an entity may deviate from consolidation. We believe that, assuming the introduction of the voluntary adoption of IFRS (obligation to apply IFRS only to certain entities), it is not necessary and reasonable to exempt from the obligation to consolidate small entities (because if they are not obliged to apply IFRS they may apply the Act).

- On the other hand, the provisions of Article 56(2) to (2b) apply both to entities applying the Accounting Act and to entities applying IFRS; it should be clarified that the above exemption applies only to the situation where an entity that is potentially exempt from preparing consolidated financial statements is consolidated using the full method by the original parent company, which means that this exemption does not apply when the original parent company is an investment entity within the meaning of IFRS 10, meaning that there is no consolidation using the full method.

With respect to Article 56(2) to (2b), we conclude that these provisions are more stringent than those of IFRS 10. We believe that such a tightening should apply both to those who apply the Act and to those who apply IFRS.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Supplementing provisions at the level of the Act.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

At this stage of the Project – not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.1.6. Use of the abbreviation IFRS

- Use of the abbreviation IFRS/Low (6.11.3.)

Reference to a legal act

A number of provisions in both the Act and the Standards.

Summary (synthetic) description of the problem

Both the Act and the Standards use the abbreviation IAS (International Accounting standards), while the terminology currently used is IFRS (International Financial Reporting Standards).

Recommendation

a. **Description of proposed change**

We propose to introduce the definition of EU IFRS in the Act as International Accounting standards and International Financial Reporting Standards, as well as related interpretations, which are published in the form of European Commission regulations.

We also propose to change the abbreviation of IAS or IFRS to EU IFRS in the Act and existing regulations and Standards.

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Modifying the provisions of the Act, Regulations and Standards (NAS).

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.2. Preparation of financial statements

3.2.1. Responsibility of the entity's management and supervisory bodies for the financial statements

- Separate identification of the responsibility of the entity’s management and regulatory authorities/Medium (6.2.1.)

Reference to a legal act

Responsibility of the entity's management and members of the supervisory board or other body supervising the entity for financial statements is regulated in Article 4a of the Act.

Summary (synthetic) description of the problem

Under the current regulations of Article 4a(1), both the entity management and the supervisory authorities are obliged to ensure that financial statements meet the requirements provided for in the Act, without directly specifying specific areas of responsibility resulting from their functions.

Recommendation

a. **Description of proposed change**

We would like to propose to change Article 4a(1) by introducing provisions directly indicating the areas of responsibility of the management and the supervisory authorities. Proposed changes under Article 4a(1):

- The entity management is responsible for preparing the financial statements, the combined financial statements, the consolidated financial statements, the management report, the group management report, the non-financial information report as required by the Act.
- Members of the entity's supervisory board or other body are responsible for overseeing the financial reporting process.

At the same time, in view of Article 33 of the Directive, which provides that Member States shall ensure that the members of the administrative, management and supervisory bodies of the entity, acting within the scope of the powers conferred on them by national law, are **collectively responsible** for ensuring that the annual financial statements and the management report are drawn up and published in accordance with the requirements of the Directive, it is necessary to:

- Leave the provision in Article 4(5) that where (a) the management of entity is a collective body and (b) the responsible person has not been designated, all members of that body shall be liable; and
- By changing Article 4a(1) and (2), ensure that members of the supervisory board or other body supervising an entity are also jointly and severally liable to the company for damage caused by an act or omission related to the supervision exercised – for example by excluding from the content of Article 4a(2) the term “management of an entity”.

Reasons:

Clarification of responsibilities for the financial reporting process of the entity management and the oversight bodies to reflect the functions they perform and their role in the entities.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Change of Article 4a (1) of the Act – currently in Chapter 1 General provisions.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

At this stage of the Project – not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.2.2. Timeline for the preparation of financial statements

- Timeline for the preparation of financial statements/Medium (6.2.2.)

Reference to a legal act

The deadlines for preparing financial statements and the related bookkeeping closing date are regulated in the following provisions of the Act:

- Article 52(1) – obligation to draw up/ prepare annual financial statements no later than 3 months after the balance sheet date;

- Article 63c(2) – obligation to prepare consolidated financial statements no later than 3 months from the balance sheet date;
- Article 12(2) – obligation to close the books within 3 months of occurrence of specific events.

Summary (synthetic) description of the problem

The obligation to prepare financial statements within 3 months of the balance sheet date has been identified by some entities as onerous and the reason for it does not seem to be fully understandable.

In addition, there is no specification of what the term "drawn up" means. A practical problem in this respect has arisen for years due to ambiguity when financial statements are "drawn up", namely whether they are the final version of the report, which is handed over to the management of entity for signature, or whether the report is "drawn up" when it is signed (because it is only then that a document can be considered as a financial statements and its contents may change before being signed, so at least theoretically it can be considered as a draft report).

For selected entities it is also not clear whether financial statements prepared by the entity and submitted for audit, but not yet containing e.g. adjustments resulting from this audit, should be signed by the entity's manager. In this respect, an interpretation has been issued by the MoF in the form of questions and answers, according to which financial statements prepared within 3 months of the balance sheet date should be signed by all management board members (in the case of a multi-person entity management), while the date of preparation is the date of their signature by the person entrusted with bookkeeping. Such an approach may represent an unnecessary burden for entities arising from the need to collect the signatures of all management board members twice if the financial statements are audited and adjustments are identified during that audit that require an update of the already signed financial statements.

Recommendation

a. Description of proposed change

We propose to abolish the obligation to ensure that the financial statements (consolidated financial statements) are prepared within 3 months of the balance sheet date and to leave only the requirement to approve the financial statements within 6 months of the balance sheet date (Article 53(1) remains unchanged).

We propose replacing the current wording of Article 52(1) and Article 63c (2) with the following provisions:

- The entity's management prepares/ draws up the financial statements (consolidated financial statements) in a timely manner enabling the audit to be conducted by the certified auditor, if required by law, and ensures that the financial statements (consolidated financial statements) are prepared in a timely manner enabling approval within 6 months from the date of the end of the financial year.

- Financial statements are considered **prepared** when they meet the requirements of the Act. The financial statements are deemed to have been **drawn up** when they have been signed by the entity's manager and, if the bookkeeping has been entrusted to a third party, also by the person responsible for bookkeeping.

- Where the entity management is a collective body and the financial statements are audited by a certified auditor, their preparation shall be confirmed with the signature of the entity management or at least one member of the collective body.

Therefore, we also propose to remove the obligation set out in Article 12(2) to close the account books within 3 months in the event of occurrence of certain events, including in particular in the event of the end of the financial year.

At the same time, we propose to leave unchanged the provisions of Article 12(4) ("The continuing entity's account books should be finally closed and opened within 15 days of approving the financial statements for the financial year.").

Reasons:

Failure to prepare financial statements on time is subject to criminal liability, so there should be no doubts as to when exactly this obligation/condition is fulfilled.

In addition, the proposed change will reduce the burden on entities due to the need to prepare financial statements too early or/and repeatedly, while introducing:

- Obligation to properly organise the process,
- Ensuring the quality of reports submitted for audit, and
- Distinguish pre-audit financial statements prepared from audited and submitted for approval,
- It will enable better functioning in the situation of groups, where the functioning and work with the statutory auditor may be based on a group package used to prepare consolidated statements, while the stand-alone financial statements of subsidiaries and affiliates may be prepared and drawn up after the audit activities have been carried out on the basis of a group package.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Change of the above-mentioned provisions of the Act – currently, as part of Chapter 2, Bookkeeping, Chapter 5 of the Entity's financial statements and Chapter 6 Consolidated financial statements of the group of companies.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

At this stage of the Project – not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☒Change of other (not directly accounting-related) legal provisions*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.2.3. Refusal to sign financial statements

- Refusal to sign financial statements/Medium (6.2.3)

Reference to a legal act

Article 52(2b), (2c), (2d), (2e) – a declaration by a management board member as to whether the financial statements comply with the requirements of the Act or a refusal to make such a declaration shall require the date and time of signing the financial statements by the person entrusted with bookkeeping.

Summary (synthetic) description of the problem

If there is no person responsible for bookkeeping separate from the entity's management board members, there are doubts as to:

(i) Does the term "in particular" used in Article 52(2c) mean the obligation to apply the method of identification set out in that provision of Article 52(2c) (i.e. by specifying the date and time of signing the financial statements) or an example of how to indicate the financial statements to which a representation or refusal is issued and may be otherwise identified?

(ii) Should the financial statements signed by the first signing management board member together with the accompanying declarations or refusals be treated as one document to be (jointly re-signed by the signing management board member?

(iii) Do manually signed declarations or rejections require electronic signature by the signing management board member (in order to "confirm" their compliance)? This doubt arises from the statement in Article 52(2e) that "one of the members of (...) the body signing the financial statements shall ensure that electronic copies of these documents are made".

Doubts about situations where it is not possible for a management board member to sign the financial statements due to their poor health condition were reported by stakeholders.

The selected entities also reported that the current regulations raise technical difficulties as appendices can no longer be added to the .xml document signed with a qualified electronic signature by the first person, as adding them renders the first person's signature invalid and prevents a positive verification of signatures on the document~~.~~

Recommendation

a. **Description of proposed change**

In order to clarify the above doubts and introduce a uniform market practice, we propose:

As regards the indication of the report on which the statements are made (i):

Option 1 – allow an alternative method of identifying financial statements for which a representation or refusal is issued:

We propose to modify the provision of Article 52(2)(c) of the Act so that the phrase “in particular by specifying the date and time of signing the financial statements by the person entrusted with bookkeeping” is replaced by the phrase “by providing basic amounts from the financial statements enabling its unambiguous identification (by specifying the value of the balance sheet total, equity, net profit (loss) for the period and total net cash flows).”

Waiving the need to state in the statements the date and time of signing the financial statements (in Article 52(2)(c)) will remove the current problem of applying the provisions of Article 52(2)(b) and it will be possible for one member of the management board to sign the financial statements **after submission by other persons** making up that body of representations or refusals.

Option 2 – Leaving the method of identifying financial statements based on the date and time of signature of the signing management board member. The consequence of choosing this solution will be the need to regulate issues ii) and iii).

As regards the doubts indicated in ii), we propose that the financial statements should not need to be signed again – to this end, the provisions of Article 52(2)(b) should be modified as follows: “A statement that the financial statements meet the requirements provided for in the Act and a refusal to file such a statement **shall be filed with the relevant court register together with the financial statements**.”, which is similar to the provisions of Article 69 par. 3a.

As regards aspect iii), i.e. preparing electronic copies of documents (representations or refusals), we would suggest modifying the provisions in Article 52(2e) as follows: “2e. If the entity is managed by a collective body and where the refusal to sign referred to in paragraph 2 or the declaration or refusal to make the declaration referred to in paragraph 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 **and shall affix those copies with a qualified electronic signature or a trusted signature**.”

Reasons:

Simplification of provisions that raise interpretation concerns regarding the order of signing and possible technical problems related to signing financial statements.

b. Reasons if no changes are made to a given problem area (if any)

Our proposal for changes in connection with the subject matter of signing the financial statements does not address the issue of a management board member's illness or other circumstances resulting in a management board member's failure to sign the financial statements without a reason for refusing to sign them. Any possible consequences, including criminal liability, are covered by Articles 77 and 79 and this area is excluded from the scope of the project.

c. Indication of the location in the relevant legal act and where in the structure

Change of the aforementioned provisions of the Act – Article 52(2b), (2c), and (2e).

d. Separate statements of position, discrepancies, decisions to be taken (if any)

At this stage of the Project – not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.2.4. Combined financial statements

- Combined financial statements/Medium (6.2.4.)

Reference to a legal act

Article 51(1) – sets out the method of preparing the combined financial statements.

Summary (synthetic) description of the problem

The provision raises doubts among entities, mainly as to how the term “combined financial statements” used in Article 51 should be understood.

Recommendation

a. **Description of proposed change**

We propose to clarify the provisions of Article 51(1) by changing the wording “combined financial statements, being the sum of the financial statements of an entity and all its branches (establishments)” to “combined financial statements comprising financial data aggregated in such a way that they constitute data of a single entity”.

We also propose adding an additional provision to this Article stating that the above provision does not apply to Polish branches of foreign entrepreneurs.

<u>Reasons:</u>

Clarifying the terminology to reduce interpretation doubts.

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Change of the above-mentioned provision of the Act.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

At this stage of the Project – not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.2.5. Submission of financial statements

- Filing of annual financial statements with the court register/Medium (6.2.6.)

Reference to a legal act

The filing of financial statements is regulated in Article 69(4) of the Act, which, inter alia, obliges the management of a parent company who is exempt from preparing consolidated financial statements to file with the court register translated into Polish by a sworn translator the consolidated financial statements and the consolidated management report of the original parent company within a specified period of time.

Summary (synthetic) description of the problem

The Act does not clarify the consequences of failure to fulfil obligations related to the power to exempt from the preparation of consolidated financial statements.
In addition, the requirement for a sworn translator to translate may represent an excessive financial burden for some entities.

Recommendation

a. **Description of proposed change**

We propose to supplement Article 69(4) of the Act by indicating the consequences of failure to comply with the obligation to file translated consolidated financial statements and consolidated management report of the upstream entity with the court register within the time limits specified in that paragraph as follows:

- Failure by the management of an entity to comply with the above-mentioned obligations within the prescribed time limit means that the entity is not entitled to the exemption provided for in Article 56(2) in a given year.
- At the same time, in such a case, the entity is obliged to prepare and submit the consolidated financial statements and the consolidated management report without delay.

In addition, we propose deleting the obligation of a certified translator to translate into Polish from Article 69(4), while specifying that the translation into Polish is to be performed in a reliable and professional manner to ensure comprehensibility and accuracy, and that the quality of this translation is the responsibility of the management of the entity submitting these reports to the court register.

Reasons:

Clarification of the consequences of failure to fulfil obligations and at the same time reducing the costs for entities arising from the use of a sworn translator.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Change of the above-mentioned provision of the Act.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

At this stage of the Project – not applicable**.**

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.2.6. Financial instruments disclosures in the management report

- Financial instruments disclosures in the management report /Medium (6.2.7.)

Reference to a legal act

The obligation to disclose certain information about financial instruments in the management report is regulated by Article 49(2) of the Act.

Summary (synthetic) description of the problem

The Act requires similar disclosures relating to financial instruments both in the management report and in the financial statements (in line with the requirements in the Financial Instrument 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.

Recommendation

a. **Description of proposed change**

Not applicable – as described in item b below.

b. **Reasons if no changes are made to a given problem area (if any)**

Double disclosures related to financial instruments could address the reduction of disclosure requirements in the area of objectives and strategies for management and exposure of the entity to financial risks (when this is relevant to the estimation of an entity's assets, liabilities and profit or loss) only to the financial statements, by clarifying in Article 49(2) of the Act that the disclosure obligation set out in item 7) is satisfied if an entity refers in the management report to the relevant disclosures in the financial statements, provided that the financial statements are filed with the management report. However, there is a risk that such an appeal will not sufficiently meet the requirements of the Directive in this respect (Article 19(2)(e)), therefore we do not recommend the introduction of the above mentioned change without prior consultation with the relevant advisory body on the compliance of local regulations with the requirements of the Directive.

c. **Indication of the location in the relevant legal act and where in the structure**

Not applicable.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☒Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.2.7. Events after balance sheet date

- Events after balance sheet date/Medium (6.2.9.)

Reference to a legal act

The recognition of events after balance sheet date is currently governed by Article 54(1) of the Act and by National Accounting Standard 7: Changes in Accounting Principles (Policies) and Estimates, Errors, Events After Balance Sheet Date – Recognition and Presentation ("NAS 7").

Summary (synthetic) description of the problem

There are doubts about the impact of events after balance sheet date on the classification of liabilities as long – or short-term, e.g. whether, where covenants have been broken as at the balance sheet date, an agreement, waiver or annex to a bank loan agreement containing covenants signed after the balance sheet date makes it possible to classify liabilities as long-term when documents signed after the balance sheet date result in the situation that covenants are again fulfilled. Such doubts are present in the auditing practice and concern fundamental and often critical issues from the perspective of the entity's financial standing.

Recommendation

a. **Description of proposed change**

We propose to clarify at the level of NAS 7 in a manner consistent with the International Accounting Standard 1: Presentation of Financial Statements – "IAS 1" (as updated from 2024) requirements for classifying liabilities as short-term or long-term. These requirements require that if an entity's right to defer a liability is subject to compliance with certain conditions, the entity has the right to defer settlement of the liability at the end of the reporting period if it meets those conditions at that date. At the same time, the requirement to have a right to defer settlement at the end of the reporting period applies regardless of whether the lender tests compliance at that date or at a later date.

<u>Reasons:</u>

The provisions of the Act are quite general and require clarification at the standard level – clarification is needed as it concerns fundamental issues affecting the assessment of the entity's financial standing (the importance of this issue can be evidenced by recent revisions to IAS 1A that specifically address this area). The solution we propose is to harmonise the principles with those of the latest version of IAS 1, as we see no grounds for making any simplifications or different regulations for entities applying Polish accounting principles.

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Additional provisions to the existing NAS 7 in the part concerning events after balance sheet date.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

At this stage of the Project – not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☒Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.2.8. Adjustments of errors

- Error corrections/Medium (6.2.10.)

Reference to a legal act

The Act governs the procedure in case of finding errors in Article 54(3).

Summary (synthetic) description of the problem

The Act is not unequivocal on whether the financial data for the previous year need to be restated if an error is adjusted. In turn, an obligation to restate the comparative information arises from the provisions of NAS 7 Paragraph 5.7 (provided that the error concerned is material and restatement is practicable).

Recommendation

a. **Description of proposed change**

In order to clarify the provisions of the Act, we propose supplementing the provisions of Article 54(3) by stating that an entity is obliged to retrospectively restate comparative data in the financial statements, unless this is impracticable.

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Modifying Article 54(3) of the Act.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

At this stage of the Project – not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.2.9. Scope of information to be reported in financial statements

- Alignment between the scope of information reported in financial statements and the entity's business operations/Medium (6.3.1.)
- Excessively expanded scope of information to be reported in the main statements such as balance sheet and profit and loss account/High (6.3.2.)
- Change in products/Medium (6.3.27.)
- Template for statement of changes in equity/Medium (6.3.28.)

Reference to a legal act

The scope of information disclosed in financial statements, including in particular the minimum scope of information disclosed in the balance sheet and the income statement, is regulated in the Appendices to the Act. In turn, the basic scope of the information disclosed in the balance sheet and the profit and loss account is governed by Article 46(1) and (1a) and Article 47(1) and (2) respectively.

Summary (synthetic) description of the problem

There are divergent views among stakeholders regarding the number and types of financial statements templates – from the desire to maintain the current scope of information (due to comparability) to introducing templates reflecting the specificities of different industries.

Recommendation

a. **Description of proposed change**

Location of the so-called financial statements templates and disclosures

- We propose that the scope of information and disclosures in financial statements should be regulated not at the level of the Act (current Appendices), but at the level of standards (in the rank of regulations) – in particular in the proposed standard concerning the layout and content of financial statements (which would replace the existing Appendix 1 to the Act and would apply to entities conducting universal activities). At this stage of the Project we did not identify any additional sectors for which we would like to propose to create a new template of financial statements. Nevertheless, initially, other appendices to the Act indicate the necessity to create different regulations for individual types of entities (so-called sector-specific standards).

- Alternatively, at the level of the Act (in the text of the Act), we suggest specifying that they are required to be disclosed only: (i) those balance sheet items that are currently marked with capital letters and Roman numerals, and (ii) those items of the profit and loss account that are currently marked with capital letters, while complete (more specific) templates would be moved to a dedicated standard, similarly as in the approach described above.

- In addition to this standard, sector-specific regulations would apply, e.g. on banking, insurance, funds, etc., containing so-called templates of financial statements and sector specific disclosures (including in particular the current requirements for banks and insurers currently contained in Appendices 2 to 3 to the Act).

- The above proposal means deleting the current appendices from the Act and transferring their content (after possible modifications resulting from other recommendations made as part of this Project) to the relevant standards (including in particular the new standard on the layout and content of financial statements).

- This proposal would also shift disclosure requirements from the current standards in which such disclosures are included (e.g. National Accounting Standard 2: Income Tax – “NAS 2”, National Accounting Standard 5 “Leases” – “NAS 5”).

- In addition, we propose to introduce the possibility of arbitrary adoption of sector-specific standards concerning the layout of the financial statements and disclosures by entities whose nature of activity justifies adoption of the provisions of a given sector-specific standard, e.g. a holding company could use the layout of financial statements introduced for the banking sector instead of the basic/universal formula (due to the fact that its core activity is granting loans to companies in the group). Similarly, a company primarily engaged in leasing could choose a benchmark used by banks as it is more appropriate to its business profile than the basic/universal template. In such a situation, a given sector-specific standard would indicate the categories of entities that are obliged to apply it and, at the same time, it would provide that its application is also possible for entities whose nature of activity indicates the legitimacy of applying a given standard.

Reasons:

The above solution allows to increase the flexibility related to publication of new and modification of existing financial statements templates.
In addition, although the moment of publication of new logical schema of financial statements ("schema") does not fall within the scope of regulations covered by the Act, we would like to draw attention to the issue raised by the stakeholders as part of the works related to preparation of the Phase 2 Report. Some stakeholders argued that the **lack of obligation to publish schema sufficiently in advance** exposes entities to "emergency mode of action" and the inability to plan the reporting process accordingly. It therefore appears that transferring the financial statements templates to standards (regulations) for which the legislative process of amending them is easier could, although in part, address this issue.

Supplementing the provisions of the Act with the scope of information disclosed in financial statements

In addition, at the level of the Act, we would like to propose to modify the contents of the current general provisions concerning the principles of presentation of the balance sheet and the profit and loss account:

- Supplementing Article 46 by stating that entities shall present assets, liabilities and equity in the balance sheet, whereby the main assets and liabilities shall be divided into short – and long-term, unless the nature of the business does not permit an arbitrary division of assets into short – and long-term; an entity may also declassify assets as short – and long-term when the entity does not have a clear operating cycle and most assets are not expected to be realised within 12 months);

- Modifying the current references to the appendices appearing in Articles 46 and 47 of the Act so that their content refers not to the appendices but to individual standards which, according to the changes proposed above, would contain the minimum information and disclosures included in the financial statements.

At the level of the proposed standard regarding the layout and content of financial statements, we would like to propose the following changes (compared to the current content of the appendices to the Act):

- Simplification of the templates currently available to reflect the minimum scope of the balance sheet and the profit and loss account provided for in Appendix III to VI of the Directive;
- A direct indication of the possibility of expanding the scope of information disclosed in the financial statements and adding entity-specific items;
- Modifying the layout of the statement of changes in equity – we propose to introduce a matrix layout similar to IAS;

- Presentation of changes in products and cost of manufacture of products for the entity's own purposes as cost adjustments (a solution inspired by IAS 1).

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

The above mentioned supplement to Article 46 of the Act.

Removing the current Appendices from the Act (as indicated above) along with the simultaneous removal of references to these appendices.

Transfer of the content of the appendices to standards indicated above in the form of regulations (in particular to the planned standard concerning the layout and content of financial statements) together with modification of certain provisions concerning the so-called templates of statements (balance sheet and statement of changes in equity).

d. Separate statements of position, discrepancies, decisions to be taken (if any)

At this stage of the Project – not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☒Developing a new Standard/Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.2.10. Discontinued operations

- Discontinued operations/Medium (6.3.5.)
- Presentation of discontinued operations/Medium (6.3.30.)

Reference to a legal act

The principles for the presentation of discontinuing or discontinued activities are governed by Article 47(3) of the Act and by the “Accounting Standards Committee's statement of position on presenting the discontinuing or discontinued activities and disclosing the related information”.

Summary (synthetic) description of the problem

Stakeholders are unclear about how and how much in detail to present the results of discontinued and discontinuing activities in their financial statements.

Recommendation

a. **Description of proposed change**

The issue of presentation of discontinued and planned activities was regulated in the above-mentioned draft statement of position. In view of elevating standards and statements of position to the rank of regulations planned as part of the Project, it is not necessary to change the currently applicable provisions of the Act in this respect.

At the same time, since we do not recommend the obligation to separately disclose assets and liabilities related to discontinued activities at the balance sheet level, we would suggest that item 4.2 of the “Accounting Standards Committee's statement of position on presenting the discontinuing or discontinued activities and disclosing the related information” be further clarified by stating that assets and liabilities related to discontinued and discontinuing activities should be disclosed **only in the notes** and that the entity should disclose in the notes the net assets related to the discontinued and discontinuing activities and their book value.

In addition, we recommend aligning the terms between Article 47(3), which refers to “discontinuance”, and Appendix 1, in the section “Notes”, which refers to “information on revenues, costs and results of discontinued activities in the financial year or activities discontinuing in the following year”.

b. **Reasons if no changes are made to a given problem area (if any)**

Resignation from introducing a clarification at the level of the Act due to the above-mentioned Statement of Position.

c. **Indication of the location in the relevant legal act and where in the structure**

Clarification introduced into the “Accounting Standards Committee's statement of position on presenting the discontinuing or discontinued activities and disclosing the related information”.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

At this stage of the Project – not applicable**.**

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☒Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.2.11. Management Board compensation

- Directors' remuneration/Medium (6.3.7.)

Reference to a legal act

The issue of disclosure of directors' compensation is currently regulated in Appendix 1, Notes: paragraph 5(4).

Summary (synthetic) description of the problem
The current wording in the provision indicated above raises doubts as to how compensation should be interpreted:

- Which elements of compensation should be disclosed?
- Should the compensation paid or charged for a given year be disclosed? and
- Can disclosure possibly be omitted if there is a when the management board is a single-person body?

Recommendation

a. **Description of proposed change**

We would like to propose that, at the level of the standard that is previously recommended to apply to the layout and content of the financial statements, the current regulations of Appendix 1 Notes of paragraph 5(4) be clarified in such a way that:
- The entity is required to disclose the amounts of compensation accrued in the year, including the related balances (amount of unpaid compensation); and
- Disclose the value of remunerations by type of benefits (including value of benefits granted/expressed in equivalent of financial instruments).

At the present stage of the Project, we do not propose changes aimed at exempting the Company from the disclosure obligation where the Company is managed by a single-person body. Any exemption from disclosure of compensation in the case of a single-person body with the consent of the shareholders would need to be further discussed with the Project stakeholders, including the Accounting Standards Committee.

At this stage of the Project, it is worth noting that the issue of disclosure of directors' compensation is more about corporate governance or social responsibility than about accounting. Directors' compensation can also be disclosed outside the financial statements, as there is already a tool in the form of a compensation report. Therefore, we propose, as an alternative option for further discussion, to consider extending the obligation to prepare a compensation report to other entities (companies that are currently not obliged to do so) and to remove this requirement from the Act.

Reasons:

The above provisions are intended to clarify the provisions of the Act in order to keep the disclosed information comparable between the entities.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Change at the level of the aforementioned items of Appendix 1 to the Act, which would be proposed to be transferred to the standard concerning the layout and contents of financial statements.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

The subject of a possible exemption from disclosure of directors' compensation in the case of a single-person body (with the shareholders' consent) triggered a discussion among stakeholders. Opposing opinions emerged. On the one hand, it was noted that information on directors' compensation is important from the point of view of users of reports, in particular employees of the company. Such data should be disclosed as many entities do not have trade unions and there are increasingly questions about the discrepancy between directors' and employees' compensation. It is also important information for sustainability reporting ("ESRS"). On the other hand, doubts related to the protection of the data of a management board member ("GDPR") support not disclosing such information to a single-member body.

In view of the emerging dissenting opinions, as mentioned above, any exemption from disclosure of compensation in the case of a single-person body with the consent of the shareholders should be further discussed with the Project stakeholders, including the Accounting Standards Committee.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.2.12. Additional disclosures for the direct method

- Disclosure if direct method is applied to cash flow statement/Medium (6.3.9.)

Reference to a legal act

The obligation to provide additional disclosures when an entity uses the direct method for the cash flow statement is currently regulated in Appendix 1, Notes: paragraph 4.

Summary (synthetic) description of the problem

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.

Recommendation

a. **Description of proposed change**

We propose to remove this obligation due to the above mentioned issues of excessive burden on entities using one of the two acceptable methods. Therefore, the deletion would require an excerpt from paragraph 4 of Appendix 1, Notes: "and where the cash flow statement is prepared using the direct method, a reconciliation of the net cash flows from operating activities, prepared using the indirect method, shall be provided in addition".

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Modifying the aforementioned provision of the Act.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

At this stage of the Project – not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions

☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.2.13. Additional disclosures if no statement of changes in equity (fund) is drawn up

- Notes on changes in equity for entities not preparing a statement of changes in equity/Medium (6.3.14.)

Reference to a legal act

The obligation to provide additional disclosures for entities that are not required to prepare a statement of changes in equity (fund) is defined in Appendix 1, Notes: paragraph 1(9).

Summary (synthetic) description of the problem

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.

Recommendation

a. Description of proposed change

We propose to remove this requirement in its entirety, so that simplification for specific entities is effective. However, when introducing this change, one should take into account other recommendations presented in this document, in particular recommendations concerning the fair value measurement through equity for certain assets. In removing the requirement, we suggest that if an entity identified the effects of fair value measurement in equity during the period, or transferred previously accumulated amounts to profit or loss, information about those amounts should be provided in the absence of a statement of changes in equity (fund).

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Removing the above-mentioned provision of the Act.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

At this stage of the Project – not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.2.14. Cash flow statement in entities whose operations consist in investing

- Cash flow statement in investing entities/Medium (6.3.23.)

Reference to a legal act

The principles for preparing the cash flow statement are now set out in Article 48b and Appendices 1, 2 and 3.

Summary (synthetic) description of the problem

The Act does not specify how to prepare a cash flow statement for companies whose operating activities comprise investing (Alternative Investment Companies, “AICs”) or lending, or whether these represent investing or operating activities. This results in inconsistent interpretations and incomparability between cash flow statements of companies engaged in such activities.

Recommendation

a. Description of proposed change

We propose to regulate the above issue at the level of sector-specific standards dedicated to the investment fund sector. There are arguments for classifying such activities as investment activities or operating activities and the regulation would resolve this issue unambiguously.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Sector-specific standard required to be developed.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

At this stage of the Project – not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☒Developing a new Standard/Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.2.15. Consolidation packages

- Consolidation packages/Medium (6.5.24.)

Reference to a legal act

Article 63b requires entities whose data are included in the consolidated financial statements, in particular subsidiaries and jointly controlled entities, should use the same methods of valuing assets and liabilities and preparing financial statements, in accordance with the adopted accounting principles (policy) of the parent entity,.

§ 20(1)(2) of the Consolidation Regulation specifies that the consolidation documentation includes, among others, financial statements of subordinated entities adjusted to the accounting principles applicable for consolidation.

In turn, the Act of 11 May 2017on Statutory Auditors, Audit Firms and Public Oversight (“Act on Statutory Auditors”) provides in Article 136(2)(5) that the verification of consolidation packages is excluded from prohibited services.

Summary (synthetic) description of the problem

The Act on Statutory Auditors provides for a service of “verification” of so-called consolidation packages, while “consolidation packages” are not explicitly defined either in the Act or in the Consolidation Regulation.

In addition:

- The definition of statutory audit in the Act on Statutory Auditors (Article 2(1)) does not include verification of consolidation packages for the purpose of auditing the statutory consolidated financial statements of the parent company; and at the same time
- EU Regulation 537/14 on specific requirements for statutory audits of public-interest entities in Article 4(2) limits the statutory auditor's fees for acceptable services that are not statutory audit to 70% of the statutory audit fees (the so-called fee cap); at the same time, services other than audit of financial statements, if required by law, are not included in the calculation of the above limit (for example, review of half-yearly reports of issuers will not be included, while review of quarterly financial statements or audit of half-yearly reports of issuers will be included in the calculation);
- Verification of packages as a non-audit service is subject to the approval of the Audit Committee pursuant to Article 130(1)(4) of the Act on Statutory Auditors).

Consequently, the services of verification of consolidation packages are currently, for the purpose of calculating the so-called “fee cap”, treated as acceptable statutory audit services, which, however, are subject to limitation in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of financial statements of public-interest entities and repealing Commission Decision 2005/909/EC (OJ EU L 158, 27.05.2014, p. 77 and OJ EU L 170, 11.06.2014, p. 66), (Regulation No 537/2014) and are subject to the approval of the Audit Committee, although they are inextricably linked to the audit process of consolidated financial statements. At the same time, the purpose of the so-called “fee cap” is to limit non-audit services performed by the statutory auditor.
Such argumentation is supported by the guidelines issued by CEAOB (Committee of European Auditing oversight books) (CEAOB 2018-018 Adopted on 21 September 2018 “Monitoring the fee cap of non-audit services”), according to which a package audit necessary for an audit should be considered a statutory audit and included in the denominator in the formula constituting the basis for calculating the so-called fee cap. The interpretation issued by the MoF on 26 October 2023 in response to the question asked by PIBR regarding the limit of compensation from public interest entities is in a directional manner consistent with the

indicated guidelines of the Committee of European Auditing Oversight Bodies ("CEAOB"), however its validity depends on the specific facts indicated in PIBR's inquiry.

Recommendation

a. **Description of proposed change**

Proposed assumptions

- It would be recommended to restate the existing provisions of the Act and/or the Consolidation Regulation so as to provide a direct link between the Act on Statutory Auditors and the Act and the Consolidation Regulation in terms of definitions. The provisions on the responsibility of the entity's management for preparation of consolidation packages might also be restated in the same way as set out in Article 4 of the Act.
- At the same time, it would be proposed to authorise CEAOB guidelines by specifying that verification of consolidation packages for the purposes of consolidated financial statements is a statutory audit for the purpose of calculating the limit referred to in EU Regulation 537/14.

Proposed changes

- We propose to add in the current chapter 6 of the Act on consolidated financial statements a separate provision stating that consolidated financial statements are prepared on the basis of financial statements or consolidation packages prepared by subordinated entities based on the financial data of these entities, taking into account the accounting principles applied in the group and adjusted for consolidation adjustments.
- In the current Article 3(1) of the Act (definitions) we propose to add a definition of consolidation package – this is financial information prepared for the purpose of preparing consolidated financial statements prepared in accordance with the group accounting policy.
- We also propose adding to Article 4 or 4a of the Act a provision stating that the management of the entity preparing the consolidation package is responsible for preparing it in the same manner as for preparing financial statements.
- Introduction to the Act or the Act on Statutory Auditors provisions stating that verification of consolidation packages for the purpose of auditing consolidated financial statements shall be treated as a statutory audit for the purpose of setting the limit on the statutory auditor's compensation for acceptable services other than statutory audit, for example by adding a provision stating that the audit of financial statements (for the purposes of Regulation 537/14) shall be understood as:

    (i) Audit of consolidation packages – the group auditor may decide that a review of consolidation packages by a statutory auditor is necessary. In such a situation, the statutory auditor shall perform such verification on the basis of national or international auditing standards.

    (ii) Audit and review of annual and interim financial statements that is not required by the Accounting Act or the provisions of the "Regulation of the Minister of Finance on current and periodic information to be provided by issuers of securities and on the conditions for recognition as equivalent to information required by the laws of a non-Member State", if the authority constituting the entities has decided to perform such an audit or review, in which case the statutory auditor shall perform such review on the basis of national and international auditing standards.

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Supplementing the provisions of the Act and the Consolidation Regulation, possible changes at the level of the Act on Statutory Auditors.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.2.16. Going concern assessment

- Going concern assessment/High (6.8.7.)

Reference to a legal act

The going concern principle is currently described in Article 5(2) of the Act.

Summary (synthetic) description of the problem

The obligation to assess the entity's ability to continue as a going concern rests with the entity's management, 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. The absence of such disclosure may in some cases give rise to doubts on the part of users of financial statements as to whether such an analysis has been carried out and what its result was.

Recommendation

a. Description of proposed change

We propose to introduce at the level of the Act as an additional paragraph in Article 5 (in order to maintain symmetry with regulations at the level of the Code of commercial companies ("CCC") or, alternatively, at the level of an appropriate standard (for example, on the scope of analysis and assessment of an entity's ability to continue as a going concern), a provision stating that the entity's management is required to perform an analysis and assessment of the entity's ability to continue as a going concern, regardless of whether there is any indication of inability to continue as a going concern. We also propose requiring the entity's management to document the results of such an analysis and disclose the conclusions thereof in the financial statements.

Guidelines for the scope of such an assessment could be then developed as a separate standard 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.

<u>Reasons:</u>

The provisions of the CCC require the statutory auditor to present an audit report to the supervisory board, including an assessment of the grounds for the adopted statement regarding the entity's ability to continue as a going concern – a similar requirement should consequently be introduced into the Act as a necessity for the entity's management to perform an analysis constituting the basis for the statement as to the entity's ability to continue as a going concern. The conclusions of the analysis should be made available to users of the financial statements.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Addition of additional provisions to Article 5.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

At this stage of the Project – not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☒Developing a new Standard/Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.2.17. Definition of the financial year

- Definition of the financial year/Medium (6.11.1.)

Reference to a legal act

A financial year is defined in Article 3(1)(9) of the Act.

Summary (synthetic) description of the problem

We understand that any change in the definition of the financial year will result from the work on the currently pending draft of the "Accounting Standards Committee's statement of position on the preparation of financial statements as at the balance sheet date other than the financial year-end date".
In this context, we note that in practice situations arise where the first year after the change of the financial year is significantly extended. In extreme cases, the length of a financial year, after its previous change, may be as much as 23 months.

Recommendation

a. **Description of proposed change**

We propose to modify the provision concerning the definition of financial year contained in Article 3(1)(9) of the Act so that instead of the phrase "should be longer", the phrase "not longer than 12 months" is inserted. (Alternatively, consideration may be given to "not shorter than 6 months and not longer than 18 months”). At the same time, we propose to consider introducing a change that will make it clear that the preparation of financial statements as at a specific balance sheet date does not cause the financial year to be interrupted, except where an event that makes it necessary to prepare financial statements as at a specific balance sheet date involves a change in the date that ends the financial year.

The changes proposed above would also require considering changes in tax regulations.

The above proposal should be discussed with stakeholders, including in particular the members of the Accounting Standards Committee. If the tax authorities consider that the issue cannot be changed under tax regulations, we would suggest that the above recommendation should not be introduced.

b. Reasons if no changes are made to a given problem area (if any)

Depending on the decision of the legislator.

c. Indication of the location in the relevant legal act and where in the structure

Regulations defining the financial year in the Act and regulations on corporate and personal income tax.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

At this stage of the Project – not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☒Change of other (not directly accounting-related) legal provisions*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.2.18. Presentation of adjustments

- Presentation of adjustments/Low (6.3.22.)

Reference to a legal act

Appendix 1, Notes: paragraph 6(4) governs the need to provide figures along with an explanation to allow comparability of financial data between financial statements for the financial year and the previous year.

Summary (synthetic) description of the problem

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.

Recommendation

a. **Description of proposed change**

We propose to change the provision in Appendix 1, Notes: paragraph 6(4) by adding to an existing provision an additional requirement that an entity presents pre – and post-adjustment figures, indicating the amount and description of the adjustment. The proposed provision at the level of the Act, when supplemented, could read as follows:
"Figures, together with an explanation, ensuring comparability of the data from the financial statements for the preceding year with those for the financial year and providing specific information on the adjustments made." At the same time, the standard could clarify what is meant by specific information, i.e. in particular specify that – **an entity presents figures before and after the adjustment, indicating at the same time the amount and description of the adjustment.**"

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Supplementing Appendix 1, Notes: paragraph 6(4) with additional provisions.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

At this stage of the Project – not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard

☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.2.19. Disclosure of the accounting policies

- Disclosure of the accounting policies/Low (6.3.26.)

Reference to a legal act

Appendices 1 to 3, Introduction to the financial statements govern the need to include in the introduction to the financial statements a discussion of the accounting principles adopted, including valuation methods of assets and liabilities, determination of the profit or loss and preparation methods of the financial statements, especially to the extent that it is legally left to the entity to choose.

Summary (synthetic) description of the problem

The provision concerning an overview of the adopted accounting principles (policies), including the valuation 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 areas where policy choice is available under the Act, e.g. the historical cost or equity method or the fair value or the indirect or direct method, or the costs by function or costs by nature presentation, etc., should be described.

Recommendation

a. **Description of proposed change**

We propose introducing a provision, either at the level of the Act (Appendices 1 to 3, Introduction to the financial statements, item 7) or at the level of the standard concerning the layout and content of financial statements proposed to be established as part of this Project, according to which:

- An entity is required to disclose in its financial statements a description of **the significant** accounting policies used. Significant accounting policies are understood as

accounting policies that are tailored to the entity's specific characteristics of operations and transactions in an entity in such a way that the description reflects and understands the entity's specific accounting principles as closely as possible. The description may ignore matters that are explicitly regulated in the regulations, do not provide a choice and are not related to significant accounting estimates or judgment.
- If an entity provides information other than that specified above, the presentation of such notes should not hinder access to the relevant information. An entity should not describe accounting policies for transactions that do not exist within the entity.

In addition, we propose to add an obligation to disclose information about significant estimates/significant areas subject to estimates, including key methods and assumptions used to make them.

In turn, at the level of the sector-specific standard/regulation on insurance activities, we suggest adding an example (guidelines) for insurers, which would clarify whether a change in the method of recalculating technical provisions is a change in estimation or a change in accounting policy, as this issue often raises doubts among the Act's users.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

- Accounting Act – Appendices 1 to 3, Introduction to the financial statements
- Developing a standard for the layout and content of financial statements
- Developing guidelines for insurers

d. Separate statements of position, discrepancies, decisions to be taken (if any)

At this stage of the Project – not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☒Developing a new Standard/Regulation
☒Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act

☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.2.20. Disclosure of exchange rates used for measurement

- Disclosure of exchange rates used for measurement/Low (6.3.29.)

Reference to a legal act

Appendix 1, Notes, paragraph 3 governs the need to disclose foreign exchange rates that have been used to measure items in the financial statements.

Summary (synthetic) description of the problem

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.

Recommendation

a. **Description of proposed change**

<u>Option 1:</u>
Introduction to Appendix 1, Notes, paragraph 3 the obligation to disclose:

- The bank whose exchange rates are used by the entity when translating business operations denominated in foreign currencies; and
- The exchange rates of the National Bank of Poland ("NBP") applied by the entity to translate assets and liabilities denominated in foreign currencies (monetary assets and liabilities).

<u>Option 2:</u> remove the exchange rate disclosure requirement in Appendix 1, Notes, paragraph 3, as this follows directly from Article 30 of the Act.

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Amending Appendix 1, Notes, paragraph 3 of the Act.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

Since we propose two alternative options for solving the problem, at a later stage of the Project one should be selected as the preferred one.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.3. Financial statements other than annual financial statements

- Timeline for preparation and format of financial statements other than annual financial statements/High (6.4.1.)

- Comparative information in financial statements other than annual financial statements/High (6.4.2.)

- Signing financial statements other than annual financial statements/Medium (6.4.3)

- Closing of account books and preparation of financial statements/Medium (6.6.7.)

- Lack of definition of annual financial statements/Medium (6.11.2.)

- Closing of account books as at the business combination/ merger registration date/Medium (6.6.8)

Reference to a legal act

The provisions of the Act as it currently stands, which are taken into account by entities when preparing financial statements as at a date other than the end of the financial year:

- Article 3(1)(9) – definition of a financial year as a calendar year or another period lasting 12 consecutive full months, also used for tax purposes;

- Article 12(2) to (3b) – specification of the moments of closing the account books and possible exemptions from the obligation to close the account books;
- Article 45(1) – obligation to prepare financial statements as at the closing date of the account books and as at another balance sheet date;
- Article 45(1f) – obligation to prepare financial statements in electronic form and sign them in a specific form;
- Article 45(1g) – obligation to prepare financial statements in an appropriate logical schema and format;
- Article 47(2) – obligation to prepare comparative information for the corresponding reporting period of the previous financial year (analogous to the data covered by the financial statements);
- Article 52(2) – obligation for the management of the entity and the person entrusted with bookkeeping to sign the financial statements.

Summary (synthetic) description of the problem

There are uncertainties about how to prepare financial statements as at a date other than the end of the financial year, i.e.:

- what should such financial statements contain,
- in what format they are to be prepared,
- are they to be signed by the entity management,
- whether they are to be approved and audited.

At the same time, the provisions of Article 47(2), which require comparative information to be presented for the corresponding period of the previous financial year, impose an unnecessary burden on entities when such financial statements are prepared mainly for formal reasons (and, for example, are to present the entity's property and financial position as at a given date) and are not a summary of the entity's activity in a given period.

As we understand, the Accounting Standards Committee has started work on the statement of position regarding financial statements prepared as at a special/specific balance sheet date. As we understand, this statement of position will clarify that, in principle, the preparation of financial statements as at a specific balance sheet date does not cause the financial year to be interrupted (it is “transparent” to determine what constitutes a financial year), regardless of whether or not the event to which the preparation of the financial statements as at a specific balance sheet date relates is related to the change in the financial year. At the same time, the statement of position will clarify the issues of comparative information, the format of preparation of the financial statements and the audit obligation. The following recommendations should be considered in the context of the debate that will take place around this statement of position and incorporate the findings of the statement of position into the revised accounting regulations.

Recommendation

a. **Description of proposed change**

The purpose of the following recommendations is to clarify the following issues related to the preparation of financial statements by entities as at a date other than the end of the financial year:

1) **Principles for preparing financial statements**: we recommend that the principles of preparing financial statements as at a date other than the end of the financial year be analogical to the principles applicable to annual financial statements – as a consequence, Article 45(1) remains unchanged.

2) **Unambiguously determine whether the special balance sheet date ending the financial year or whether it remains neutral/transparent for it**: we recommend the following solution:

    a. In the case of financial statements prepared in connection with the opening of winding-up proceedings, a special balance sheet date interrupts the financial year (this is a solution coherent with the provisions of National Accounting Standard 14: Going Concern and Entity Accounting Not on a Going Concern Basis – "NAS 14");

    b. Where the preparation of financial statements as at a specific balance sheet date is associated with the change in the financial year, such a specific balance sheet date shall also constitute the end of the financial year (for example, a limited liability company converting into a joint-stock company and changing the end of the financial year, terminates the financial year on a specific balance sheet date and begins on the first day following the specific balance sheet date);

    c. In other situations, the fact that the financial statements have been prepared as at the special balance sheet date is neutral for the determination of the periods covered by the annual financial statements (for example, a limited liability company converting into a joint-stock company WITHOUT changing the end of the financial year – the financial statements following the special balance sheet date will contain data for the entire preceding 12 months).

3) **Comparative information**: we recommend adding a provision in Article 47(2) stating that in the case of financial statements prepared as at a date other than the end of the financial year, an entity may present data for the entire previous financial year as comparative information (and not for the same period of the previous financial year as is currently the case) where the result data for the comparative period do not have a significant impact on the decision-making process based on these financial statements prepared as at a special date (specific situations where the performance data is of limited relevance can be described in the relevant standard in the form of a regulation). At the same time, an entity must disclose in such a case the lack of comparability of data and the basis for preparing the financial statements.

<u>Reasons:</u>

The aforesaid change is intended to reduce the burden on entities, which is to present comparative information for the corresponding period of the previous financial year when such financial statements are prepared mainly for formal reasons (and, for example, is to present the entity's property and financial position as at a given date), and is not a summary of the entity's operations in a given period.

4) **Format of financial statements:** We recommend supplementing Article 45 with a paragraph stating that if financial statements are prepared on a date other than the end of the financial year, the entity prepares them in any format, unless separate regulations provide otherwise.

Reasons:

Preparation of financial statements prepared by entities as at a date other than the end of the financial year in XML format (in the logical schema and in the format provided in the public information Bulletin) may constitute an excessive financial burden for some entities (e.g. for companies that bear the cost of preparing financial statements in XML format each time).

5) **Signing principles**: We recommend that the principles for signing financial statements as at a date other than the end of the financial year be analogical to the principles applicable to annual financial statements – as a consequence, Article 52(2) remains unchanged.

6) We recommend **not to impose additional obligations on entities** related to financial statements prepared as at a date other than the end of the financial year, i.e.:
   (i) approval by the approval authorities,
   (ii) audit and
   (iii) publication in the competent court register.

7) From the point of view of maintaining transparency of future legal regulations, we recommend considering in the course of legislative work whether, in the context of other regulations and the entire wording of the Act, the **phrase "financial statements prepared as at a specific balance sheet date" should** be used instead of "financial statements prepared as at a date other than the end of the financial year".

8) In the context of the above changes**, it would be recommended to enumerate the situations which end the financial year, in accordance with the recommendations hereinabove**, and in particular to indicate that the preparation of financial statements prepared as at a date other than the end of the financial year does not end that year and does not result in an obligation to close the account books.

   At the same time, we would like to note that at this point in time, Article 12(3)(2) contains an exemption from the obligation to close the books in the case of a business combination/ merger, where under the Act the business combination/ merger is accounted for using the pooling-of-interest method, and that a separate part of the Phase 4 Report will contain a recommendation concerning the obligation to close the account books by the acquiree if the pooling-of-interest method is applied. Such an entity will be obliged to close the account books and prepare financial statements for the period from the beginning of the year to the day preceding the business combination/ merger. This follows from the content of the proposed recommendation concerning the accounting methods for transactions under common control – the recommended changes assume presentation of combined data from the business combination date. Such an approach, in turn, requires the acquiree to prepare financial statements for the period from the beginning of the financial year to the date of the business combination/ merger, as these data will not be included in the financial statements of the acquirer. Consequently, it would be necessary to remove the exemption provided for in Article 12(3)(2).

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Accounting Act – in accordance with the references indicated above.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.4. Audits of financial statements

3.4.1. Appointment of the statutory auditor

- Appointment of the statutory auditor/Medium (6.10.1.)

Reference to a legal act

The provisions of Article 66(4) govern the procedure for the selection of an audit firm to audit the financial statements, stating that the body which approves the financial statements of an entity is responsible for that selection, unless other legal provisions or documents, such as articles of association or contracts, provide otherwise and the entity's management is not entitled to make that selection.

Summary (synthetic) description of the problem

The regulations do not specify whether a resolution on the appointment of a statutory auditor is required in the case of an audit other than an audit of the annual financial statements (e.g. for dividend payment purposes, financial statements for prospectus purposes, etc.) and a review of interim financial statements.

Recommendation

a. **Description of proposed change**

We propose to introduce into the Act a provision stating that in the case of assurance services other than audit of annual statutory financial statements (consolidated financial statements), the statutory auditor performing such services may be appointed by the entity's management, unless the entity's articles of association or other specific provisions indicate otherwise.

Reasons:

It seems logical that the statutory auditor auditing the statutory accounts should also provide other assurance services, in particular those related to historical data (e.g. interim financial statements, for dividend payment purposes, review of interim report of a public company). On the other hand, excessive regulation in this respect may create complications for entities applying the Act (an additional assurance service is needed when one statutory auditor has already completed the audit and the new one has not yet been appointed). Therefore, in our opinion, it should be allowed for the entity management to choose the auditor for such assurance engagements, while indicating that the entity's status may impose other solutions/limitations in this respect.

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Modifying the provisions of the Act.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.4.2. Audit agreement for sub-funds

- Audit agreement for sub-funds/High (6.10.3.)

Reference to a legal act

Article 66(5) governs matters relating to the conclusion of audit engagement between the entity's management and the audit firm. The regulation indicates the obligation of an entity management to conclude an agreement with an audit firm, enabling it to participate in the stocktaking of significant assets. The provision also states that the first audit engagement of financial statements must cover a period of not less than two years, with the option of prolonging it for at least two years, and that the costs of auditing financial statements are to be borne by the audited entity.

Summary (synthetic) description of the problem

In practice, the provision of the Act on two-year contracts poses a problem if a sub-fund is established by the Investment Fund Company in Poland ("TFI") during the last year of the audit engagement.

Recommendation

a. Description of proposed change

For the avoidance of interpretation doubts, we suggest introducing into the Act the specification of the currently existing provision specifying that the requirement to sign a contract for a period of not less than two years does not cover the above-mentioned case, i.e. a situation where a sub-fund will be established during the last year of the audit engagement.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Modifying the provisions of the Act.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.4.3. Contract and costs of auditing the financial statements

- Audit agreement/Medium (6.10.4.)
- Audit cost/Medium (6.10.5.)

Reference to a legal act

Article 66(5) governs the obligation of an entity management to enter into an audit engagement with an audit firm for a defined period of time and in such time as to make it possible for the audit firm to participate in the stocktaking of material, specifying that the costs of auditing financial statements are borne by the audited entity.

Summary (synthetic) description of the problem

There are doubts among the Act's users whether contracts for audit or review of financial statements other than annual financial statements should require signature by the entity's management, as this does not currently follow from the provisions of the Act. Such agreements are currently concluded on the basis of civil law regulations.

Moreover, this provision of the Act does not address the issue of bearing the costs of audits and reviews of financial statements other than annual financial statements, including voluntary audits and reviews, including review of consolidation packages.

Recommendation

a. **Description of proposed change**

We propose to consider adding to the Act a provision stating that in the case of audit or review of financial statements other than annual financial statements, the obligation for the entity's management to conclude an agreement and the principle of incurring costs apply in the same way as in the case of audit of annual financial statements. It should be considered whether the provisions of the Act will lead to undesirable effects (e.g., the majority shareholder enforcing excessive reporting at the expense of the reporting entity).

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Supplementing the provisions of the Act.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

A different view was expressed that no such changes were necessary.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.4.4. Access to information for the purpose of auditing the financial statements

- Information about the beneficial owner/Medium (6.10.6.)
- Access to information/Medium (6.10.7.)

Reference to a legal act

Article 67(1) governs the obligation of the management of the audited entity to provide the statutory auditor with access to the account books, documents and to provide all necessary information and explanations for the audit of the financial statements.

Summary (synthetic) description of the problem

The Act does not provide clarity that the above obligation also applies to information about the beneficial owner.

In practice, there are situations where the statutory auditor has difficulty in obtaining information about the beneficial owner, as the entities argue that such information has not been submitted to the statutory auditor citing other regulations related e.g. to personal data protection and professional secrecy regulations.

Recommendation

a. **Description of proposed change**

We propose to clarify in the Act that the above-described obligation to provide information to entities also applies to information about the beneficial owner.

We suggest adding a provision in the Act stating that providing access to account books and to supporting documentation 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 regulations governing (1) professional secrecy and privilege under other legislation or (2) personal data protection.

Our proposed provision:

"The audited entity's management 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 management shall also provide comprehensive information on the beneficial owner, clarifications and statements as may be required to prepare the audit report. Giving access to the account books and documents underlying the entries made therein and any other documents, as well as providing comprehensive information, explanations and statements necessary to prepare the audit report, does not constitute a breach of the following regulations:

(i) of professional secrecy arising from other provisions;

(ii) personal data protection;

(iii) other legally protected secrets."

Due to the fact that this issue goes beyond the scope regulated by the Act (e.g. other provisions related e.g. to the personal data protection, provisions on professional secrecy, and other legally protected secrets), we recommend that before commencing legislative work, we analyse the above issue among stakeholders and experts in terms of deciding whether the Act should refer specifically to other legally protected secrets, professional secrecy, the personal data protection or apply a reference to other provisions.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Supplementing the provisions of the Act.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation

☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.5. Bookkeeping

3.5.1. Place of keeping account books

- Place of keeping account books/Medium (6.6.1.)

Reference to a legal act

Article 11a governs the duties of the entity's management in the case of bookkeeping outside the registered office or place of management. The entity's management must notify the competent tax office of the location of bookkeeping within 15 days of their issue. In addition, it must ensure that the account books and accounting evidence are available to external audit or supervisory bodies at the entity's registered office, place of management or elsewhere with the approval of the inspection or supervisory body.

Summary (synthetic) description of the problem

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). The problem concerns, among others, shared services centres, i.e. situations where documents are entered in one country, a server located in another (or an entity uses the so-called cloud), and in the case of widespread use of e-invoices (stored for 10 years in the national e-invoice system ("KSeF").

Need to specify the exact location of accounting, bookkeeping and storage may be problematic for users or require some generalisation, e.g. by stating that the location is multiple countries within the European Economic Area.

Recommendation

a. **Description of proposed change**

We propose to introduce into the Act a provision stipulating that the place of bookkeeping is the place where the Tax Office may obtain documents for inspection purposes, i.e. where the books are made available. An entity must provide access to all documents wherever systems, servers or decision-makers are located.

The books should be kept at the registered office of the company, unless the entity, subject to prior notification to the Tax Office, designates a place other than the registered office where the books will be available. Any other bookkeeping locations should be additionally documented in the bookkeeping policies, specifying where these locations are located and for which they are responsible.

Reasons:

The provisions in their current wording are problematic for entities, especially when they use data centre services, which are usually built in several remote 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. Such entities are unable to provide one specific bookkeeping location.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Modifying the provisions of the Act – Article 11a.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.5.2. Language of bookkeeping

- Language of bookkeeping/Medium (6.6.2.)

Reference to a legal act

Article 9 governs that the account books are kept in the Polish currency and in the Polish language.

Summary (synthetic) description of the problem

There are doubts about the requirement to keep account books in Polish, e.g., members of international groups 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.

Provisions allowing to code/mark accounting entries with symbols are 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 specific description the posting principles and process, with reference to specific operations in financial and accounting systems. For members of international groups, such documentation is also maintained in English. This problem was mainly reported by entities applying IAS, which are subordinated entities of foreign entities.

Recommendation

a. **Description of proposed change**

We propose two possible options for solving the above problem:

Option 1: We recommend introducing into the provisions of the Act the possibility for the entity to keep account books in a foreign language in justified situations, e.g. when the entity applies the IAS or is a branch of a foreign entity (possibly a subordinate entity of a foreign entity), with the additional condition that the entity exercising this option should provide translation into Polish of all elements required by the statutory auditor for audit purposes or a representative of tax authorities for tax inspection purposes and for the purposes of other state authorities for the purpose of performing their obligations under the law.

Option 2: We recommend introducing arbitrary language of bookkeeping for all entities, with the additional condition that the entity exercising this option should provide translation into Polish of all elements required by the statutory auditor for the purpose of audit or a representative of tax authorities for the purpose of tax inspection and other state authorities for the purpose of performing their obligations under the law

It remains to be further considered whether it should not be clarified that only English is acceptable for bookkeeping purposes in a language other than Polish.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Modifying the provisions of the Act.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Since we propose two alternative options for solving the problem, at a later stage of the Project one should be selected as the preferred one.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.5.3. Currency of bookkeeping

- Currency of bookkeeping/Low (6.6.3.)

Reference to a legal act

Article 9 governs that the account books are kept in the Polish currency and in the Polish language.

Summary (synthetic) description of the problem

The Act fails to provide clarity that the obligation to keep books in the Polish currency also applies where an entity applies IFRS and it's functional currency is other than Polish zloty.

Recommendation

a. Description of proposed change

We propose to clarify the Act's provision that the obligation to keep books in the Polish currency also applies where an entity applies IFRS and it's functional currency is other than Polish zloty.

Two options are proposed for consideration:

<u>**Option 1:**</u> We propose changes to Article 9 of the Act which specify that:

Account books are kept in the Polish language and in the Polish currency, and the obligation to keep books in the Polish currency also applies to entities that have determined on the basis of IFRS provisions that their functional currency is a currency other than the Polish zloty. It is important that the wording is drafted in a manner that is beyond doubt and does not alter the requirements imposed by the IFRS regulations on the obligation to choose the functional currency. This means that an IFRS adopter designates a currency consistent with its economic environment as its functional currency, but keeps its books in Polish for record-keeping purposes only.

<u>**Option 2:**</u> Alternatively, we suggest including this requirement in the regulations along with other requirements for entities applying IFRS (cf. "3.1.3. Voluntary IFRS adoption")

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Supplementing the provisions of the Act.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Since we propose two alternative options for solving the problem, at a later stage of the Project one should be selected as the preferred one.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations

☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.5.4. Responsibility for accounting and bookkeeping

- Responsibility for accounting and bookkeeping/Medium (6.6.4.)

Reference to a legal act

Article 52(2) governs matters relating to the signature of the financial statements. According to that Article, the financial statements must be signed, stating the date of signature, by the person responsible for bookkeeping, by the head of the entity (the entity's management) and, if the entity is managed by a collective body, by all members of that body or by at least one member of that body in accordance with paragraph 2b. A refusal to sign off financial statements must be accompanied by a statement of reasons.

On the other hand, clause 2c specifies that in the case of refusal to sign financial statements, a declaration or a refusal to submit a declaration, the specific financial statements to which they refer should be indicated. The indication shall include in particular the date and time of signing the financial statements by the person responsible for bookkeeping.

Summary (synthetic) description of the problem

It is unclear for the Act's users 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.

Some stakeholders pointed to the disproportionately high scope of criminal liability (including imprisonment) related to bookkeeping in breach of the provisions of the Act (Article 77). Considering that criminal liability is outside the scope of this analysis, we do not make any recommendations in this respect.

Recommendation

a. Description of proposed change

We propose to introduce into the Act the regulation that entrusting the keeping of books requires documented decision of the entity's management (together with documented consent to acceptance of liability by the person entrusted with keeping the books), and in the absence of such decision, it is assumed that the sole responsibility for keeping the books rests with the entity's management.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Supplementing the provisions of the Act.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.5.5. Documentation of the accounting system

- Documentation of the accounting system: preparation of financial statements/Low (6.6.5.)

Reference to a legal act

Article 10(1)(2) provides that an entity should have documentation describing in Polish the accounting principles (policy) adopted by it, in particular those concerning the description of adopted accounting principles, including valuation methods of assets and liabilities and determination of the profit or loss.

Appendix 1, Introduction to the financial statements, item 7), indicates that an entity should present a description of the accounting principles (policies) adopted, especially in the context of asset and liability valuation methods, including depreciation, the determination of the profit or loss and the manner in which the financial statements are prepared, taking into account the extent to which the Act leaves the entity a choice.

Summary (synthetic) description of the problem

There is certain incoherence between the provisions in Article 10(1) and the requirements set forth in Appendix 1 on the Introduction to Financial Statements, which additionally refer to the preparation method for financial statements. Article 10(1) lacks an element on how financial statements should be prepared.

Recommendation

a. **Description of proposed change**

We propose to modify the provisions of Article 10(1)(2) to be coherent with the requirement in Appendix 1 item 7) of introduction to the financial statements that requires disclosure by the entity of the adopted accounting principles (policies), especially in the context of asset and liability valuation methods, including depreciation, determination of the profit or loss **and manner of preparation of the financial statements**, taking into account the extent to which the Act leaves the entity a choice.

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Modifying the provisions of the Act.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.5.6. Definition of the business start date

- Definition of the business start date/Medium (6.6.6.)

Reference to a legal act

Article 12(1) provides that subject to paragraph 3, the account books shall be opened within 15 days of the occurrence of the following events: commencement of operations (defined as the date of the first event giving rise to property or financial effects), beginning of each subsequent financial year, change of legal form, date of the merger registration or demerger an entity giving rise to the creation of a new entity (entities) and commencement of liquidation or bankruptcy.

Summary (synthetic) description of the problem

In practice, there tend to be doubts among the Act's user 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 in a company's claim against a shareholder for contribution) or the first transaction on the bank account (e.g. contribution or the cost of opening this account).

Recommendation

a. **Description of proposed change**

We propose clarification, in Article 12(1), what is the first event with pecuniary or financial effects by adding that it is an event that affects the assets and liabilities of a given entity (the first event which results in the newly created entity acquiring the right to receive assets or incurring a liability towards third parties).

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Supplementing Article 12(1) of the Act.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable **–** no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.5.7. Digitalisation in the area of bookkeeping

- Documentation of the financial and accounting system/High (6.6.9.)
- Specific provisions on accounting and bookkeeping techniques/High (6.6.10.)
- Accounting evidence and accounting documents/High (6.6.11.)
- Providing regulation of for mandatory recordkeeping of documents in the context of electronic document distribution (e-invoices)/High (6.6.15.)

- Reports required under the Act and implementation of electronic books vs. tax laws/High (6.6.16.)
- Data retention and protection/High (6.6.18.)

Reference to a legal act

The scope of legal acts potentially affected by the changes indicated in the recommendations is very broad. Below we indicate only the key regulations that relate to the topics discussed.

Article 10(1)(3c) indicates that the entity should have documentation describing in Polish the accounting principles (policies) adopted by it, including the bookkeeping manner containing a description of the computer system used by the entity to keep account books using a computer, including a list of programs, procedures or functions, algorithms, parameters and principles of data protection, in particular those related to securing access to data and the processing system, as well as information about the software version and the date of its start of operation. Furthermore, item 4) of the same Article governs that an entity should hold documentation describing in Polish the accounting principles (policies) adopted by the entity regarding the system used to protect data and their sets, including accounting documents, account books and other documents underlying entries made therein.

Mainly Articles 13 to 19, e.g. Articles 13(3), (5), and (6), and Article 14(4)

Article 13(3) stipulates that the entity's possession of software which enables obtaining legible information on the account book entries through printout or transfer to a computer-readable storage medium is a condition for maintaining the accounting system's information resources in the form specified in paragraph 2.

Section 5 of that Article provides that 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 they should include subtotals on each subsequent page on a continuous basis during the financial year.

Section 6 stipulates that the account books should be printed out not later than as at the end of the financial year. It also specifies that the transfer of the contents of the account books to a computer-readable storage medium ensuring the durability of the entry for a period not shorter than that required for the retention of the account books shall be considered equivalent to a printout.

Article 14(4) governs that when employing computerised bookkeeping, each accounting entry should automatically be numbered in the journal and contain data enabling the person responsible for the contents of the entry to be identified.

Article 20(2) provides that account book entries are based on (source) accounting documents confirming that a business operation has been carried out. It also specifies that accounting documents are divided into external third-party (received from counterparties), external own (provided in original to counterparties) and internal (related to intra-entity operations).

Article 71(1) governs that the records referred to in Article 10(1), account books, accounting documents, inventory documents and financial statements must be kept properly and protected against unauthorised alterations, unauthorised distribution, damage or destruction. Article 73(2) provides that Article states that, in the case of computer-based bookkeeping, data protection must include the use of threat-resistant storage media, the selection of appropriate external protection measures, the systematic backup of data files, while maintaining the durability of entries throughout the retention period of the account books, and the protection of computer programs and data of the computer system, using appropriate software and organisational solutions to protect against unauthorised access or destruction.

Article 73(1) governs the retention of accounting documents and inventory documents in an entity, subject to paragraph 4. They should be original, restructured according to the bookkeeping method and divided into reporting periods in such a way that they can be easily identified. Annual files of accounting documents and inventory documents should be marked with the type and symbol of the final years and numbers in the files. Article 73(2) provides that, with the exception of documents relating to the transfer of property rights to real estate, to the assignment of liability for assets, and to significant agreements and other important documents indicated by the entity's management, the content of accounting documents may be transferred to computer-readable storage media enabling them to remain in a stable and unchanged form. It is necessary to have facilities for reproducing evidence in the form of a printout (regarded as equivalent accounting evidence, the content of which has been transferred to a storage medium), unless otherwise provided.

Summary (synthetic) description of the problem

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. Modern financial and accounting systems are often not able to reflect verbatim the provisions of the Act, while achieving the objectives of the Act, such as completeness or correctness of entries, in a manner other than indicated in the Act.

In addition, the requirement to have a description of the computer system used by the entity to keep account books using a computer, including a list of programs, procedures or functions, algorithms, parameters and principles of data protection, in particular those concerning data access security and the processing system, is impossible in practice.

Similarly, 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.

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.

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.

Recommendation

a. **Description of proposed change**

The following recommendations do not always explicitly refer to the legal act due to the extensive scope of changes and the fact that the implementation of individual recommendations depends on the acceptance of Recommendation 1) described below.

We propose the following changes to the Act:

1) **Introducing bookkeeping in a digitalised form** as the basic obligatory bookkeeping method for all entities or alternatively for all entities excluding specific groups of entities, e.g. micro companies, or other entities for which this bookkeeping method could be problematic.

   The entities covered by the exemption should be decided after consultation with stakeholders (entities using the Act) in order to determine whether and for which entities such a change of regulations would be a burden. This consultation will also allow planning a timeline for changes so that entities have sufficient time to prepare to meet the new requirements.

   The change would cover many articles of the Act relating to bookkeeping using a record-printing computer, computer-readable storage media, in particular: Article 10(3), Article 13(2) to (6), Article 14(4), Article 16(1), Article 20(5), Article 21(2) to (3), Article 23(1), Article 24(4), Article 25(2), Article 71, Article 72(1) to (3), Article 73(2).

   Alternatively, if the above recommendation is abandoned, as a minimum we recommend reformulating the existing regulations so that the form of keeping books of account using a computer is a standard form and they are adapted to the capabilities and functionality of financial and accounting systems.

2) As regards the **form of an accounting document – source document** – introduction of the principle that electronic form is a form required both in terms of the document itself – an accounting document and its storage.

   Option 1: a document may be produced in any form (e.g. hard copy), but its digitalisation would be required – if paper versions had to be kept, this would only be exceptional, e.g. if other regulations provide otherwise.

Option 2: completely abandoning the definition of the form of accounting evidence, by removing from the Act a reference to their form (removing differentiation due to the traditional form and computerised bookkeeping), printouts, transfer to a computer-readable storage medium.

Option 3: (to be used e.g. if Recommendation 1 is abandoned): clarify that accounting evidence may have:

(i) Handwritten or printed form and may be recorded on reproduction media if the authenticity of the information recorded on them is ensured, without prejudice to other provisions; or

(ii) Electronic form from the beginning of the existence of such proof.

Reasons: uniform resources within the entity; and disproportionate costs of storing documents in a non-electronic form, especially for banks. Currently, there is an obligation that accounting documents concerning fixed assets under construction as well as those under investigation in civil or criminal or tax proceedings, loans, credits, trade agreements and other claims – should be kept for 5 years from the beginning of the year following the financial year in which the operations, transactions and proceedings were finally closed, repaid, settled or expired.

Due to the obligation, arising from Article 74(2)(4) of the Act and its interpretation by the MoF, to keep accounting documents relating to loans and credits until the date of final settlement (repayment) of the loan or loan, and in the case of commercial agreements which include bank account agreements, until the closure of such an account, banks incur disproportionately high costs of keeping such documents, resulting from:

- the need to keep evidence until the final repayment or settlement of the loan, which in practice means storing evidence even for several decades from the date of the original event (e.g. in relation to 25-year housing loans) in archive rooms, where paper documents are kept, or for banks to incur high and constantly increasing costs of keeping them by third parties;
- the retention of evidence relating to bank account agreements concluded for an indefinite period of time until their closure, which in practice means the retention of evidence documenting transactions carried out under those agreements for an indefinite, long period and the performance of similar activities to that evidence referred to above;
- placing in custody until the loan is repaid in full, the agreement is closed, including internal accounting documents referred to in Article 20(2)(3) of the Act, documenting all bank operations carried out in the context of a specific agreement, for the period specified in Article 74(2)(4) of the Act, i.e. documenting the calculation of interest, calculation of exchange gains and losses, sales operations, allowances.

3) No use of the terms **original and copy** in the Act (e.g. Article 20(2))

Currently, in principle, accounting documents and inventory documents are stored in the entity in their original form, and currently the Act allows for transferring the contents of accounting documents to computer-readable storage media, allowing for keeping accounting documents in a permanent and unchanged form – such wording of the regulations suggests that each accounting document has an “original” form, which can be converted into electronic ones, while in practice it can only exist in electronic form from the beginning. The recommended solution would be to specify that accounting documents are digitalised or, alternatively, if Recommendation 1 is abandoned), to specify that the original form is the one in which the evidence or document was created (and possibly that it may be a paper or electronic form) and that it is acceptable to digitalise the paper form.

4) In terms of **retention principles**, we suggest indicating the general purpose of storage, i.e. protection against alterations, unauthorised access, unauthorised dissemination, damage or destruction, without specifying concepts such as data carriers, computer programs or means of protection (e.g. by making copies), etc.; At the same time, we suggest indicating that the legibility of the stored data is to be ensured throughout the retention period.

5) As regards **data retention and protection**, indicating in one Article of the Act (in one place) which data sets should be protected and timed for storage, i.e.

    a) account books,

    b) accounting principles (policies) adopted by the entity,

    c) accounting documents,

    d) inventory documents,

    e) financial statements,

    f) the entity's management report if the entity is required to prepare it,

    they should be kept for at least 5 financial years, but not less than 5 calendar years, counting from the beginning of the year following the financial year to which the sets relate, excluding:

    (i) Files for which a longer storage period resulting from other provisions is justified;

    (ii) Documents constituting:

    - accounting documents concerning the documentation of fixed assets under construction, loans, credits, trade agreements,
    - documentation of claims made in civil proceedings or covered by criminal or tax proceedings,

to be kept for 5 years from the beginning of the year following the financial year in which the operations, transactions and proceedings are finally completed, repaid, settled or expired;

> (iii) Documents relating to statutory warranty and complaints, other than those resulting from claims resulting from civil proceedings [this results from item (ii) above] – which should be kept 1 year after the expiry of the statutory warranty or settlement of the complaint, if this took place not earlier than 5 years after the transaction date;
>
> (iv) documents evidencing title to land, real estate, shares and intangible assets – to be kept for 5 years from the beginning of the year following the financial year in which these assets were removed from the books.

6) In addition, we propose to remove from the current list of Article 74(2) the specific provisions concerning:
   a) Evidence of retail sales, as it is reasonable to maintain such evidence e.g. in the situations indicated in item (iii) above; and
   b) Employee documentation, which is regulated by separate regulations.

7) Deletion from the current list in Article 74(1):
   a) refusal to sign financial statements, and
   b) a declaration that the financial statements meet the requirements provided for in the Act or a refusal to make such a declaration

   as the obligation to attach them to the financial statements results from another provision of the Act and the report itself is subject to the retention obligation.

8) Elimination of the obligation in Article 73(1), which states that "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"; instead, the introduction of a requirement to **use a systematic and structured naming system** and a method of arranging/grouping documents to determine their nature and the financial year to which they relate.

9) Modifying the provisions of the current Article 75 of the Act concerning **the principles of providing third parties with files** or parts thereof in the following direction: When making files or parts thereof available to a third party, the entity's management shall:

   - Ensure protection of business secrets;

   - Organise a system for checking which documents have been made available and to whom;

   together with the addition of Article 75(2) to "issue a written consent of the entity's management or a person authorised by them to make documents available outside the bookkeeping location". If the terms original and copy are abandoned in the Act (item 3 of the recommendation), we suggest considering imposing an obligation on the entity's management to issue a statement of compliance with what is recorded in the accounting system or source document, under pain of the Criminal Code on making false statements.

Reasons: under the assumption that the general provisions currently included in the so-called sector-specific regulations will be partially transposed to the Act, this would be a response to the need to include banking secrecy reported by the stakeholders (e.g. the Polish Bank Association) in the regulations.

10) The removal of **computer print-out requirements for account books**, which should now consist of automatically numbered pages, with the first and the last pages marked, and including subtotals on the following pages. (Article 13(5)). An entity shall be able to generate any element of the account books (single entry or statement of turnover and balances) at any time in a read-readable format, e.g. in a publicly accessible format, enabling display (and possibly printing) and reading. For reports generated, an entity must ensure that the integrity and completeness of the data reported is maintained, including the creation of mechanisms that provide the user with information to determine that the report is complete.

    Reasons: the requirement of subtotals on each page and numbering each page often raises problems for entities that need to customise software to meet these formal requirements, which often involves additional financial and time outlays. Instead, there are other ways to ensure automatic verification of the continuity of entries, e.g. automatically, through an automated log control system for logs of specific records in the transaction process system, a proper transaction numbering system, subtotal reconciling features, etc. At the same time, if reports are generated by the system, there are other ways of assuring the user that the report presented is complete, e.g. by listing the number of items that contain the report, the sum of items, the checksum, marking what constitutes the beginning and end of the report, etc.

11) Supplementing the Act with a **definition of the concept of an accounting system** (account books system) – e.g. a digital service or software containing functions through which entities can record transactions and store accounting entries and documents or create a full backup copy thereof on a server hosted by the entity or another third party.

12) We propose to remove from the Act **specific provisions concerning elements and manner of bookkeeping** and replace them with general principles and conditions that must be met by the financial and accounting system in order to ensure correct bookkeeping. The primary principles of bookkeeping should be the verifiability and integrity of records.

13) Defining **minimum requirements for accounting entries**:

    (i) An accounting entry is a record of a transaction or event prepared in the form of an electronic record confirmed by the issuance of a digitalised document (or, in the case of traditional accounting, an account book entry confirmed by the issuance of a document (posting order) or the respective endorsement on the source document);

(ii) Entries in the general ledger shall be made in accordance with the principle of double entry;

(iii) Introducing the guiding principle that individual accounting entries (or related documents) make it possible to understand the nature of the source document and its key dates;

(iv) Ensuring the durability of the recording and the immutability of the digitalised document;

(v) Defining a minimum set of information for the accounting entry;

(vi) Ensuring the creation of audit trails for entity's recorded transactions – traceability of operations/document;

(vii) Ensuring that it is possible to verify who made the entry and who validated and verified it;

(viii) The need to record records in a chronological and systematic manner;

(ix) Correction of errors in entries: once entered, the entry shall not be deleted; if an error occurs/is found, a correcting provision should be prepared, which should clearly indicate that it is a correcting provision and which provision is subject to adjustment.

14) Replacing the requirement to prepare a "**description of the data processing system**" and a "**description of the computer system**" with a description of procedures ensuring continuous recording of all events and means of ensuring that the entity's account books are kept securely and are kept on an ongoing (timely) basis. Timely bookkeeping means entering transactions and events into them in time to enable timely fulfilment of financial, tax and other reporting requirements.

15) Introducing in the provisions of the Act the possibility for an entity to keep documentation in a foreign language with respect to the procedures described in Recommendation 14) in justified situations, e.g. when an entity applies IFRS or is a branch of a foreign entity, with the additional condition that the entity exercising this option should provide translation into Polish of all those elements of the documentation that are applicable to that entity, at the request of the audit authorities or the statutory auditor.

16) Providing regulation in the Act (or a dedicated standard – preferred option) of **minimum requirements for accounting systems**:

    a) Encrypted accounting data can be decrypted to a structured machine-readable format and encrypted source documents can be decrypted to a legible form, i.e. in a read-readable form, e.g. in a publicly accessible format that allows for display (and possibly printing);

b) Full backups of recorded transactions are automatically made by the system with a specified frequency (e.g. weekly), and at least once a day copies of data modified or added since the last copy (incremental backup) are made;
c) (optionally) at least one full and one incremental backup must be stored on a server in an EU country or in the European Economic Area ("EEA").

We suggest defining basic concepts related to systems: digital accounting system (digital bookkeeping system), cloud-based digital bookkeeping system (digital accounting system), hybrid digital accounting system (hybrid digital bookkeeping system).

Where a cloud or hybrid solution is used, both the full and incremental backup shall be stored at the system provider or at a third party with appropriate technical and organisational ICT security measures covering the following areas:

a) network security,
b) supplier management,
c) creation and storage of backups,
d) access control and logging in,
e) disaster prevention procedures and disaster recovery procedures,
f) data protection.

The system provider (or the entity manager) would be required to perform a risk assessment to establish appropriate security measures. Such an assessment would have to:

a) Include the risk of loss of access, authenticity, integrity and confidentiality;
b) Include any third parties;
c) Be updated on an ongoing basis in the event of a change in the risk levels;
d) Take into account the risk of:
    i) Accidental or unlawful destruction;
    ii) Loss or other forms of non-access;
    iii) Unauthorised changes and unauthorised access to or misuse of information.

e) Optionally, ensure that the accounting system supports the sharing of the entity's data by generating a standard file specified by the tax office or any other authorised external audit or supervisory authority.

17) Providing regulation in the Act of **liability for ensuring the compliance of the financial and accounting system with the Act**. Option 1: responsibility at the entity's management level. Option 2: Software supplier's responsibility – with optional or mandatory system certification.

18) Supplementing the provisions with **definitions of account types** (balance sheet, off-balance sheet, settlement or result) and harmonising the requirements for the trial balance between accounting and tax regulations.

In principle, account books should be used primarily for the preparation of financial statements, and only then they should be used by tax authorities and supervisory agencies. The creation of logical schema of Standard Audit Files ("JPK") results from tax regulations, but it is an accounting structure. The Act requires a symbol or account name in the trial balance , while the schema of the Standard Audit File for account books ("JPK_KR) requires both data. 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.

Reasons: Despite the fact that the above-mentioned obligations result from tax regulations rather than accounting regulations, but concern basic aspects of accounting, therefore, regulating them as part of tax regulations would be an unnecessary burden for users, who would have to obtain information on requirements for such basic aspects as an account from two separate legal acts. Therefore, we recommend that the matters indicated above be regulated in the accounting regulations.

19) In Article 13(3), replace the term **"possession" of the software by** "contractual possibility or right of use" of the software.

Reasons: More and more 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. Therefore, the question arises whether, in the current situation, the Act raises a legal compliance issue.

Additional issues identified by stakeholders (among others the Accounting Standards Committee members), which we suggest should be taken into account when drafting changes to the Act – as options:

20) Indicate expressly in the Act, by adding a relevant provision, that the **entity's financial statements result from the account books kept by the entity**.

21) **Providing definition for accounting entry** – accounting entry is made only for those economic events that affect the financial position of an entity.

22) **Expanding the data required within the JPK structures** (currently regulated outside the Act), as in fact this structure replaces whole account books (journal, trial balance and accounting entries) in a structured manner.

23) A clear indication and precise statement, including targeted penalisation, that **the entity's management is responsible for archiving**. In addition, it shall be specified in the Act that the liability of the entity's management for accounting evidence and its archiving and making available also occurs when the books are deposited with third parties, as well as when the entity's account books are kept by an accounting office.

24) Adding a practical description regarding **correction of errors** in accounting entries and **demarcating the recording of transactions from their accounting** (decision-making on the accounting treatment and verification of correctness), also taking into account the use of tools using artificial intelligence. Currently, data is often imported automatically at the bookkeeping level into the so called buffer and then reviewed and transferred by the accounting team, therefore it is proposed to add a provision that entries are transferred at the end of the month or when certain declarations or financial statements are required to be filled in.

25) In the context of the minimum requirements for the financial and accounting system, some suggested requiring the system to **generate financial statements directly from the system, pursuant to the account books**. However, according to others, the introduction of such an obligation may constitute an excessive burden, in particular for entities reporting for both statutory and group purposes and in other situations.

26) Changing terminology in the context of general ledger accounts and sub-ledgers to **synthetic and analytical accounts**, or adding synthetic and analytical accounts to the definitions included in the Act/standard.

27) Clarification in the provisions that 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).

28) Reserving the possibility of keeping records in sub-ledgers only in a quantitative manner or recognising everything as a cost only for micro entities. Reasons: **value measurement** should not place a heavy burden on entities in the current situation of widespread use of computer systems allowing for parallel volume and value records.

29) Removal of the obligation to **keep evidence of retail sales** for one year – Article 74(2). At the same time, we would like to note that if the digitalised form of keeping books were to be introduced as valid (Recommendation 1), this change would not be necessary as the burden related to the storage of evidence would decrease as the transition to electronic form becomes effective.

30) Regulation of entities that provide accounting services in such a way as to take into account provisions concerning minimum/necessary regulations in the context of **agreements between the entity and an accounting office** (entity that keeps accounting services), e.g. the method of transferring account books, clarification of the moment and form and acceptable format of making account books available by one office to another, where the entity changes the entity/person that keeps the account books, etc.

31) Taking into account the solution proposed by the Polish Bank Association concerning the contents of the document – **amount in words -** by supplementing the provisions of Article 21 concerning the contents of an accounting document with the obligation to include an amount in the accounting document in words, as such obligation exists on the

part of banks (§ 11(2) of the Regulation of the Minister of Finance of 1 October 2010 on specific accounting principles of banks requires that the amount of operations be recorded in accounting documents relating to cash settlements in figures and words). Consequently, this creates considerable difficulties for the bank, which, from the point of view of the requirements relating to the banks' specific accounting principles, should not accept such evidence or, in order to fulfil that obligation and carry out the operation ordered by the client, should add an amount to the evidence or produce other evidence containing that element which would require the client to sign it. As an alternative preferred solution to consider – removing the requirement to present the amount in words verbatim from the requirements addressed to banks (outside the scope of the Project).

32) Removing the obligation to include the system's automatically assigned operation number on the accounting document received in paper form from the client, or development of another solution reducing the workload of this activity for certain types of entities (e.g. banks) recording massive amounts of operations per day. At the same time, we would like to note that if the digitalised form of bookkeeping were introduced as valid (Recommendation 1), this change would be unnecessary as the burden related to paper-based evidence would decrease as the transition to electronic form becomes effective.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Modifying the provisions of the Act.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Some of the recommendations indicated above contain options. In addition, the legitimacy of introducing a part of the recommendation depends on the decision on implementing recommendation 1).

We also note that different statements of position have emerged with respect to some recommendations.

As regards Recommendation 9, concerning the principles for making files available to a third party, different statements of position emerged, stating that the Act should specify that the entity's management providing documents is responsible for/should ensure not only the trade secret but also personal data protection (GDPR) or compliance with the regulations on access to public information.

In relation to the above, a separate opinion was presented concerning the limitation of such extensive detail in the Act – there was a proposal for a more general provision which would not make it necessary to frequently update the Act in the future. Initial alternative wording proposal: “Where other provisions require data sets or documents from the accounting system to be made available, files produced under accounting shall be such as to enable those sets (or documents derived therefrom) to be made available in the form resulting from separate provisions”.

As regards Recommendation 18 concerning the structure of the JPK, there was a statement of position to expand the data required within the JPK (currently regulated outside the Act), as in fact this structure replaces whole account books (journal, trial balance and accounting entries) in a structured manner. Doubts arose as to this position due to the fact that:

1) the principles of bookkeeping should be fully regulated in the Act rather than in tax laws (taxes use accounting principles);

2) The Act should contain basic requirements as to the method of keeping books of account.

As regards Recommendation 23 concerning, among others, the liability of the entity’s management for accounting evidence, also when the books are deposited with third parties or when the entity's account books are maintained by an accounting office, it has been suggested that precise provisions should be added in the Act on how the entity’s management is to ensure and verify what and how it is made available.

With respect to Recommendation 30, concerning the inclusion in the Act of minimum/necessary regulations in the context of agreements between the entity and the accounting office (entity maintaining the account books for services), there was an opposition vote saying that the matters of keeping accounting and making documents available by the accounting office are governed by the agreement between the entity and the office and therefore it is not necessary to include such details in the accounting regulations.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☒Developing a new Standard/Regulation
☐Developing Application Guidelines
☒Change of other (not directly accounting-related) legal provisions*
☒Need to develop complex transitional provisions
☒Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.5.8. Trial balance

- Statement of turnover and balances/Medium (6.6.12.)

Reference to a legal act

Article 18(1) of the Act specifies that the trial balance is prepared at the end of each reporting period, but at least at the end of the month based on general ledger entries. The trial balance should include symbols and account names, balances and total balances as at the opening date and at the end of the reporting period, together with turnover for the reporting period and cumulatively from the beginning of the financial year. Turnover in the trial balance should be consistent with the turnover of the journal or the total of turnover of the partial journals.

In addition, Article 24 of the Act provides that account books should be kept in a reliable, error-free, verifiable and ongoing manner. Reliability is ensured when account book entries reflect the actual state of affairs, error-free, while when the accounting documents designated for booking in a given month were completely and correctly entered and the continuity of entries and the correct operation of the calculation procedures applied was ensured. Account books are considered verifiable when the correctness of entries made in them, balances and the calculation procedures used can be ascertained, in particular by documenting the entries in such a way as to identify the evidence and how it is recorded, keeping the entries in a chronological and systematic manner according to appropriate classification criteria and enabling the preparation of specific reports, ensuring that the completeness of collections and data processing parameters is checked (when account books are kept using a computer) and providing access to a set of data enabling clear and understandable information to be obtained at any time and for any reporting period of their choice. Account books are considered to be kept up to date when the information they provide makes it possible to prepare specific statements, the trial balance is drawn up regularly within certain deadlines and the recognition of cash operations and other events is made on the same day as it occurs.

Summary (synthetic) description of the problem

In the era of advanced financial and accounting systems and increasing digitalisation, a trial balance 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 trial balance at any date, at least at the end of each period).

Recommendation

a. **Description of proposed change**

We propose to reformulate Article 18(1) as it does not currently take into account the specific nature of bookkeeping using computer systems and the resulting possibility of generating trial balance at any time.

The computerised system should enable the trial balance to be generated at any time and ensure a reconciliation between the transaction amounts and the trial amounts at any date (or at least at the end of the period).

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Supplementing and modifying the provisions of the Act.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.5.9. Currency conversion result in a supporting accounting document

- Currency conversion result in a supporting accounting document/Medium (6.6.13.)

Reference to a legal act

Article 21(3) governs that a supporting accounting document prepared in foreign currencies should include their amount converted into the Polish currency at the exchange rate prevailing as at the transaction date. The result of the conversion should be indicated on the document, unless the computer system allows for automatic translation of foreign currencies into the Polish currency and it is confirmed by an appropriate printout.

Summary (synthetic) description of the problem

In practice, financial and accounting systems do not enable conversion such as described above. The provision seems outdated. Current accounting systems allow to verify the exchange rates and the related conversions for accuracy (e.g. in the system's description). The accounting system should ensure that information about how currency balances and transactions are converted is available and verifiable.

Recommendation

a. **Description of proposed change**

We propose to simplify the provision resulting from Article 21(3) so as to include the possibility of verifying the correct application of foreign exchange rates and recalculation, e.g. by describing the system. The accounting system used by the entity should provide the possibility to generate information on foreign currency amounts, Polish currency amounts and the conversion rate applied, which will enable verification of the correctness of the conversion.

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Modifying the provisions of the Act.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions

☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.5.10. Correcting errors in records

- Correcting errors in records/Medium (6.6.14.)

Reference to a legal act

Article 25(1) indicates that errors identified in entries are corrected by deleting erroneous content and replacing it with a new one while keeping the previous entry legible with the signature and date of the correction made, and such corrections should be made simultaneously in all account books and not occur after the month is closed or by entering in the account books a proof correcting erroneous entries.

Summary (synthetic) description of the problem

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.

Recommendation

a. **Description of proposed change**

We propose to introduce into the Act a general provision that once introduced into the system, the entry cannot be deleted from it as it contains its specific chronological number. If the content of a recording is found to be incorrect, it can be corrected only by creating a new document correcting the incorrect content of the original document.

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Supplementing the provisions of the Act.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.5.11. Recording in sub-ledgers of inventory

- Providing acceptability of keeping sub-ledgers of inventory by way of records other than value and volume records and the obligation to prepare JPK_MAG./Low (6.6.17.)

Reference to a legal act

Article 17(2) provides that the entity's management, taking into account the type and value of individual groups of current assets, decides to apply one of the four methods of keeping sub-ledger: quantitative and value records, quantitative records of turnover and stocks for individual components kept in natural units, value records of turnover and stocks of goods and packaging (for retail outlets or storage locations), or recognition of materials and goods as expenses as at the date of their purchase or finished products at the time of their manufacture, together with the determination, measurement and adjustment of costs by the value of such stocks, no later than the balance sheet date.

Summary (synthetic) description of the problem

Not applicable.

Recommendation

a. **Description of proposed change**

Not applicable.

b. **Reasons if no changes are made to a given problem area (if any)**

According to the “Storage information brochure – JPK MAG” published by the MoF (in June 2018), the structure of the Standard Audit File for warehouse management (“JPK_MAG”) is intended for quantitative and value recording, in which turnovers and balances in natural and monetary entities are recognised for each component. If the entity manager has decided to use another method of maintaining sub-ledgers for tangible current assets, data from the warehouse documents that are only valuable or purely quantitative will not allow to prepare the JPK_MAG file and will therefore not be required.

c. Indication of the location in the relevant legal act and where in the structure

Not applicable.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☒Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.5.12. Balance confirmations

- Balance confirmation/Medium (6.10.8.)

Reference to a legal act

Article 64 governs that the annual consolidated financial statements and the annual financial statements of continuing entities, including banks, cooperative savings and credit unions, entities operating under securities trading regulations, regulations on the provision of crowdfunding services for business ventures, and regulations on investment funds and the management of alternative investment funds and entities referred to in Article 2(2)(b), entities operating under the laws on the organisation and operation of pension funds, national payment institutions and electronic money institutions, public limited companies, with the exception of companies which, at the balance sheet date, are members of the organisation and other entities meeting certain conditions concerning employment, assets and revenues are audited. The provision also indicates that the financial statements of the acquirers, newly formed companies, and the combined financial statements of investment funds with separate sub-funds and the separate annual financial statements of the sub-fund are to be audited, as well.

Summary (synthetic) description of the problem

In practice, there are serious problems with balance confirmations and disputed issues for the purposes of audit procedures carried out by a statutory auditor.

Recommendation

a. **Description of proposed change**

We propose to regulate the issue of selective confirmation of settlement balances and legal letters for the purpose of audit procedures conducted by the statutory auditor, by introducing into the Act a provision stating that a third party related to the entity, i.e. a counterparty, a bank, a lawyer, is obliged to grant access to documents as well as to provide exhaustive information, explanations and statements that are necessary to prepare the statutory auditor's report.

In addition, the provision could directly indicate that the transfer of the said data does not constitute a breach of other regulations on, among others, the personal data protection, trade secrets, professional secrecy, banking secrecy, etc. as such reasons are often given in practice by third parties as preventing confirmation of a given balance or settlement.

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Supplementing the provisions of the Act.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations

☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.6. Fixed assets

3.6.1. Impairment of fixed assets

- Impairment of fixed assets/Low (6.3.11.)

Reference to a legal act

The Act currently governs disclosures concerning impairment of fixed assets in two places of Appendix 1, Notes: paragraph 1(2) and paragraph 2(3)

Summary (synthetic) description of the problem

The current regulations requires disclosure of the amount impairment losses on fixed assets in two locations (duplication of some disclosures).

Recommendation

a. **Description of proposed change**

We propose to change Appendix 1 – paragraph 2(3) to leave only the requirement to disclose the reasons for the impairment losses, without disclosing their amounts. These amounts are included in the table of movements in accordance with Appendix 1 – paragraph 1(2).

<u>Reasons:</u>

Removing requirements that duplicate the impairment disclosures.

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Accounting Act – Appendix 1 (or, if the contents of Appendices 1-3 are transferred to separate standards – in accordance with a separate recommendation, modification of provisions at the level of the standard concerning the contents and layout of financial statements)

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.6.2. Disclosures of land in perpetual usufruct

- Disclosures of land in perpetual usufruct/Low (6.3.17.)

Reference to a legal act

Disclosures concerning land held under perpetual usufruct are currently regulated in Appendix 1, Notes: paragraph 1(4)

Summary (synthetic) description of the problem

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 itself or the value of the related payments.

Recommendation

a. Description of proposed change

We propose to introduce an obligation to disclose undiscounted perpetual usufruct fees (i.e. an indication of the remaining contract term, total fees or annual fee) and, if the entity has such information, information about the fair value or contractual value of the subject matter in NAS 5 (or in a dedicated disclosure standard – the proposed standard for the contents and layout of financial statements).

Reasons:

Removing uncertainties regarding the scope of the data to be disclosed.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Modifying the provisions of NAS 5 or, in the case of transfer of the contents of Appendices 1 to 3 to separate standards – in accordance with a separate recommendation, introduction of a provision at the level of the standard concerning the contents and layout of financial statements).

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.6.3. Impairment of fixed assets

- Need to sort out the impairment provisions between the Act and NAS 4/Medium (6.8.12.)
- Removing specific regulations of fixed assets impairment from the Act/Medium (6.8.30.)

Reference to a legal act

Impairment of fixed assets is regulated in the Act in Article 28(7) (principles of impairment losses) and Article 32(4) (impairment indications). At the same time, National Accounting Standard 4: Impairment of Assets (“NAS 4”) governs in detail and comprehensively impairment issues.

Summary (synthetic) description of the problem

Impairment of fixed assets is regulated both in the Act and in NAS 4 and in market practice may raise interpretation doubts concerning such issues as:

- Completeness of impairment indications included in the Act;
- Possibility of analysing impairment for cash-generating units ("CGU") (NAS 4) vs individual assets (the Act);
- The Act refers to the comparison of the book value of assets with their net realisable value (or otherwise determined fair value), while NAS 4 refers to the comparison of the book value with the commercial or use value.

Recommendation

a. Description of proposed change

The solution proposed by us assumes that there is a general provision in the Act stating that if there are indications of impairment, an impairment test of the fixed assets (or the CGU to which the fixed assets belong) should be carried out and an impairment loss recognised if this test shows that the carrying amount is lower than the recoverable amount. Further details of the methodology and practical issues could be included in NAS 4.

<u>Reasons:</u>

Simplification of the Act and removing interpretation doubts between the Act and NAS 4.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Accounting Act – current regulations of Article 28(7) and Article 32(4).

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.6.4. Starting point of depreciation

- Starting point of depreciation/Low (6.8.28.)

Reference to a legal act

The starting point of depreciation is regulated in Article 32(1) of the Act.

Summary (synthetic) description of the problem

Article 32(1) states that depreciation commences no earlier than after a fixed asset has been commissioned for use. 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.

Recommendation

a. **Description of proposed change**

We propose to change the provisions of the Act (Article 32(1)) as follows:

"Fixed assets are depreciated by a regular, scheduled allocation of its initial cost over a specific depreciation period. Depreciation begins not earlier than after a fixed asset is commissioned for use, as is the case when **it is available for use**, and it ends not later than when the value of depreciation or amortisation charges equals the initial value of a fixed asset or is intended for liquidation, sale or detection of its shortage, taking into account, if necessary, the net selling price of the remaining fixed assets expected upon liquidation."

<u>Reasons:</u>

Matching the starting point of depreciation to the moment when the fixed asset is available for use.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Accounting Act – Article 32(1)

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.6.5. Depreciation period and methods

- Acceptable changes of the depreciation and amortisation method/Low (6.8.29.)
- Change of depreciation/amortisation rate during the year/Medium (6.8.70.)

Reference to a legal act

The determination of the depreciation period and method is set out in Article 32(3) of the Act.

Summary (synthetic) description of the problem

- The provisions of Article 32(3) suggest that the depreciation method initially applied may not be changed (this is also confirmed by the National Accounting Standard 11: Fixed Assets – "NAS 11" Section 2.2d), which may not be justified.
- 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.

Recommendation

a. Description of proposed change

Proposed changes at the level of the Act (and consequently at the level of NAS 11) are as follows:

We propose to change Article 32(3) by deleting the statement "resulting in appropriate adjustment of depreciation charges made in subsequent financial years." and adding a provision stating that:

(i) that if circumstances arise that indicate a change in the method of benefiting from the asset, the entity **is required to** review the adopted depreciation method; and
(ii) possible changes in the method and parameters used to calculate depreciation (e.g. useful life, residual value, quantity of natural units) during the year apply from the moment when the estimate changes.

<u>Reasons:</u>

Matching the depreciation method to the method of benefiting from the asset.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Accounting Act – Article 32(3)

NAS 11 Section 2.2d and Section 8.42.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.6.6. Low value fixed assets

- Simplified approach to low-value fixed assets/Medium (6.8.31.)

Reference to a legal act

The approach to fixed assets with a low unit initial value are set out in the Act in Article 32(6).

Summary (synthetic) description of the problem

The Act permits recognition of fixed assets with a low unit initial value as one-off expense. In the case of a one-time purchase of a larger amount of such fixed assets, a one-off expense may significantly distort the profit or loss.

Recommendation

a. **Description of proposed change**

Recommended change options:

Option 1: remove the possibility of simplifying or;

Option 2 (preferred): Clarifying the provision so that the recognition of a one-off expense is acceptable only if it does not distort the entity's profit or loss or its assets.

Reasons:

Counteracting any misstatement of financial statements.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Accounting Act – Article 32(6).

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Options as described in item a.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.6.7. Revaluation of fixed assets

- Revaluation of fixed assets/High (6.8.24.)

Reference to a legal act

The measurement of fixed assets is governed by Article 28(1)(1) (measurement at cost of acquisition or cost of manufacture less depreciation charges) and Article 31(3) (revaluation of fixed assets under separate regulations).

Summary (synthetic) description of the problem

Revaluation (fair value adjustment) of fixed assets is only allowed under separate regulations (Article 31(3) of the Act). This provision was applied in 1995 and no such situation has occurred since then. As regards the admissibility of revaluation of fixed assets, various opinions emerge among the Act's users:

- To permit revaluation by analogy to IFRS;
- To permit or introduce mandatory revaluation of certain assets, e.g. buildings and land only.

Recommendation

a. Description of proposed change

We propose considering two options:

Option 1 – No changes to the current regulations, i.e. no possibility to measure fixed assets based on revaluation model. Instead, we propose to delete Article 31(3) of the Act as a dead provision. Any possible acceptance of revaluations in the future would be possible only on the basis of a change to the Act.

Reasons:

The Act should be simpler to apply than IFRS. In addition, the Act should strive for harmonisation and thus more comparable data between entities. Moreover, allowing the application of the revaluation model would create additional risks related to complicated audit of statutory auditors (smaller audit firms are often employed by entities with less complex accounting). Another argument against allowing the revaluation model may also be the purpose for which the entity maintains fixed assets – the main objective is to use the assets in the entity's operations rather than to maintain them to increase their value. It should also be noted that in today's economic environment, fixed assets, with the exception of land and buildings, seem to lose importance to intangible assets.

Option 2 – Allowing the possibility of valuing fixed assets according to the revaluation model, for certain groups of fixed assets, including land and real estate.
This option provides for the introduction of a provision in the Act stating that for land and real estate an entity may use the revaluation model provided that it makes such a valuation at least once a year, 2 or 3 years (frequency to be further considered) and such a valuation is based on the formal valuation report (appraisal).

Reasons:

Introducing the possibility of applying the revaluation model (limited to selected groups of fixed assets, i.e. land and real estate), while introducing the obligation to comply with formal requirements, would allow entities to reflect fixed assets in the financial statements at their current value. Information on such value could be very useful for users of financial statements, especially in the case of assets for which there are comparative transactions on the market (e.g. land and real estate). This option is also supported by the fact that fixed assets from the above-mentioned groups, which are in long use, may be undervalued under current market conditions. This may result in a worse perception of the entity's financial standing by banks or investors. It therefore seems advisable to allow entities to reflect in the book value the actual value of their assets.

<u>Final recommendation:</u>

The above two options were initially discussed among stakeholders (discussed in particular with the members of the Accounting Standards Committee). Some stakeholders considered Option 2, which allows the revaluation model, to be too controversial. Specific results of the discussion and description of statements of position are presented in item d. below.
After hearing the parties, we conclude that there are good arguments for both proposed options, so based on the fact that the current solution is simpler, we suggest not to change the current situation and we favour Option 1. This decision is also strengthened by the fact that if there are entities for which the revaluation is critical, they will be able to apply IFRS where revaluation model is acceptable. And if they choose not to apply IFRS, they may, although unable to reflect the revaluation in the balance sheet, disclose it in the notes to the financial statements.
At the same time, seeing arguments in favour of Option 2, we want to record it with this Report and note that if the majority for Option 2 is formed in the future, then we suggest introducing this possibility in the Act.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

The aforesaid provisions of the Act concerning the principles of measurement of fixed assets.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

As a result of the ongoing discussions on both proposed options, we note that the following arguments were presented in favour of leaving the regulations of the Act in their current form (Option 1):

- It was noted that most of the financial statements are not audited, therefore, allowing Option 2 could cause too much discretion in revaluation and freedom in determining the value of assets, which would affect the lack of comparability between entities;
- Due to the additional costs associated with the valuation process, Option 2 would presumably be rarely used, by a limited number of entities.
- Option 2 also raises a potential problem in enforcing entities' use of valuers to perform measurements/ valuations, particularly where the entity's financial statements are not audited;
- Option 2 is already available to IFRS adopters and their catalogue is expected to expand eventually, so an alternative valuation method will be possible for those willing to use;

- Banks and investors rather assess the entity's ability to generate cash rather than its assets – where assets are used as collaterals, the value from the valuation report is the basis for assessing the quality of this collateral rather than the value of the disclosed in the financial statements;
- Option 2 is much more complex and creates a risk of error; additionally, when entities adopt the revaluation model, there is a risk that entities will frequently change accounting policies based on valuation preferences in a given year;
- Most of the proposed changes to the Act go towards simplifying the Act, and Option 2 removes us from the assumed approximation of accounting regulations to tax regulations.

The following justification was provided for Option 2:

- The problem of inability to apply revaluation model affects in particular entities that are forced to file for liquidation or opening bankruptcy proceedings because, according to their book value, their fixed assets are close to zero;
- The impossibility of statutory revaluation makes the value of assets unrealistic, especially with respect to land or real estate (some entities, in order to realise their assets, flee to reclassify some assets, most often land, into investing activities in order to reflect in the book value the actual value of);
- Possibility of revaluation will result in a more realistic value of fixed assets that have not been revalued for a long time and in a more realistic value of depreciation, and thus the possibility of building up a cash reserve for the replacement of assets;
- Under this option, there is also a realistic possibility of disclosing and restarting the amortisation of facilities that have already been fully depreciated;
- Some stakeholders find Option 2 to be more advantageous from the investor's perspective. In particular with respect to land and real estate, the potential investor's assessment may change significantly if he has at his disposal indicators that take into account current estimates, especially in the case of valuations made by appraisers;
- In order to mitigate the risks raised by the supporters of Option 1, it is proposed to introduce an obligation to audit the financial statements of entities that decide to measure fixed assets using the revaluation model;
- Alternatively, in the context of the introduction of the audit obligation in case the entity decides to apply the revaluation model, there was also a proposal that the verification of valuation reports not performed by the appraisers could be subject to the assurance service – confirmation that the measurement was correctly reflected in the account books rather than an audit of the entire financial statements (limited only to verification of the correctness of the measurement);
- There was also a view that if Option 2 (application of the revaluation model) were to be used by only a few entities, it would be worth considering this option and that the possibility of measurement only in the context of land should also be considered, as it is currently a problem, for example, for many housing cooperatives.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.6.8. Definition of the cost of manufacture of a fixed asset

- Definition of the cost of manufacture of a fixed asset/Medium (6.8.25)

Reference to a legal act

The cost of acquisition and cost of manufacture of fixed assets are governed by Article 28(1)(1) and (2) of the Act, as well as paragraphs 3 and 8 of this Article.

Summary (synthetic) description of the problem

The Act provides the specific definition of the cost of manufacture of products and relatively limited guidelines on the cost of manufacture of fixed assets.

Recommendation

a. **Description of proposed change**

- We propose to change the above mentioned provisions of the Act by:
    - Introducing into the Act of a general provision stating that assets and liabilities are measured at historical cost, unless the Act provides otherwise;
    - An indication that in the case of an asset, the historical cost includes all expenditures (costs) that were necessary and directly used to acquire/produce the asset or to increase its value. Where the acquisition does not involve an expenditure for the entity, the historical cost is determined in a manner that faithfully reflects the substance of the transaction (to be furtherly explained in the standard);
    - An indication that in the case of liabilities, the historical cost includes the amount of benefits received in connection with the original identification of the liability.

- A specific definition of cost of acquisition and cost of manufacture should be introduced at the level of a dedicated standard that would define the cost of acquisition and cost of manufacture depending on the context and the manner of acquiring a specific asset, for example:
    - External acquisition of an asset (in a separate transaction);
    - Manufacturing of products (taking into account the current NAS 13);
    - Manufacture of assets other than products manufactured by the entity (the current NAS 11 and the current standard for intangible assets could then refer to that standard);
    - Acquisition of an asset as a result of an exchange (Accounting Standard Committee’s current statement of position on the recognition of a transaction to convert a non-monetary asset into another non-monetary asset);
    - Obtaining assets such as emission allowances and certificates of origin (Accounting Standard Committee’s current statement of position on accounting for greenhouse gas emission allowances and position on accounting for

economic rights arising from certificates of origin of energy produced from renewable energy sources);
  - Assets obtained in a donation, etc.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Introducing into the Act (section on definitions) of the provision indicated in the recommendation above and deletion of specific provisions included in Article 28(3) and (8).

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☒Developing a new Standard/Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.7. Investments in real property

3.7.1. Definition of property under construction

- Definition of property under construction/Medium (6.8.2.)

Reference to a legal act

The definition of fixed assets under construction is provided in Article 3(1) (16).

Summary (synthetic) description of the problem

The Act contains a definition of fixed assets under construction but fails to define or set out how to present and measure investment property under construction.

Recommendation

a. **Description of proposed change**

We suggest that it be specified at the level of Article 3(1) (17) and at the level of the so-called balance sheet template that investment properties also include investment properties under construction.

Reasons:

Clarifying the definition is necessary due to differences of interpretation among stakeholders.

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Change to Article 3(1)(16) of the Act.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.7.2. Reclassifications between asset types

- Reclassifications between asset types/ Medium (6.8.4.)

Reference to a legal act

The definition of investments and other assets as well as issues related to their reclassification to investments are regulated in Article 3(1)(15), (17), (32c)) of the Act and NAS 11 6.26 b).

Summary (synthetic) description of the problem

The Act does not fully address the issue of reclassification between different types of assets. For example, there is no reference to reclassification from investments to fixed assets, while the reclassification from fixed assets to investment properties is regulated (indirectly in Article 3(1)(32c).

An additional issue is the current guidelines of Article 3(1) (32c) and NAS 11 6.26 b), according to which when a fair value measurement model is applied to investment properties, the regulations allow for recognising the entire fair value measurement effect at the moment of reclassification **to the profit or loss** of the year – without indicating in which cases such reclassification is justified.

Recommendation

a. **Description of proposed change**

We propose to introduce at the level of the Act a separate provision (e.g. in the definition chapter) stating that an asset is reclassified as a result of a change in the manner in which the asset is used. Such an update of the definitions would allow a complete reference to all reclassification cases.
Therefore:

- At the level of NAS 11 (e.g. in the section "reclassification from Investment properties"); or
- At the level of the investment property standard developed by the NAS (which is intended to regulate the reclassification of assets)

we propose to clarify the timing and conditions for the reclassification, e.g. by indicating that the reclassification is appropriate when justified, supported by specific actions and not based solely on the intentions of the management.
In particular, it would be proposed to provide that property previously classified as investment property is reclassified as inventory when the entity makes a decision and specific actions in connection with the sale of such assets, and the entity recognises the inventory at cost of acquisition, in this case the fair value of the investment property. However, the condition for reclassification to inventory should be that real estate trading is the core business of the entity.

Moreover, in accordance with the recommendations to be presented in relation to investments (according to which the investment measurement effect would be allocated to capital), the investment property measurement effect would be allocated to revaluation capital and not to the income statement (possibly excluding companies for which the management and ownership of real estate is an operating activity).

Reasons:

Clarification of the conditions for reclassifying fixed assets, especially in the case of changes resulting in recognition of gains or losses in the income statement, which will tighten the cases of reclassification and prevent differences in interpretation among stakeholders.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

- Changes to the aforesaid Article 3(1)(15), (17), (32c) of the Act
- NAS 11, NAS for investment properties – in preparation

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other ☐accounting regulations
☒Developing a new Standard/Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.7.3. Classification of intangible assets, fixed assets and investment properties as long-term and short-term items

- Classification of intangible assets, fixed assets and investment properties as long-term and short-term items/Medium (6.8.5.)

Reference to a legal act

Definitions of intangible assets, fixed assets and investments are included in Article 3(1) (14), (15) and (17) of the Act.

Summary (synthetic) description of the problem

There are no regulatory implications – the definition of an investment does not contain a limitation of a time condition, and according to Appendix 1 of the Act, investment properties are only long-term.

At the same time, there were requests from stakeholders to introduce a separate category as part of assets – long-term assets held for disposal.

Recommendation

a. **Description of proposed change**

- We recommend that short-term investment properties should not be added to the balance sheet template (which is coherent with the current so-called balance sheet template), as investment property maintained to generate benefits is by definition classified as a long-term investment.
- We believe that property, plant and equipment, investment property, intangible assets classified as long-term assets should remain long-term until their disposal, even if such disposal is expected to take place within less than the next 12 months – one could consider introducing such a clarification at the level of the Act – e.g. as a development of the current provisions of Article 3(1)(13) or (18). Therefore, we do not suggest adding an additional category of assets and liabilities similar to IFRS 5 – non-current assets held for sale (and related liabilities).
- At the same time, if such circumstances arise, we would suggest that appropriate disclosures be made (e.g. in the form of an addendum to the “Draft Accounting Standards Committee's statement of position on presenting the discontinuing or discontinued activities and disclosing the related information”), including the nature and book value of such assets and, if available, the amount of intended proceeds from disposal.

<u>Reasons:</u>

The proposed changes are aimed at addressing the doubts of the Act's users regarding the presentation of long-term assets (mainly investment properties held for sale) in the short term.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

- Change to Article 3(1), (13), or (18) of the Act
- Developing a standard for the layout and content of financial statements

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☒Developing a new Standard/Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.7.4. Lack of sufficient guidelines for recognition of revaluation effects in case of investment property

- Absence of sufficient guidelines for the recognition of the effects of revaluation of investment property/Low (6.8.68.)

Reference to a legal act

Regulations concerning recognizing in other operating expenses and revenue, costs and revenue related to the maintenance of real-estate property and intangible assets classified as investments, including the revaluation of such investments, are included in the definition of revenues and operating expenses in Article 3(1) (32).

Summary (synthetic) description of the problem

Currently, the approach to revaluation of investment property may only be inferred from the definition of other operating income and expenses (Article 3(1)(32c), which causes difficulties of interpretation for the Act's users.

Recommendation

a. Description of proposed change

We propose supplementing Article 35(4) of the Act with guidelines on recognising the effects of revaluation of investment properties for the sake of completeness. At the same time, we would like to note that item 3.12.1 proposes to record the effects of revaluation of investment properties in revaluation capital together with reclassification of the effect of such measurement to the profit and loss account at the time of disposal of the properties.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and in which

Change of Article 35(4) of the Act.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*
**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.8. Intangible assets

3.8.1. Definition, indefinite useful life, costs of improvement of intangible assets

- Definition of intangible assets/Medium (6.8.1.)
- Indefinite useful life of intangible assets/Medium (6.8.20.)
- Cost of improvement of intangible assets/ Medium (6.8.21.)

Reference to a legal act

Article 3(1)(14) introduces a definition of intangible assets.

Article 28(1)(1) governs the method of measurement of fixed assets and intangible assets.

Article 33(1) indicates which provisions apply to the measurement of intangible assets and their depreciation method.

Summary (synthetic) description of the problem

There are doubts among the Act's users regarding the classification of various types of acquired rights and benefits (not resulting from signed legal agreements) as intangible assets. In addition, the current definition of intangible assets requires a useful economic life of at least 12 months and thus excludes the recognition of short-term software licenses or film licenses as intangible assets.

In addition, there is a controversy in the market around permissibility not to depreciate intangible assets (including goodwill).

The current regulations exclude the possibility of increasing the initial value of an intangible by the costs of its improvement.

Recommendation

a. **Description of proposed change**

<u>Definition of intangible assets</u>

At the level of the Act, it would be proposed to introduce a definition of intangible assets similar to that in International Accounting Standard 38: Intangible Assets ("IAS 38"), which includes the following elements:

- An identifiable non-monetary asset that is not physical;
- Meeting in addition such recognition criteria as capability of being separated or arising from contractual or other legal rights (excluding the right to receive future services);
- Controlled by an entity;
- For which it is possible to measure the cost of acquisition reliably.

In particular, the new definition would ignore:

- The words “legal”,
- The criterion of a minimum useful life of 12 months.

Specific guidance on the recognition of intangibles would be set out in the developed standard for intangibles.

Costs of improvement

It would also be proposed to introduce the possibility to capitalise the costs of improving intangible assets, provided that they meet the definition of intangible assets (recognition criteria).

Depreciation period

In the context of depreciation, we recommend introducing a maximum depreciation period of 10 years for all intangible assets, including those where the entity is unable to determine its useful economic life. Another longer depreciation period could be used in special justified cases specified in the standard (excluding goodwill and development costs) – the proposed provision at the level of the Act would be: “Except for goodwill and development costs, an entity shall adopt a depreciation period not exceeding 10 years unless it is reasonable to adopt a different longer depreciation period or another depreciation method.”

Reasons

The proposed changes aim at addressing users' concerns about the recognition of certain acquired benefits and rights, extending the definition to short-term intangible assets and, on the other hand, introducing limitations in the assumed depreciation period.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

- Accounting Act – regulations concerning the definition and measurement of intangible assets

- The need to include intangible assets in the definition of current assets in the Act Article 3(1)(18)(a) “tangible assets referred to in item 19 **and intangible assets** [...]”

- Template of the balance sheet – additional item intangible assets need to be included in Part B. current assets

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☒Developing a new Standard/Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.8.2. Clarification of provisions for ongoing development projects and their capitalisation

- Clarification of provisions for ongoing development projects/Low (6.8.22.)

- Capitalisation of development projects/Medium (6.8.23.)

Reference to a legal act

Article 33(2) indicates the cases in which the costs of completed development projects carried out by an entity for its own purposes, incurred before the production or application of the technology, may be recognized as intangible assets.

Summary (synthetic) description of the problem

There are no regulations on the recognition of development expenditures incurred that meet the capitalisation criteria but have not yet been completed.

Recommendation

a. Description of proposed change

- At the level of the Act, a provision should be introduced which permits capitalisation of development expenditures (**including expenditures resulting from ongoing development projects**), while prohibiting capitalisation of other internally generated assets if they were not acquired as a result of a business combination transaction or acquired as part of an individual/ separate transaction.
- On the other hand, specific issues related to capitalisation of development costs should be regulated at the level of the intangible asset standard (standard in development), while at the same time the acquisition and production cost issue should be regulated in another separate standard dedicated to these issues. (Standard proposed for creation – defining, among others, necessary/ directly attributable costs). On the other hand, the standard dedicated to intangible assets should specify issues such as when the entity should start capitalising and how the entity should present development expenditures at different stages of work.

<u>Reasons:</u>

Current regulations of the Act do 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 expenditures 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 expenditures are often accumulated in prepayments and deferred expenses) to intangible assets. The proposed changes aim at addressing these issues clearly.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

- Removing the current specific provisions on development projects from the Act
- Developing a standard for intangibles

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☒Developing a new Standard/Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.9. Inventory

3.9.1. Measurement of mandatory reserves

- Measurement of mandatory reserves/Medium (6.8.33.)

Reference to a legal act

The measurement of inventories is governed by Article 34(4)(1) to (4) and additionally by National Accounting Standard 13: Cost of Manufacture as the Basis for Product Measurement (“NAS 13”) (in relation to the cost of manufacture the products).

Summary (synthetic) description of the problem

The Act does not provide regulation for inventories are to be recognised and measured if an entity is obliged to keep specific levels of mandatory reserves (stock/storage of products/ materials) or where using up all the stock/ storage (e.g. the storage of a petroleum product in an underground tank) is economically or technically impossible.

Recommendation

a. **Description of proposed change**

We propose to introduce the relevant guidance described below either at the level of a separate inventory standard (the current NAS 13 only governs the determination of the cost of manufacture of the products) or at the level of the current NAS 11 in addition to this standard (the introduction of the definition of “technical” inventory):

Option 1 on **the recognition of “technical” inventories as fixed assets**:
If “technical” inventory is necessary to maintain fixed assets, and at the same time it is expected that in the future it will be possible to extract it from the tank in the event of its liquidation, then such inventory would be the residual value of the given fixed assets (tank). If, on the other hand, the “technical” stock is not expected to be extracted in the future, the residual value representing that stock would be zero. For a residual value greater than zero, an entity would be required to review and measure it periodically at cost of acquisition no higher than the net realisable value. Due to the inability to apply the components approach (as in International Accounting Standard 16: Property, Plant and Equipment (“IAS 16”)), under Polish accounting regulations depreciation amounts will fluctuate (and in extreme case depreciation may be suspended). This option may involve additional complications if impairment tests are performed (due to the fact that the future value discounted to the present value may differ from the current price of a given inventory).

Option 2 regarding recognition of “technical” inventories (extractable at the time of tank decommissioning) as long-**term inventories**: Since “technical” inventory (e.g. for gas) is not a specific gas resource over the useful life of the tank, but a specific level of gas that should be maintained in a given tank, a definition of “technical” inventory as long-term inventory could be adopted. Therefore, it would also be necessary to **add to the balance sheet template** the item of long-term inventories presented as part of fixed assets with the **introduction to the Act of a definition** stating that they are inventories that are not expected to be disposed of or consumed during the year or during the business cycle.
Two approaches to the valuation method can be considered here:

(1) Option (2a) – similarly to the situation where a technical reserve is recognised as fixed assets – i.e. the value of process gas for each location would be treated as a separate unit of account, which means that it would be excluded from the calculation of the outflow and measured at the cost of acquisition not higher than the net realisable value;
(2) Option (2b) – long-term inventories are treated as one unit of account together with short-term inventories and included in the calculation of the outflow of all inventories.

<u>Final recommendation</u>

Initial talks with stakeholders on the proposed options showed that they were divided, but Option 2 won more positive votes.

First, Option 2 seems simpler to apply as adding the value of inventories to the residual value of fixed assets (described above for Option 1) may create technical complications.

The argument behind Option 2 is also that the long-term inventory category could also be used for other types of assets – inventories, which are not technical inventories, e.g. spare parts (for machines in companies that are exposed to the risk of frequent technological changes in their products), the so-called land bank (occurring in development activity, where potential spaces are accumulated for future projects where it is known that they will not be commenced in the next 2 to 3 years due to the operating cycle).

In the case of long-term inventories, the issue of placing such an item on the balance sheet – within fixed assets or current assets – remains to be considered. In the course of further Project works, Option 3 may also be considered, which is a combination of Option 1 and Option 2, in which some assets that could be classified as long-term reserves should be depreciated because they lose their value even though they are not fixed assets.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Supplementing the provisions of existing standards.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Since we propose two alternative options for solving the problem, at a later stage of the Project one should be selected as the preferred one.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☒Developing a new Standard/Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.9.2. Measurement of films, software and similar items produced by an entity

- Measurement of films, software and similar items produced by an entity/Medium (6.8.34.)

Reference to a legal act

The measurement of films, computer software, typical designs and similar items produced by an entity and held for sale shall be governed by Article 34(3).

Summary (synthetic) description of the problem

In practice, there are doubts about the application of the above provision as it is unclear how revenue and expenses from such transactions are to be recognised and presented. There are also doubts if the above provisions apply to current assets.

Recommendation

a. **Description of proposed change**

We propose to remove Article 34(3) from the Act, and issues related to such products should be addressed by the entity using other already existing regulations and definitions e.g. for intangible assets or inventories – due to the specific nature of this issue, any specific regulations should be conducted at the level of standards (intangible asset standard or inventory standard).

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Removing a specific provision from the Act and introduce guidelines at the level planned to create the intangible asset standard.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

At this stage of the Project – not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☒Developing a new Standard/Regulation
☐Developing Application Guidelines

☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.9.3. Measurement of heterogenous inventory

- Measurement of heterogenous inventory/Low (6.8.35.)

Reference to a legal act

The measurement of inventories by specific identification of actual costs of inventory items is regulated in Article 34(4)(4).

Summary (synthetic) description of the problem

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 inventory items 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 projects, regardless of whether they have been bought or produced" but simultaneously reads that "specific identification of cost is inappropriate when there are large numbers of items of inventory that are ordinarily interchangeable."

Recommendation

a. **Description of proposed change**

We propose to specify at the level of the Act that the above-mentioned provision in item 4) applies only if the goods are not identical/deemed to be identical.

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Modifying the provision in the Act.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

At this stage of the Project – not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.9.4. Measurement of inventories at standard prices

- Measurement of inventories at standard prices/Low (6.8.36.)

Reference to a legal act

The principles concerning the measurement and recording of tangible current assets in the account books are regulated in Article 34(2).

Summary (synthetic) description of the problem

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 cost of manufacture, but simultaneously require valuation of inventories at 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 and the differences between the budgeted and the actual cost of manufacture are insignificant.

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. It follows from the provisions of Article 34(2) that such a solution is admissible. 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

Recommendation

a. **Description of proposed change**

We propose to introduce the following simplification provision into the Act:

We propose that the obligation to account for cost of inventories according to one of the three methods (FIFO, LIFO or weighted average) should be left at the level of the Act, however, in justified cases it would be possible to record inventories at standard prices. In such a case, a provision could be made at the standard level stating that if an entity uses the weighted average method, one of the methods it may use is the method based on standard prices alongside with allocation of deviations in proportion to the standard prices.

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Clarifying the provision of the Act.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

At this stage of the Project – not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.10. Stocktaking

3.10.1. Stocktaking manner

- Stocktaking method: use of computer systems/High (6.7.1.)

Reference to a legal act

The provisions of Article 26(1) govern the manner in which the stocktaking is to be carried out by the entities and determine the time at which it is to be carried out as at the last day of each financial year. Furthermore, they enumerate the catalogue of assets subject to stocktaking with reference to specific methods of stocktaking of those assets.

The provisions of Article 27(2) govern the principles for recognising differences between the actual and reported state found in the course of the stocktaking, requiring that this be done in the account books of the financial year for which the stocktaking was due.

Summary (synthetic) description of the problem

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, entities that hold the following as fixed assets:

- terminal devices used by individual persons (or businesses);

- parcel machines;

- technical equipment (servers, computers, aerials), etc.;

- other fixed assets connected to surveillance systems or other verification systems;

are able to check the existence and operational status of such fixed assets by using the Internet connectivity capability of each individual fixed assets, checking 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.

In addition, the provisions resulting from Article 27(2) do not take account of the automatic process used by some entities (mainly banking institutions) for closing account books in accounting systems. The systems used by these entities sometimes do not have an “open period” function, which results in difficulties in complying with the requirement to recognise stocktaking differences in the account books of the financial year falling on the stocktaking date.

Recommendation

a. **Description of proposed change**

As regards the **stocktaking method of fixed assets**, we recommend that the Act indicate the purposes of the stocktaking (without rigid definition of the method), e.g. by specifying in Article 26 that the stocktaking of fixed assets is made using the physical count method or <u>another method allowing to reliably assess the condition and usefulness of the fixed assets covered by the stocktaking</u>.

In particular, it would be recommended that the direction of changes in this area take into account technological progress, digitalisation, and that changes in regulations are as technology neutral as possible, so that the user fulfils the primary purpose of the stocktaking, but is not limited by specific technology or inability to use the technology.

The Act should specify:

a) What is the primary purpose of the stocktaking – e.g. determining the actual status of defined assets – the stocktaking of assets and liabilities is made in each reporting period in order to reliably determine their actual status and present them reliably in the annual financial statements;
b) Enumeration of which assets are subject to stocktaking – without changes compared to the catalogue of assets currently presented in the Act;
c) Principle that the stocktaking method should be adapted to a given asset (or possibly explicitly allow an indirect stocktaking method between the physical count and the documentary verification (the stocktaking is performed in a manner and manner determined and documented by the entity manager). Physical measurement of inventories may also be carried out using indirect techniques that are reliable and adequately justified.);
d) Alternatively, a definition of an stocktaking that could indicate that an stocktaking is a process of:
    i) checking/verifying, using various methods, the physical and value parameters of individual assets of the entity as at a specified date;
    ii) comparing the results of this verification with accounting data;
    iii) explain the differences between the actual status and the status disclosed in the account books found in the course of the stocktaking;
    iv) and accounting for differences in account books.

If more specific provisions are needed in the stocktaking regulations, we recommend transferring them to a dedicated regulation/standard.

In addition, we recommend developing a solution (for a selected group of entities, e.g. banks) allowing inventory differences to be recognised in the next financial year.

<u>Reasons:</u>

Due to the fact that one of the purposes of the stocktaking is to assess the condition and usefulness of the assets covered by the stocktaking, which may be an indication of impairment tests, it is reasonable that the applied verification method allows to make a reliable assessment. Such assessment may require specialist knowledge, in particular technical and technological knowledge, and validation of suitability for use may require appropriate testing. Allocation of counting teams with adequate technical preparation for verification of all components may not be feasible for assets dispersed in multiple locations and/or economically justified, and additionally may be affected by an error in the assessment of suitability for use.

Modern methods of monitoring IT resources – remotely allow to supervise IT infrastructure and similar devices (often in real time) in order to assess the proper functioning and confirm the condition of the resources.

Fitting the right method to the asset will allow for greater precision in the assessment and will allow the entities to minimise the costs of carrying out the stocktaking procedure, while being able to verify the assets on a continuous basis.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

- Modifying the provisions Article 26 of the Act
- Developing a new stocktaking standard

d. Separate statements of position, discrepancies, decisions to be taken (if any)

During discussions on potential changes, different voices were expressed among stakeholders. It has been noted that the general description of the method of carrying out the stocktaking, and the possibility of choosing a method other than the physical count, may be used by entities and may result in them not carrying out the stocktaking. It was also noted that the stocktaking process is crucial especially for small and medium-sized entities which do not have access to the technologies described in the recommendation and for them the physical count is often the only way to correctly assess the condition and quantity of assets. Therefore, any amendments to the Act in this respect should be first adapted to the reality of business activity in Poland.

In addition, during the discussion on the issue, there was a proposal to introduce an obligation to describe the methods and dates of stocktaking in the entity's accounting policies.

There was also a different statement of position recommending the removal of Chapter 3 in its entirety from the Act, specifying in one Article that the report should be prepared on the basis of an stocktaking.

As regards the formulation of the obligation to take stock of other categories of assets and liabilities, a different statement of position emerged, according to which enumeration is not justified.

With respect to the potential recognition of inventory differences in the next financial year by selected entities (e.g. banks), a different view emerged that such a change is not justified because the current regulations allow an entity to follow the materiality principle and entities may not recognise such differences when they are immaterial.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☒Developing a new Standard/Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.10.2. Stocktaking in automated warehouses

- Stocktaking in automated warehouses/Medium (6.7.2)

Reference to a legal act

The provisions of Article 26(2) extend the catalogue of assets subject to stocktaking through physical count to assets held in an entity but owned by other entities, which are entrusted to that entity for sale, storage, processing or use. At the same time, they point to the obligation for the entity (excluding entities providing postal, transport, forwarding and storage services) to notify the mentioned other entities of the result of the stocktaking.

Summary (synthetic) description of the problem

There are doubts 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.

It is also worth extending the scope of entities exempt from the obligation to take stocktaking through a physical count of assets owned by other entities to entities providing fulfilment services (logistical handling of orders).

Recommendation

a. **Description of proposed change**

We recommend that the provisions concerning the stocktaking at the level of the Act do not specify the exact principles and manner of carrying out the stocktaking, but only indicate its objectives, scope (catalogue of assets covered by the stocktaking and frequency), and that more specific guidelines are included in a dedicated mandatory standard.

With respect to stocktaking owned by the entity, located outside the entity (entrusted to other entities), we suggest, in addition to the current method of confirmation of balances, extending the methods of stocktaking to include methods similar to those indicated in the "Accounting Standards Committee's statement of position on stocktaking by means of physical count of stocks of materials, goods, finished products and semi-finished products" in item 57 concerning physical count of stocks in automated high-storage own warehouses, i.e. by using warehouse computer systems (WMS – Warehouse Management System) provided that verification of compliance of actual stocks with stocktaking levels is performed periodically (at least as at the date of physical count).

In addition, we recommend extending the catalogue of entities exempt from the obligation to take stocktaking by way of a physical count of assets owned by other entities in Article 26(2) to entities providing fulfilment services (logistical handling of orders).

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

- Modifying the provisions of Article 26(1)(2) of the Act
- Developing a new stocktaking standard

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

As with the recommendation on mandatory physical count, separate voices were also expressed regarding the need to leave the physical count obligation due to the risk of overinterpretation of entities that could deviate from the only practical and effective method of calculating assets.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations

☒Developing a new Standard/Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.10.3. Stocktaking timeline

- Stocktaking timeline/Medium (6.7.3.)

Reference to a legal act

The provisions contained in Article 26(3)(1) to (5) specify the situations in which the timing and frequency of stocktaking (indicated in Article 26(1)) of certain assets are deemed to have been met.

Summary (synthetic) description of the problem

During conversations with stakeholders and a review of the inquiries submitted as part of our accounting advisory practice, we have observed that stakeholders 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.

In addition, 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.

There are also doubts about cycle counting; the existing regulations seem to provide insufficient clarity in this respect.

The stocktaking timing imposed by the 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. In particular, companies with significant balances of receivables and payables argue that the timing imposed by the Act is insufficient.

Recommendation

a. Description of proposed change

We recommend the following changes:

1) To be clarified:
    a) In Article 26(3)(3), that an stocktaking of real estate and other fixed assets located in the guarded area and of machinery and equipment included in fixed assets under construction is made by way of a physical count every four years on any day of the year. Currently, this clarification can be found in NAS 11 and ultimately we recommend raising its status as mandatory for use;
    b) In Article 26(3)(2) of the Act, a stocktaking of stocks of materials, goods, finished products and semi-finished products covered by current quantitative and value records and stored in guarded storage facilities is carried out on any day within 2 years;
    c) In Article 26(3)(4) of the Act, the stocktaking of stocks of goods and materials (packaging) at retail outlets covered by value records is carried out on any day of a given financial year;
    d) In Article 26(3)(5) of the Act, the stocktaking of timber stocks in forest management entities is carried out on any day of a given financial year.
2) In the case of hard-to-find assets, the stocktaking of which requires e.g. extensive involvement of specialists/specialised equipment, is time consuming and requires certain atmospheric conditions – we recommend introduction of a mandatory standard at the level of the Act or a dedicated mandatory standard:
    a) Option 1: the possibility to start an stocktaking at any time during the financial year;
    b) Option 2: continuous stocktaking possibilities on similar terms as indicated in the statement of position in the case of stocktaking held at guarded storage facilities and subject to quantitative and value accounting records.
3) We recommend transposing the principles on continuous stocktaking included in the Accounting Standards Committee's statement of position on stocktaking by means of a physical count of stocks of materials, goods, finished goods and semi-finished products to the level of legal regulations (e.g. to a mandatory standard).
4) Extension of the balance confirmation deadline until the 15th day of the following year (in Article 26(3)(1) of the Act) until the date of preparation of the financial statements (or within 3 months from the date on which the confirmations are executed).

<u>Reasons:</u>

The changes proposed above will overcome some of the ambiguities reported by the entities and will remove the burden of performing specific actions within restrictive deadlines that are difficult to achieve in practice.

b. Reasons if no changes are made to a given problem area (if any)

As with the recommendation to introduce a possible stocktaking method other than the physical count, also with respect to the arbitrary deadlines, separate voices emerged during the discussion on the issue. In particular, a reservation was made that the discretionary deadlines should not apply to e.g. micro or small entities which do not have in practice the problems described in the recommendation above, so that they feel obliged to prepare an stocktaking.

c. Indication of the location in the relevant legal act and where in the structure

- Modifying the provisions of Article 26(3) of the Act
- Developing a new stocktaking standard

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Since we propose two alternative options for solving the problem, at a later stage of the Project one should be selected as the preferred one.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☒Developing a new Standard/Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.10.4. Balance confirmations

- Balance confirmation/Medium (6.7.4.)

Reference to a legal act

The provisions of Article 26(1)(2) indicate the appropriate method of stocktaking used for specific financial assets. The method includes confirmation of the status of the indicated assets disclosed in the entity's account books with relevant documents provided by banks and counterparties, as well as clarification and settlement of potential differences.

Summary (synthetic) description of the problem

In practice, no response from counterparties to balance confirmations is commonly the case.

The paper form of balance confirmations is outdated. The guidelines for the form of balance confirmations are only provided in the Statement of Position on accounts receivable and payable and lack precision.

For providers of mass market services, there are concerns whether balances may be confirmed using algorithms. No options are available to take into account materiality in this area of the Act.

Recommendation

a. Description of proposed change

In order to address practical problems and burdens for the entities with respect to the confirmation of receivables balances, we propose the following changes.

1) As regards the **form of confirmations of receivables balances**, we recommend that, under the Act (in Article 26(1)(2)) or a dedicated mandatory standard, it should be specified that electronic form is admissible for the purposes of confirmations of balances of settlements with counterparties. In order to make the provision technologically neutral, we suggest indicating that:

- the form of confirmation of mutual settlements has been agreed between the parties;
- the information provided will be appropriately authenticated (ensuring identification of the parties);
- the confirmation shall be in a permanently legible form (similar to the source evidence in Article 20(5)(1).

Reasons:

Such clarification will eliminate doubts raised in this respect among some users of the Act and will take into account the consequences of dynamic development of modern solutions in the field of blockchain technology, for example with the use of the so-called "durable medium".

Blockchain is increasingly used in both the public and private sectors (in various industries – banking, energy, etc.). The scale of applications is growing dynamically.

One example is the so-called "durable medium". The Consumer Rights Act defines this term as a material or tool that enables a consumer or a trader to store information addressed personally to him in a way that provides access to information in the future for a period adequate for the purposes of the information and allows the unchanged reproduction of the information stored (Article 2(4) of the Consumer Rights Act).

A "durable medium" using blockchain enables physical (paper) documents to be replaced by electronic equivalents, while ensuring:

- authenticity, i.e. source of origin – it is possible to verify the authenticity of the document by any entity to which it is transferred (e.g. court, tax authority or statutory auditor), and

- integrity, i.e. no interference with the content – such documents are cryptographically protected – no possibility of deleting the file or making unilateral, unnoticeable changes to it,
- undeniability – the credibility of the fact that the balance has been confirmed cannot be called into question.

In addition, this technology allows access to the document for the required time (e.g. statutory deadlines).

These characteristics mean that the technology referred to above could be considered as a proxy for traditional paper or email confirmation of balances. At the stage of publication of this Report, there are already examples of applications of this technology on the Polish market, e.g. in the banking sector or in e-commerce, which is why during future legislative work we recommend taking into account the current state of possibility of using this technology, examples of implemented solutions on the Polish and global markets, in order to enumerate this form of confirmations as a form that can be used by entities when confirming balances or formulating the provision in a technologically neutral manner, i.e. in such a way that it will be clear to the user that the use of this method will be possible under newly created legal regulations.

2) In addition, we recommend introducing, at the mandatory standard level, the possibility of conducting, in justified cases, a procedure of confirmation of receivables balances based on the entity's computer systems – in a manner similar to the acceptable manner of conducting a physical count in automated high-storage warehouses indicated in the “Accounting Standards Committee’s statement of position on stocktaking through physical count, materials, goods, finished products and semi-finished products”. As with inventory, an entity would need to have a computer system that provides a reliable estimate of the outstanding balance for each counterparty through a combination with energy metering systems or systems used by the telecommunications industry that automatically charge the receivable based on predetermined algorithms.

The condition to benefit from this facilitation would be to ensure that the accounts receivable balances are in line with the levels resulting from the contractual provisions, the tariff, and the usage/use of the service. The veracity of this assumption would be verified periodically, at least as at the date of execution of the confirmation procedure. Verification could involve random confirmation of receivables balances – for randomly selected contractors. In addition, it may be considered to check on a random basis whether each balance/counterparty was subject to verification once every two years (as in the case of assets subject to quantitative and value records held in guarded storage facilities in Article 26(3)(2) of the Act).

<u>Reasons:</u>

In the case of entities providing mass services, the standard method of stocktaking taking using the confirmation method is practically unfeasible due to low response rates and uneconomical due to significant dispersion of balances (very large number of low value balances). The proposed solutions would reduce the excessive burden associated with this process for representatives of the gas, energy, water and telecommunication industries.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

- Modifying the provisions of Article 26(1)(2)
- Developing a new stocktaking standard

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☒Developing a new Standard/Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.10.5. Clarification of the types of assets, equity and liabilities subject to stocktaking

- Clarification of the types of assets, equity and liabilities subject to stocktaking/Low (6.7.5.)

Reference to a legal act

The provisions of Article 26(1)(3) set out the method of inventories of certain fixed assets as well as assets and liabilities not listed in Article 26(1)(1) and (2) and those listed therein, if it was not possible to apply the aforementioned stocktaking methods to those assets.

Summary (synthetic) description of the problem

Article 26(1)(3) contains some wording concerning stocktaking by comparing with the relevant documents and verifying: "as well as assets, equity and liabilities not mentioned in items (1) and (2) and those mentioned in items (1) and (2),"; this provision raises doubts what assets, equity and liabilities are concerned here.

Recommendation

a. Description of proposed change

We recommend clarifying the provisions of Article 26(1)(3) of the Act by explicitly indicating other assets and liabilities (not listed in items 1 and 2 of this Article) to which this provision applies by enumerating provisions and accruals, impairment allowances and other items as intended by the legislator.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Modifying the provisions of Article 26(1)(3) of the Act.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

As regards the formulation of the obligation to take stock of other categories of assets and liabilities, a different statement of position emerged, according to which enumeration is not justified.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form

☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.11. Leasing arrangements

3.11.1. Lease classification criteria

- Lease classification criteria/Medium (6.8.32.)

Reference to a legal act

The conditions that must be met in the agreement between the lessor and the lessee (which are defined in Article 3(4) of the Act) in order to account for such a contract as the finance lease are regulated by the Act in Article 3(4).

Summary (synthetic) description of the problem

The Act details the criteria of finance and operational 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: such assets to be presented as investments or to be presented as receivables.

Recommendation

a. **Description of proposed change**

Due to the introduction of the obligation to use the NAS recommended by us elsewhere in this Report (by giving them e.g. a form of resolution), we propose to remove specific provisions concerning lease classification from the Act, as the issue of lease classification is broadly described in NAS 5. In the Act, it should only be pointed out that the lessee's fixed assets include assets which are the subject of lease or similar agreements, for which substantially all risks and rewards arising from the use of such an asset are transferred to the lessee.

Consequently, at the level of the Act, we propose to include only basic information and add a provision that when the risks and rewards of using an asset are transferred to an entity, the entity should recognise the right to use the asset and, at the same time, the liability for that right of use in the balance sheet. We also propose to change the terminology from a leased fixed assets to a right to use an asset, so that the terminology is similar to that of IFRS 16, while keeping the model for leases in its present state similar to that of International Accounting Standard 17: Leases "IAS 17". The suggested modification of terminology does not change the criteria or definition of lease.

When proposing lease recommendations, the Project Team also considered the scenario of introducing into the Act a model compliant with IFRS 16 for all entities. However, consultations among stakeholders (including but not limited to the Accounting Standards Committee) indicated that a model compliant with IFRS 16 was not advisable due to its higher costs and complexity of adoption. That concept was therefore abandoned.

Any specific operating and finance lease regulations, including classification guidelines and an indication of what contributes to the risks and rewards of ownership of an asset, are proposed to be clarified at standard/regulation level, most likely in the form of an update to NAS 5.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Modifying the provisions of the Act.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) the provisions covered by the change will be indicated in the recommendation
**) details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project

3.11.2. Disclosures of operating leases

- Disclosures of operating leases/Medium (6.3.16.)

Reference to a legal act

The obligation to include in the notes and explanations in the financial statements the value of fixed assets that are not depreciated or redeemed but are used by the entity under lease agreements (operating lease) and other similar agreements is regulated in Appendix 1, Notes: paragraph 1(5).

Summary (synthetic) description of the problem

It is not clear to the Act's users exactly what value (book, market, other) an entity should disclose.

Recommendation

a. **Description of proposed change**

Bearing in mind our recommendation regarding the obligation to apply NAS (e.g. in the form of regulations), we recommend that the specific scope of disclosures required for lease contracts be defined at the level of NAS 5.

On the other hand, the Act should specify that in the case of agreements that fall within the scope of NAS 5, the disclosure requirements are included in the relevant standard.

Assuming the application of the two recommendations described above, at the NAS level, we would suggest clarifying that in the case of operating lease agreements, discounted minimum lease payments for the irrevocable lease term, or a similar agreement, need to be disclosed instead of disclosing the value of fixed assets.

Reasons:

The reasoning behind the above recommendation is that in the case of operating lease and similar agreements, entities may not have information about the value of the leased asset.

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Modifying the provisions of the Act and NAS 5.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act

☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.11.3. Finance leases from the lessees' perspective

- Finance leases from the lessees' perspective/Medium (6.3.6.)

Reference to a legal act

The method of preparing the cash flow statement by entities is governed by Article 48b; additionally, Appendices 1 to 3 to the Act contain templates of financial statements, including balance sheet, profit and loss account, as well as notes that entities are obliged to include in their financial statements in accordance with the applicable legal regulations.

Summary (synthetic) description of the problem

The Act does not specify how expenses under finance leases should be presented from the lessees' point of view in the cash flow statement.

Recommendation

a. Description of proposed change

With respect to the presentation of the lease in the cash flow statement, we note that in National Accounting Standard 1: Statement of Cash Flows ("NAS 1") there is already an appropriate provision for the recognition of the lease from the lessees' perspective in the cash flow statement. If our recommendation to make NAS mandatory (e.g. in the form of a regulation) applies, no further changes will be needed. If, on the other hand, the NAS obligation were to be limited or not introduced, we would recommend transferring the provision from NAS 1 to the Act.

We also propose to introduce a requirement to disclose non-cash transactions in the form of an update to NAS 1 (by analogy to non-cash transactions with International Accounting Standard 7:

Statement of Cash Flows – “IAS 7”; for use the definition in NAS 1: “non-cash operations that do not result in an inflow or expense of cash or cash equivalents”).

In addition, we propose to harmonise the provisions on the presentation of lease receivables at the level of NAS 5, as some stakeholders raised concerns in this respect due to the fact that definitions in items 3.26 and 3.27 refer to gross and net lease investments, while item 8.1 requires the recognition of lease receivables as long-term and short-term financial assets (resulting from account receivables).

Therefore, we propose to unify the wording in such a way as to clearly indicate a proper line in the balance sheet formula.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Modifying the provisions of NAS 1 and NAS 5.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.12. Investments and financial instruments

3.12.1. Revision of accounting regulations for financial instruments and investments

- Trade receivables and liabilities as financial instruments/Medium (6.8.6.)
- Difference between the value of the financial assets received and the liability to pay for them/Low (6.3.12.)
- Bad debt allowance for accounts not yet due where the portion due is past due/Medium (6.8.38.)
- Bad debt allowances in case of significantly increased credit risk/Medium (6.8.39.)
- Revision of regulations governing the recognition and measurement of financial assets and liabilities/Medium (6.8.40.)
- Transaction costs: revision of the provisions of the Act and the Financial Instrument Regulation/Low (6.8.42.)
- Acceptable measurement principles: revision of the provisions of the Act and the Financial Instrument Regulation/Low (6.8.43)
- Measurement of financial instruments upon reclassification/Low (6.8.46.)
- Issue of discounted securities/Medium (6.8.53.)
- Absence of sufficient guidelines for the recognition of the effects of revaluation of investment property/Low (6.8.68.)

Reference to a legal act

Financial instruments, investments and hedge accounting are regulated in the Act by a number of provisions concerning the definition, measurement and recognition of the effects of this measurement, including:

- Article 3(1)(17)–(18);
- Articles 3(1)(23), (24), (25), and (27);
- Article 28(1)(1a), (3), (4), (5), (7), and (7a);
- Article 28(8a);
- Article 28(11);
- Article 28a;

- Article 35(1);
- Articles 35(3) and (4);
- Articles 35(6) and (7);
- Article 35b;
- Article 39(4); and
- Appendix 1, Notes: paragraph 1(14).

Summary (synthetic) description of the problem

It is recommended to revise the accounting regulations for financial instruments and investments, in particular with respect to the methods of initial recognition and subsequent measurement, as well as where the effects of this measurement are recognized.

Recommendation

a. Description of proposed change

General description of recommended changes in the area of financial instruments

The proposed changes aim at systematising the current principles, introducing coherence between the Act on the Regulation (so that the classification and measurement principles are aligned) and simplifying the current principles.

We propose that the provisions on financial instruments contained in the changed Act and the modified Financial Instrument Regulation and NAS 4 apply to all entities, while:

- Exempting micro and small entities (included in the Act); and
- Allowing specific measurement principles for institutions such as banks, insurers and investment funds (at the level of the Act, general measurement principles indicating that measurement options contained in the Act may be specified in the sector-specific standard by ordering or prohibiting the use of a given measurement option). The Act must clearly state that sector-specific regulations may specify in which situations (for which entities) the measurement options included in the Act may/may not/must be applied.

A table detailing what responsibilities will apply to which entities is included further in the statement of reasons to the recommendation.

Reasons:

The provisions of the Act and of the Financial Instrument Regulation relating to classification and measurement of financial instruments are based on those in International Accounting Standard 39: Financial Instruments: Recognition and Measurement (“IAS 39”), which is no longer effective. Four categories are foreseen for debt instruments (held to maturity, loans and receivables, held for sale and measured at fair value through profit or loss). In turn, equity instruments can fall into either of the two categories (held for sale and measured at fair value through profit or loss). This classification was criticised due to the fact that after nearly 20 years of IAS 39, most of the preparers and users of the financial statements had problems classifying individual instruments into the above categories. As a result, the change was made by introducing a separate classification in International Financial Reporting Standard 9: Financial instruments ("IFRS 9"), discussed below. For the same reasons, we believe that the use of the classification in IAS 39 is not appropriate. In addition to concerns about the classification itself, there are also significant concerns about, for example, permanent impairment for instruments held for sale (meaning a "significant or protracted decline in value") or the measurement of the fund units held.

In turn, IFRS 9 distinguishes between debt instruments and equity instruments. For debt instruments, IFRS 9 requires two criteria to be considered:

(1) business model; and

(2) the contractual cash flow characteristics(so-called SPPI test).

Depending on the assessment of these criteria, they are classified into one of the three measurement categories:

(1) measured at amortised cost;

(2) fair value through profit or loss; and

(3) fair value through other comprehensive income recycled to profit or loss when the instrument is derecognised.

In turn, an equity instrument must be measured at fair value, while the standard leaves the option of an irrevocable election at initial recognition to present subsequent changes in fair value in other comprehensive income (not recycled to profit or loss). We believe that the IFRS 9 model is preferable to the model previously used in IAS 39, but the model presents a lot of complexities as it includes accounting for financial institutions.

Therefore, our recommendation is based on IFRS 9, but it eliminates a number of complications that would apply mainly to large financial institutions based on the assumption that such institutions, e.g. banks, are obliged to apply IFRS. Considering that the Act will apply to large unlisted entities from the non-financial industry, medium and smaller non-banking financial institutions and a large group of medium and small enterprises, we consider it reasonable to propose a simplified model compared to the model provided for in IFRS 9.

Simplifications to IFRS 9 include:

- **Lack of the so-called SPPI** (Solely Payments of Principal and Interests) test, which in the Polish version of the Standard is translated as "*jedynie spłata kwoty głównej i odsetek od kwoty głównej*") in relation to debt assets with the remaining obligation to separate the embedded instrument if the debt instrument has characteristics allowing to separate the derivative instrument. The above solution is coherent with the solution used so far and in our view represents a significant simplification compared to the requirements imposed by the SPPI test, which was mainly aimed at regulating certain financial instruments held by banks.

- More **intuitive application of the business model** by reference to the intention (at initial recognition) to hold to maturity of the debt instrument. At the same time, if the business model indicates the need to measure the fair value of an instrument, it is only possible to defer gains or losses in equity if an entity determines that it has the intention and ability to hold the instrument for more than 12 months from the date of purchase. In the opposite situation (i.e. no intention or possibility to hold the instrument for more than 12 months), the changes in fair value must be reflected in the profit and loss account. In our opinion, such a simplified model is sufficient for entities other than banks and large financial institutions.
- Apply a **coherent** solution to financial instruments measured **at fair value through equity**, regardless of whether these are equity or debt instruments. For both of these categories, fair value measurement also includes impairment on capital and the transfer of cumulative gains and losses to the profit and loss account occurs when the instrument is disposed of.
- Introducing of **the option not to measure unlisted equity instruments at fair value**, which we assume will be limited at sector-specific regulation level for certain activities (e.g. an investment fund will not be able to use measurement at cost).
- Due to the fact that the regulations will not apply to banks and large financial institutions (as they apply IFRS), the introduction of tainting provisions or complex guidelines for changing the business model was abandoned. The classification of an instrument takes place only at initial recognition. Classifications are affected by:

  (1) intentions to hold to maturity (for debt instruments);

  (2) an intention to hold over 12 months (both for debt and equity instruments); and

  (3) whether the instrument is quoted (for equity instruments only).

  Based on these three criteria, an entity classifies and leaves that classification until it is derecognised.

- The proposed model is a basic model, while we assume that micro entities will mandatorily apply an even more simplified model, which involves recognising their financial assets either at their due amounts (debt instruments and claims) or at cost of acquisition (equity instruments).

The proposed principles provide for:

- Bringing the definition of financial instruments closer to that in IFRS, including by adding trade receivables and trade liabilities to the definition of financial instruments (while simplifying their measurement);

- A breakdown of financial instruments into cash and cash equivalents, derivatives, equity and debt instruments/claims, including the introduction of definitions for the latter (categories of financial instruments);
- Admission of the following valuation methods: at fair value, at amortized cost, , at amount of consideration required and at cost less impairment;
- Making the valuation method and the effects of this valuation dependent on the category of financial instrument AND the entity's intention to sell or hold the asset to maturity and, if the instrument has no maturity or is expected to be sold before maturity, making the valuation method dependent on the entity's intention to hold the instrument for at least 12 months; however, this intention is determined at the initial recognition and its subsequent change does not change the measurement and recognition of its effects;
- An intention to sell within 12 months in principle results in a fair value measurement (because an intention to sell means that such fair value can be determined) and the effects are always recognised in the profit and loss account;
- Instead of holding the instrument more than 12 months with an intention to sell after that date, it necessitates fair value measurement with the possibility of deferring the profits and losses resulting from the changes in fair value in equity until derecognition resulting from disposal;
- The basic model provides for the possibility to deviate from the fair value measurement of unlisted equity instruments and unlisted derivatives related to unlisted equity instruments. Whereas it is proposed to include a provision "unless otherwise provided by the regulation/sector-specific standard", so that the possibility not to measure at fair value will not be available to certain financial institutions (e.g. investment funds);
- Keeping measurement exemptions at fair value for small and micro entities.

We propose that definitions and basic measurement principles be defined at the level of the Act, while the following issues were defined at the modified Financial Instrument Regulation/Standard level:

- specific definitions not included in the Act;
- specific principles of classification and measurement (e.g. fair value levels);
- the topic of embedded derivatives;
- the principles of recognition and derecognition of financial instruments;
- the use of hedge accounting and presentation and disclosure policies.

In addition, impairment issues would be described in detail either in the financial instruments standard or in the impairment standard (currently NAS 4).

<u>Principles of measurement</u>

We propose the following changes to the Act aimed at restructuring the definition and measurement of financial instruments:

- Introducing into the Act of the principle that financial instruments are measured at fair value and the effect of this measurement is recognised in the profit and loss account, except as expressly stated in the Act.
- Introducing into the Act of measurement principles described in detail in the chart attached as Appendix 7 and Appendix 8.
- The following principles for designating financial instruments as measured in a particular way would be applied per each instrument separately and not to all similar agreements (groups of similar financial instruments).
- We propose to introduce the following principles for measurement of individual classes of financial instruments**:**
    - **In principle, financial instruments in respect of which the entity, at initial recognition, has intended to sell (has elected NOT to hold them to maturity) are measured at fair value** both at initial recognition and for subsequent measurement purposes. The reasoning for this approach is that an intention to sell should, in principle, allow fair value of a given instrument to be reliably determined.
    - **An exception to fair value measurement** will in principle be debt instruments/claims that an entity intends to hold to maturity, i.e.:

    (1) **Trade receivables held to maturity**, whose **maturity** at initial recognition **does not exceed 12 months**, for which the following applies:

    (i) At initial recognition: the fair value of the amount transferred or other assets or services issued in exchange;

    (ii) Subsequent measurement: at amount of consideration required;

    Alternatively, this class can be defined as “trade receivables held in order to collect contractual cash flows, the maturity of which at initial recognition does not exceed 12 months”.

    (2) **Trade receivables held to maturity** (alternatively: held in order to collect contractual cash flows) with **maturity** at initial recognition **exceeding 12 months and debt instruments held to maturity** (regardless of maturity term) for which the following applies:

        (i) At initial recognition: the fair value of the debtor's expected payments to the creditor (by discounting the expected payments at an interest rate reflecting the financing of the debtor at arm’s length);

        (ii) Subsequent measurement: at amortized cost;

Alternatively, this category can be defined as “trade receivables held in order to collect contractual cash flows, the maturity if which at initial recognition exceed 12 months and debt instruments held to maturity”.

and

(3) **Investments in controlled entities**:

(i) At initial recognition: the cost of acquisition;

(ii) Subsequent measurement: equity method, fair value or at cost less impairment.

Optional: Limitation of available valuation methods [requires further analysis among stakeholders]

Optional: in the case of fair value method, the changes in value shall be charged/ credited to revaluation capital [requires further analysis among stakeholder]

(4) **Unlisted equity instruments and unlisted derivatives based on unlisted equity instruments** that can be measured both at initial recognition and subsequent measurement at cost less impairment, unless otherwise specified in a regulation/sector-specific standard);

(5) **Cash and cash equivalents** that are measured at amount of consideration required less impairment;

(6) **Lease receivables and liabilities** – recognised and measured in accordance with the provisions of NAS 5;

(7) **Trade liabilities** whose **maturity** at initial recognition **does not exceed 12 months**, for which the following applies:

(i) At initial recognition: the fair value of the amount received or other property or services received in exchange;

(ii) Subsequent measurement: at amount of consideration required;

(8) **Trade liabilities whose maturity at initial recognition exceeds 12 months and financial liabilities (regardless of maturity) comprising debt instruments** measured:

(i) At initial recognition: the fair value of the debtor's expected payments to the creditor (by discounting the expected payments at an interest rate reflecting the financing of the debtor at arm’s length);

(ii) Subsequent measurement: at amortised cost;

(9) **Financial instruments (regardless of their type/category) held by micro and small entities** where:

(i) At initial recognition: the fair value of the amount transferred/received (in accordance with Section 13(1) of the current Financial Instrument Regulation);

(ii) Subsequent measurement: the amount of the required payment less impairment and for instruments not having a maturity – the cost of acquisition less impairment (together with simplifications for impairment referred to below);

(10) **Own equity instruments** are measured at historical cost.

- **In principle, the changes in fair value measurement of financial instruments would be recognised in the profit and loss account** unless all of the following conditions are met:

    (i) There is no obligation to use fair value through profit and loss under the sector-specific legislation;

    (ii) The entity does not expect to dispose of the investment within 12 months at the time of acquisition;

    (iii) The instrument is not a derivative;

    (iv) The entity irrevocably designates a financial instrument at initial recognition as measured at fair value through equity.

- In of fair value through equity, the effect of such measurement on equity would take into account all changes in value, including the effect of changes resulting from impairment, where:

    (i) interest calculated using the effective interest method and exchange gains and losses on debt instruments, and

    (ii) dividends receivable related to equity instruments

    would be posted to the profit and loss account.

    The proposed change aims at simplifying the current rules on determining and recognising impairment of financial assets measured at fair value through equity.

- The measurement effect recorded in equity would be transferred to the income statement when an entity loses control of a financial asset. In case of partial disposal, the existing gains and losses recorded in the equity would be transferred to the profit and loss account in proportion to the value of the disposals and still held.

- Entities using fair value through equity would be required to make additional disclosures (regarding disclosing changes in this item of equity – revaluation capital) in the notes to the financial statements.

- **Specific sector-specific solutions for the financial industry concerning the above provisions should be regulated at the level of individual standards/currently sector-specific regulations.** *[For example, insurance companies, when managing portfolios of financial assets, accordingly, take into account in particular current and projected proceeds and expenses from their operating and investment activities, maturities of liabilities under concluded insurance contracts and accepted reinsurance contracts, based on the investment strategy adopted by the insurance company. Therefore, insurance companies should be freer to assign investments to fair value categories with measurement effects related to revaluation capital. Specific conditions and restrictions in this respect should be regulated in the sector-specific standard, taking into account the provisions on insurance activity and solvency regulations of insurance companies.]*

- **The amount of consideration required** is the amount that the debtor must pay at the balance sheet date to fulfil the liability.

[Alternatively, for receivables, it may be considered to apply the definition of consideration required in NAS 4 6.2.6 and 6.2.8, provided that the 3-month period given in NAS 4 would be extended to 12 months].

- In case of measurement at amount of consideration required, transaction costs (related to the conclusion of the agreement, such as commissions or fees) would be charged to the profit and loss account on a one-off basis. Consequently, the definition of transaction costs should be transferred to the Act.

- If, at initial recognition, there is a difference between the fair value of a financial asset or financial liability and the amount of consideration required, we propose to recognise this difference in the profit and loss account.

  [Possible alternative recognition could be discussed within the Accounting Standards Committee]

- The amount of consideration required is the only valuation method used by micro entities for non-equity and non-derivative financial instruments. Small entities would be able to choose this valuation method (rather than fair value measurement).

[It should be considered whether, in order to maintain symmetry with the solution proposed for financial instruments measured at fair value through equity so that the effects of measuring investments in non-financial assets (e.g. investments in intangible assets or investment property) measured at fair value can also be charged/credited to revaluation capital.]

<u>Definitions</u>

- <u>In order to</u> refresh the language of the Act, maintain completeness and clarify the emerging concerns among stakeholders (e.g. whether trade receivables should be treated as financial instruments), we propose to modify the definitions of financial instruments, financial assets and financial liabilities (Article 3(1) (23), (24), (25) and (27)) in order to bring them conceptually closer to IFRS, i.e.:

- **Financial instruments**: A financial instrument is any contract that results in a financial asset for one entity and a financial liability or equity instrument for another entity;

- **Financial assets**: Financial assets are any asset in the form of:

  a) cash;

  b) an equity instrument of another entity; including the property rights of the fund members or of another collective investment institution;

  c) the contractual right to:

  (i) receive cash or another financial asset from another entity; or

  (ii) exchange financial assets or financial liabilities with another entity under potentially favourable terms; or

  (d) contracts that may be settled by the entity through the release of financial assets or own equity instruments, provided that the amount of own securities necessary to settle the liability changes with the change in their fair value (current provisions of Section 2(1)(2) of the Financial Instrument Regulation).

  (e) a contract that will or may be settled in the entity's own equity instruments and is:

  (i) a non-derivative that requires or may require the entity to accept a variable number of its own equity instruments; or

  (ii) a derivative that will or may be settled otherwise than by exchanging a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

- **A financial liability** is any liability that takes the form of:

  a) the contractual obligation to: i) deliver cash or another financial asset to another entity, or ii) exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable. However, financial liabilities do not include financial instruments that meet the definition of equity instrument,

  (b) contracts that may be settled by the entity through the release of financial assets or own equity instruments, provided that the amount of own securities necessary to settle the liability changes with the change in their fair value (current provisions of Section 2(1)(2) of the Financial Instrument Regulation).

- **Equity instruments**: an equity instrument is an agreement that represents the right to a share in an entity's assets after deducting all its liabilities. Equity instruments also include property rights of shareholders of a fund or other collective investment institution.
- We also propose to introduce **the term "debt instrument" or the term "claim"**, e.g. as an instrument from which contractual or legal terms give rise to the right to receive cash flows within specified deadlines. The use of the term "debt instrument" may be supported by the fact that IFRS uses this terminology, whereas the fact that most users of the Act do not equate the term "debt instrument" with items such as trade receivables or lease receivables militates against the use of this term. Also, in the version we propose, fund shares are to be classified as equity instruments, which is incoherent with the definition in International Accounting Standard 32: Financial Instruments: Presentation ("IAS 32") that fund shares are debt instruments because they give the right to demand cash payments when the instrument is presented for redemption. Therefore, we suggest considering the introduction of the term "claim" and specifying in the Act what constitutes a claim.

<u>Impairment</u>

- Introducing an additional modification of the provision concerning the definition of amortised cost by adding a statement that impairment losses are recognised when there are indications that they are intended to bring the value of the assets covered to the recoverable amount (required modification of Article 28(8a) and Section 3(12) of the Financial Instrument Regulation).
- The provision stating that an entity recognizes impairment losses (bad debt allowances) taking into account the probability of payment should remain in the Act. The provision should make it clear that an impairment charge is recognised only if there are indications of impairment (which means keeping the incurred loss model and not using the expected loss model required by IFRS 9). On the other hand, other impairment issues in the area of financial assets should be further specified at the horizontal Standard level (being a compilation of the provisions of NAS 4 and the Financial Instrument Regulation). Consequently, specific provisions on impairment (bad debt allowances) for trade receivables should be removed from the Act (current Article 35b of the Act).
- It would be recommended to clarify the following issues at the level of the horizontal standard on impairment of financial assets:
    - The provisions of the existing NAS 4 should be extended to include impairment in the event of a significant increase in the credit risk.

- In particular, it would be proposed to introduce in NAS 4 levels/stages 1 to 3 of impairment (possibly excluding trade receivables), similarly to what is recognised in IFRS 9, provided that financial assets in level 1 (i.e. where at the balance sheet date the credit risk on financial assets has not increased significantly since initial recognition) do not require an impairment charge, while financial assets in level 2 and 3 already require an impairment charge. Therefore, we suggest adding to the standard that an increase in the credit risk (understood as a debtor's default on repayment) is an indication of impairment.

- We suggest clarifying that, in particular, an increase in credit risk is understood as an overdue period of more than 30 days.

- We also suggest adding a clarification that the ratios used by the entity to create bad debt allowances based on aging of receivables should result from estimation of collectability, e.g. based on historical data, taking into account possible changes estimated for future periods.

- We suggest regulating the issue of taking into account the time value of money when calculating bad debt allowances.

- In addition, it would be proposed to provide in the relevant standard that in the event of an impairment for one financial instrument of a given debtor, consideration should be given to whether there is an impairment for other financial instruments from the same debtor.

- At the same time, it should be clarified in the relevant standard that if a past due receivable consists of a short – and long-term part, the entire receivable is subject to an estimate of its recoverability, which will result in an impairment charge (partial or total) regardless of its maturity date (including overdue receivables, important especially for loans or lease receivables).

- At the same time, a reference to the impairment of lease receivables should be made in the dedicated lease standard (currently NAS 5) to the provisions of the extended horizontal standard on impairment of financial instruments (also taking into account the collaterals held).

- With respect to small and micro entities based on the current regulations of Article 7 section 2a, according to which micro entities may waive the prudence principle when valuing individual assets and liabilities, we recommend considering the following approach: In case of impairment/bad debt allowances of receivables, micro entities apply the principles of bad debt allowances in accordance with tax principles; however, in the case of a decision not to pursue claims related to a given receivable (no collection activities being undertaken), the micro entity is obliged to derecognise a given asset/write it off in its entirety, improperly from whether such bad debt allowance is a tax deductible expense within the meaning of the income tax regulations.

Other issues

- At the level of the Act, we propose to introduce a provision stating that an entity may recognise revenue from financial instruments (e.g. penalty interest charged on financial assets, dividends, etc.) only if it is probable that such revenue will be received (this would be coherent with the current regulations of National Accounting Standard 15: Revenue from Sales of Products, Semi-Finished Products, Goods and Materials – "NAS 15" relating to the identification of revenue). In the case of revenue that is probable, an entity would identify the related financial revenue in its entirety, and at the same time it would be obliged to analyse the indications and recognize a potential impairment charge.

Reasons:

Regulations concerning accounting for financial instruments and investments, in particular relating to initial recognition and subsequent measurement are extensive, located in various parts of legal acts, and require an analysis of the requirements of the Act in parallel with the provisions of the Financial Instrument Regulation. The proposed solutions aim at restructuring regulations and bringing together general measurement principles for different categories of financial instruments in one place, with clarification of issues reported as problematic by stakeholders, including:

- Introducing in the Act an unambiguous regulation of whether trade receivables and liabilities are financial instruments;
- An indication whether the use of the term "may be measured at amortised cost" is a free choice of the entity or is limited to cases where the entity is not required to apply the Financial Instrument Regulation;
- Eliminating differences in the catalogue of financial instruments and their measurement methods between the Act and the Financial Instrument Regulation;
- Clarification of how to account for foreign exchange gains and losses in case of financial instruments measured at amortised cost vs in case of those measured at fair value.

Including trade receivables and liabilities in the definition of financial instruments will simplify provisions at the level of the Act with regard to:

- Moment of initial recognition;
- Derecognition;
- The obligation to determine impairment;
- Translating foreign currency positions; and
- Identifying the income resulting from these instruments, e.g. interest;

as these provisions will be common to all financial instruments, while corresponding exemptions and simplifications with respect to measurement principles (measurement at the amount of consideration required) will be included in the Act, while more specific issues such as impairment could be regulated in a mandatory standard.

The reasoning behind the proposed impairment provisions is that the existing provisions based on the existing credit loss model ("incurred loss model") are more intuitive for use by entities other than financial institutions. It should be noted that the largest financial institutions (the largest banking and insurance institutions operating in Poland are obliged to apply IFRS, which means that they are obliged to apply the expected credit loss model ("expected credit loss model") provided for in IFRS 9. This model, although better than the model of the loss incurred, is very complicated in application and non-intuitive, which practically means that entities outside the financial industry are unable to apply it correctly. Therefore, we believe that leaving the existing credit loss model approach to the entities applying the Act is a reasonable balancing of benefits and costs related to accounting, but we do not exclude the possibility of introducing additional regulations at the level of the sector-specific regulation, e.g. accounting of some financial institutions applying the Act. At the same time, we propose to introduce certain elements from IFRS 9 to the proposed provisions, which in practice will help to determine when it is necessary to recognize impairment (significant credit risk).

Table presenting the recommended updated scope of applicable regulations on financial instruments depending on the type of entity

Entity type	Scope of applicable regulations on financial instruments
Small and micro entities	Exemption (included in the Act). Micro-entities will mandatorily apply a simplified model in which involves recognising financial assets either at amount of consideration required (debt instruments and claims) or at cost of acquisition (equity instruments). Keeping measurement exemptions at fair value. With regard to small and micro entities based on the current regulations of Article 7(2a), according to which micro entities may waive the prudence principle in valuing individual assets and liabilities, therefore we recommend the following approach: In case of impairment/bad debt allowances of receivables, micro entities apply the principles of bad debt allowances in accordance with tax principles; however, in the case of a decision not to pursue claims related to a given receivable (no collection activities being undertaken), the micro-entity is obliged to derecognise a given asset/write it off in its entirety, regardless of whether such bad debt allowance is a tax deductible expense.

<table>
<tr>
<td>Financial institutions applying the Accounting Act, including e.g.:
banks, cooperative banks, cooperative savings and credit unions (Polish: SKOK), loan companies, insurers, investment funds and pension funds

Under the sector-specific supervision of the PFSA</td>
<td>General provisions on measurement at the level of the Act (simplified model compared to IFRS 9 – described above in the recommendation), made more specific at the level of a sector-specific standard dedicated to a group of entities by ordering or prohibiting the use of a given measurement option.

The basic model provides for the possibility to deviate from the fair value measurement of unlisted equity instruments and unlisted derivatives related to unlisted equity instruments. However, it is proposed to include a qualification “unless otherwise provided by the regulation/sector-specific standard”, so that the option not to measure at fair value will not be available to some financial industry players (e.g. investment funds).</td>
</tr>
<tr>
<td>Large non-listed entities operating in the non-financial industry</td>
<td rowspan="3">Simplified model compared to IFRS 9; simplifications include:
Lack of the so-called SPPI (Solely Payments of Principal and Interests) test.
More intuitive application of the business model by reference to the intention to hold to maturity at the initial recognition of the debt instrument.
Application of a coherent approach to financial instruments measured at fair value through equity, regardless of whether these are equity or debt instruments.
Introducing the option not to measure unlisted equity instruments at fair value for certain entities.
Refraining from introducing tainting provisions or complex guidelines for changing the business model.
Described in detail above in the recommendation.</td>
</tr>
<tr>
<td>Listed entities that apply the Accounting Act in their separate statements</td>
</tr>
<tr>
<td>Medium and small enterprises (optional)</td>
</tr>
<tr>
<td>Large financial institutions, e.g. IFRS banks</td>
<td rowspan="2">Provisions of IFRS 9</td>
</tr>
<tr>
<td>Listed companies in their consolidated financial statements

(may also choose to apply IFRS 9 to separate statements)</td>
</tr>
</table>

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

- Changes at the level of the Act – as indicated above
- Introducing a dedicated financial instruments accounting standard, including a specific question concerning, among others, the moment of recognition, derecognition, impairment recognition
- Modifications to NAS 4 and NAS 5 (in the areas indicated above)
- Modifying the Financial Instrument Regulation (in the areas indicated above).

d. Separate statements of position, discrepancies, decisions to be taken (if any)

At this stage of the Project – not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.12.2. Recognition of exchange gains and losses for debt instruments

- Recognition of exchange gains and losses for debt instruments/Low (6.8.15.)

Reference to a legal act

The provisions contained in Article 30(4) indicate that exchange gains and losses relating to other assets and liabilities denominated in foreign currencies (i.e. excluding exchange gains and losses relating to long-term investments denominated in foreign currencies) which arose as at the valuation date and when paying receivables and liabilities denominated in foreign currencies as well as sales of currencies are recognised as financial revenue or expenses, respectively, and, in justified cases are capitalised as manufacturing cost or purchase price of goods, fixed assets, fixed assets under construction or intangible assets. At the same time, the above regulations emphasize the specific treatment of exchange gains and losses arising as at the valuation date relating to insurance and reinsurance activity in specific cases.

Summary (synthetic) description of the problem

For instruments denominated in foreign currencies, it is unclear how to recognise exchange gains and losses resulting from changes in fair value vs resulting from changes in the amortized cost.

Recommendation

a. Description of proposed change

At the level of the Act, as a supplement to Article 30(4), we would suggest introducing a supplement stating that in the case of equity instruments whose revaluations are charged/ credited to revaluation capital, exchange gains and losses are also posted to revaluation capital, e.g. by stating that there is no obligation to exclude exchange rate differences from the accounting applied for changes in fair value.

Consequently, we also recommend that it be specified at the level of the Financial Instrument Regulation that:

- For debt instruments measured at fair value, exchange gains and losses related to the amortized cost are recognised in profit or loss, while other changes in the carrying amount resulting from the fair value measurement are recognised in revaluation capital;
- In the case of equity instruments (no measurement at amortized cost),exchange rate differences are recognized in revaluation capital.

An alternative that could be considered at a later stage of the works is to adopt a uniform model for foreign currency effects of revaluation and to allow the recognition of revaluation effects in capital, whether they relate to equity or debt instruments. However, it should be noted that such a solution has some disadvantages related to the fact that in the case of a debt instrument measured at fair value through equity denominated in foreign currencies, as at the redemption date, the equity would have accumulated exchange gains or losses – as a result a specific approach to accounting treatment of those gains and losses would have to be developed.

Reasons:

Clarification aimed to remove doubts arising from the wording of Article 30(4).

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

- Supplementing Article 30(4) of the Act

- Modifying the Financial Instrument Regulation

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.12.3. Providing regulation of additional capital contributions

- Providing regulation of additional capital contributions/Low (6.8.52.)

Reference to a legal act

The provisions of Article 36(2e) govern the presentation of the capital contributions in the event of a resolution of the shareholders of a limited liability company specifying the date and amount of such contributions, i.e. recognition of such contribution as a separate equity item on the balance sheet (reserve capital from shareholder contributions). Furthermore, those provisions specify that this item is presented as a component of equity until it is used to justify writing it off. In turn, enacted but not paid contributions are to be presented as a separate equity item “surcharges due to the reserve capital (negative value)”.

Summary (synthetic) description of the problem

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.

Recommendation

a. Description of proposed change

We would like to propose to modify Article 36(2e) at the level of the Act in such a way that if the law or the agreement or resolution of shareholders results in an obligation to return, the capital contributions made are recognised as a liability, otherwise they are recognised as equity. Alternatively, appropriate provisions may be included in the definition of an equity instrument.

Specific guidance in this respect should be included in the horizontal standard for financial instruments. Such guidelines could, for example, regulate issues such as the reimbursement of a contribution, the timing of which is not fixed in time but only conditional upon, for example, the occurrence of a specific event or the fulfilment of a specific condition.

For the sake of symmetry, it would also be appropriate to regulate in the Act the recognition of capital contributions from the investor's perspective, in such a way that a contribution constituting an equity instrument is recognised as an increase in the value of an investment in an entity, while a contribution constituting a debt instrument is recognised in the same way as a receivable on a loan granted.

Reasons:

Clarification aimed to remove doubts arising from the wording of Article 36(2e).

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

- Supplementing Article 36(2e)
- Modifying the regulation/standard for financial instruments

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*

☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.12.4. Measurement of hedged assets or liabilities and use of hedge accounting

- Measurement of hedged assets or equity and liabilities: revision of the provisions of the Act and the Financial Instrument Regulation/Medium (6.8.44.)
- Application of hedge accounting/Medium (6.8.45.)

Reference to a legal act

The provisions in Article 35a(3) enumerate the conditions under which contracts relating to financial instruments shall be considered to mitigate the risk associated with an entity's assets or liabilities and thereby be treated as the hedging instruments. Furthermore, Article 35a (4) clarifies that when these conditions are met, the value of the hedged assets or liabilities shall include the valuation of the hedging financial instruments.

In turn, Section 33.1 of the Financial Instrument Regulation regulates the recognition of effects of fair value measurement of a hedging instrument in the case of cash flow hedging, i.e.:

1) gains or losses on the fair value measurement of a hedging instrument, or on the measurement of a foreign currency component of that non-derivative instrument, to the extent recognised as an effective hedge of future cash flows are recognised in equity (revaluation capital); the absolute value of the amount credited to equity, that is a fully effective hedge, shall not be higher than the accumulated from the commencement date value of changes in fair value of the cash flows related to the hedged item;
2) the remainder of the effects of revaluation of a hedging instrument, including its an non-effective part, if the instrument is a derivative financial instrument, is recognised as financial income or expense in the reporting period.

On the other hand, Section 33.3 of the Financial Instrument Regulation specifies that the accumulated gains or losses on revaluation of a hedging instrument recognised in the revaluation capital are recognised as financial income or expense, respectively, in the reporting period in which the hedged firm commitment or planned transaction results in financial income or expenses. Section 33.4 of the Financial Instrument Regulation provides that if the indicated firm commitment or transaction subject to hedging gives rise to assets or liabilities, as at the date of entry of such items in the account books, gains or losses on revaluation of the hedging instrument recognised as at that date in the revaluation capital (fund) are charged/ credited to the cost of acquisition or otherwise specific initial value of those assets or.

Summary (synthetic) description of the problem

The provisions of the Act are not complete with respect to the provisions of the Financial Instrument Regulation as regards the conditions of hedge accounting.

Recommendation

a. **Description of proposed change**

At the level of the Act, we would like to propose modifying the provisions of Article 35a(3) and (4) so that they state that:

- The effects of measuring financial instruments at fair value are recognised in the income statement except where the entity uses hedge accounting (and taking into account proposed changes in the principles of measurement of financial instruments, i.e., according to which, when certain requirements are met, an entity would be required to measure certain financial instruments measured at fair value through revaluation capital). In such a situation, the financial instruments constituting hedging instruments are measured in accordance with the provisions of the Financial Instrument Regulation.
- An entity may use hedge accounting provided that the conditions for the hedging documentation as at the commencement date of the hedge are met and that the objective of financial risk management set out in detail in the Financial Instrument Regulation is met.

It would also be proposed to supplement the provision by stating that a similar approach is applied to exchange gains and losses on debt instruments issued that are hedging instruments.

At the level of the Financial Instrument Regulation, we would like to propose the following changes:

- (i) Indication that the hedging effect is recognised in the income statement in the same line item as the hedged item;
- (ii) Permission to hedge a risk component, **including the case in which the hedged item is not a financial asset or financial liability**;
- (iii) Allowing the variable nature of the hedged item (from the perspective of the hedged volume) provided that appropriate documentation is in place;
- (iv) Calculation of effectiveness for options by reference to the intrinsic value of the option excluding the time value, similarly for forward contracts by reference to the spot price itself, excluding forward points.

Due to the above proposed relaxation of the conditions of hedge accounting (items (i)–(iv) above), for prudential reasons, it would be recommended to keep the requirement (regime) for the 80%–125% efficiency range.

A separate standard/regulation for hedge accounting would also be considered.

Reasons:

Removing incoherences between the Act and the Financial Instrument Regulation in:

- The current Act limits the catalogue of financial instruments that may constitute hedging instruments (currently, only derivatives and interest rate instruments are mentioned in the Act);
- The conditions for hedge accounting;
- Risk to be hedged (currently, the Act enables to hedge the risk related to the entity's assets and liabilities only, disregarding planned transactions and firm commitments).

Reasons:

The proposed changes to the Financial Instrument Regulation itself would aim, on the one hand, to simplify the use of hedge accounting by non IFRS entities and, on the other hand, to ensure some discipline in its adoption by maintaining the condition of effectiveness of 80 to 125%.

Furthermore, the proposed change in the line item in the income statement in which hedge effects are recognised would better reflect in the financial statements the purpose and rationale of hedging.

b. Reasons if no changes are made to a given problem area (if any)

At this stage of the Project – not applicable.

c. Indication of the location in the relevant legal act and where in the structure

- Modifying the Act as regards Article 35a(3) to (4)
- Modifying the provisions of the Financial Instrument Regulation, Sections 33.1, 33.3 and 33.4

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard

☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☒Developing a new Standard/Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.12.5. Disclosures of financial instruments

- Disclosures of financial instruments/Low (6.3.15.)

Reference to a legal act

The provisions in Appendix 1, section entitled Notes, paragraph 1(6), govern the obligation to present the number and value of securities or rights held, including share certificates, convertible debt securities, warrants and options, with an indication of the rights they grant.

Furthermore, the provisions of Section 39(1) of the Financial Instrument Regulation govern that in the case of acquired debt instruments, loans granted or receivables , regardless of their measurement method, the entity is obliged to disclose in the notes interest income calculated using contractual interest rates, falling within the period covered by the financial statements, broken down into categories of assets to which such interest relates, with interest accrued and realised in a given period being disclosed separately from interest accrued but unrealised. On the other hand, unrealised interest is presented by specific due dates from the date of preparation of the financial statements, respectively.

In turn, the provisions of Section 39(3) of the Financial Instrument Regulation provide that in the case of financial liabilities, regardless of the measurement method, the entity is obliged to disclose in the notes the interest costs charged to the entity on those liabilities, calculated using contractual interest rates, falling within the period covered by the financial statements, broken down into interest costs related to liabilities classified as held for trading, other short-term financial liabilities and long-term financial liabilities; interest expenses accrued and realised during the period are recognised separately from interest expenses accrued but unrealised. On the other hand, unrealised interest is presented by specific due dates from the date of preparation of the financial statements, respectively.

Summary (synthetic) description of the problem

The disclosure requirement is written in very anachronic language and does not mention the full catalogue of financial instruments.

Problematic requirement to disclose interest accrued, realised and unrealised.

Recommendation

a. Description of proposed change

- It would be proposed to remove from the Act the requirement specified in Appendix 1 paragraph 1(6) of the Act, as it does not indicate the full list of instruments, and additionally disclosures for financial instruments are regulated separately in the Financial Instrument Regulation.
- It would also be proposed to remove from the Financial Instrument Regulation the requirement to disclose interest broken down into accrued, realised and unrealised interest broken down into time intervals.

Reasons:

Removing incoherences in disclosures between the Act and the Financial Instrument Regulation

Removing questionable interpretation requirement for interest realised and unrealised broken down into time intervals

b. Reasons if no changes are made to a given problem area (if any)

Not applicable

c. Indication of the location in the relevant legal act and where in the structure

- Appendix 1 to the Act
- Financial Instrument Regulation – Section 39(1) and (3)

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☒Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines

☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.13. Acquisitions, business combinations and divisions of entities

3.13.1. Definition of a business and asset deal

- Definition of a business/High (6.9.9.)
- Acquisition of an enterprise and acquisition of a group of assets/Medium (6.9.10)

Reference to a legal act

Article 44d of the Act refers to the acquisition by an entity of an organised part of another entity (disregarding the definition of an organised part of an entity). The definition of "organised part of an enterprise" is included in tax regulations). In turn, Article 44b (6) sets out how goodwill is to be determined.

Summary (synthetic) description of the problem

- 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 Corporate Income Tax ("CIT") definition is often used; however, such approach may lead in some cases to considering a set of assets and liabilities, that do not represent a business, as an OPE.
- Moreover, 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). Thus, this may result in goodwill or negative goodwill being recognised in a merger or in an acquisition of an OPE that do not meet the definition of a business.

Recommendation

a. **Description of proposed change**

- We propose to introduce into the Act (in the definition chapter) a **definition** and similar to International Financial Reporting Standards 3: Business Combinations ("IFRS 3"), which states that for a business (or business venture or enterprise (name to be developed at a later stage of the work) is considered an integrated set of assets (or assets and liabilities) and activities that can be conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.. A business may take different forms, in particular in the form of a company, a part thereof, a branch or constitute an organised part of an enterprise.

- We propose to introduce into the Act (e.g. in the chapter on accounting for business combinations) provisions stating that **in the case of acquisition of a group of assets that does not meet the definition of a business**, both in the form of a direct purchase and in the case of purchase of an interest in an entity that does not meet the definition of a business, the accounting for the transaction involves **allocating the fair value of the acquisition price to individual assets and liabilities acquired,** no goodwill or negative goodwill arises on such a transaction.

Reasons:

The aforesaid proposal aims at mitigating the risk of considering a set of assets and liabilities that do not represent a business as an OPE and thus recognising goodwill or negative goodwill on the asset deal.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Accounting Act – current regulations of Chapter 4a mergers of entities and definition chapter (now Chapter 1 General provisions).

d. Separate statements of position, discrepancies, decisions to be taken (if any)

- Due to the existence of similar definitions in tax regulations and the provisions of the Civil Code, a common solution should be considered.
- We do not recommend making reference to tax regulations in the Act with respect to the definition of an organised part of an enterprise. The change in tax regulations remains outside the scope of the project, however, we note that, with the aim of harmonising accounting and tax regulations, it would be recommended to introduce in tax regulations a specification indicating that a defined organised part of an enterprise should, in principle, be capable of generating economic benefits.
- In turn, the current definition under the Civil Code defines an enterprise as an organised set of intangible and tangible assets intended for conducting business activity, without explicitly specifying the need for the existence of processes. Thus, the introduction of a different definition of an enterprise under the Act would, in the opinion of some of the

Act's users, be a source of conflict. Nevertheless, we believe that these concepts need to be harmonised.

- In addition, in the opinion of some of the Act's users, the term “income” included in the proposed definition does not appear in the Act but only in tax regulations and, therefore, might need to be defined at the level of the Act.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.13.2. Definition of controlling parent company, subsidiaries and affiliates

- Modifying the definition of a “controlling parent company”/Medium (6.5.2.)
- Definitions of subsidiaries and affiliates/Medium (6.5.3.)

Reference to a legal act

Parent companies, subsidiaries, affiliates (and subordinated’ entities) are defined in Article 3(1) respectively in items (37), (39), (41), and (42). At the same time, Article 3(1)(34) contains a definition of control.

Summary (synthetic) description of the problem

- The Act does not govern the issue of de facto control (i.e. when, despite not owning the majority of the voting rights in an entity that is controlled through voting rights, the investor exercises control because it has the practical ability to make decisions about the operations of that entity).

- The Act provides for a relatively narrow list of legal forms provided for the parent company (i.e. the parent company is only a commercial company or a state-owned enterprise), which excludes controlling entities, which have other legal forms, from the obligation to prepare consolidated financial statements.
- In turn, 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.

Recommendation

a. Description of proposed change

Definition of control

- The definition of control in the Act would need to be redrafted in such a way that the definition is described comprehensively in one place and concerns the issue of exercising power rather than, as at present, it was defined by defining what constitutes a parent entity.
- In addition, at the level of specific regulations, i.e. a possible new standard (in the rank of a regulation) or guidelines, we propose to describe additional situations (e.g. by adding more cases/examples) that determine the existence of control (including situations where an entity evidently directs the operating and financial activities of a given entity on its own behalf despite not meeting the conditions set out in the Act).
- We would suggest at the level of the Act to include a definition of control based on IFRS 9's core provision defining control and its three elements (ability to exercise power, exposure to variable returns and ability to change returns through power), and to include specific control arrangements in the standard (regulation).

Legal forms included in definitions

We propose to remove from the definition of parent company, subsidiaries and affiliates references to their legal form (commercial law companies, state-owned enterprise), while developing the provisions on the obligation to prepare consolidated financial statements by indicating which entities (in terms of their legal form) are obliged to prepare consolidated financial statements.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

- Modifying definitions included in the above-mentioned regulations at the level of the Act
- A possible creation of a guideline or standard for control indicators

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

At this stage of the Project – not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☒Developing a new Standard/Regulation
☒Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.13.3. Accounting for acquisitions and mergers

- Pooling-of-interest method for the purposes of consolidation/Medium (6.5.1.)
- Reverse acquisition/High (6.9.11.)
- Provisional acquisition accounting/Medium (6.9.13.)
- Clarifying of the definition of combined assets, equity and liabilities/Medium (6.9.4.)
- Post-acquisition comparative information under the pooling-of-interest method/Medium (6.9.6.)
- Cost of acquisition under the pooling-of-interest method/Low (6.9.7.)
- Elimination of investments under the pooling-of-interest method/Low (6.9.8.)
- Structuring the Act in matters of mergers and acquisitions/Medium (6.9.15.)
- Limitations on the applicability of the acquisition method for common control transactions/High (6.9.1.)

- Pooling-of-interest method where entities or the State Treasury have control/Medium (6.9.2.)
- Clarification of the area of “common control”/Low (6.9.3.)

Reference to a legal act

The acquisition method is described in Article 44b, while the pooling-of-interest method is described in Article 44c.

The provisions of Article 59(1) and Article 60(2) indicate that in consolidated financial statements only the acquisition method can be applied.

Summary (synthetic) description of the problem

- 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, which means that it is not possible to use the pooling-of-interest method for acquisition transactions under common control. Meanwhile, in market practice, acquisitions of subsidiaries under common control often occur and it may not be justified to apply the acquisition method in any case.
- In business practice, doubts arise as to the recognition under the Act of the so-called reverse acquisition, i.e. when, for example, a newly established parent company acquires a subsidiary from third parties (and controls are acquired) and shortly after that, both entities are merged in such a way that the surviving entity is a subsidiary – in such a situation, applying the current wording of the provisions, the application of the acquisition method and the pooling-of-interest method will result in the recognition of the same values of assets and liabilities and capital (i.e. the assets and liabilities of the subsidiary will remain at their present carrying amounts and the effect of the merger will affect equity). Such accounting does not reflect the economic substance of the transaction.
- 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 resulting from the final valuations being recognised as other operating expenses/revenue.

  The same problem applies to accounting for the acquisition of subsidiaries in the consolidated financial statements.
- If the pooling-of-interest method is used, there are uncertainties regarding the presentation of comparative information in situations such as:

- 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 organised part of another entity ("OPE"), which previously formed an integral part of another entity, is purchased – very often in practice it is difficult or impossible to prepare comparative information as if the OPE had been acquired at the beginning of the previous financial year.

Recommendation

a. Description of proposed change

General assumptions for business combination/acquisition accounting

- We propose to introduce instead of the current pooling-of-interest method a **method based on the carrying amounts of the predecessor**, after achieving uniform accounting principles and eliminating mutual balances and transactions. The carrying amounts of the predecessor are in principle the same as the existing book values of the acquired company (but may also be the existing carrying amounts from the consolidated statements) and the use of such method will better reflect the economic substance of a given transaction. At the level of specific provisions, i.e. a possible new standard (in the rank of the regulation) or guidelines, a specific explanation will be introduced of what constitutes the "carrying amounts/book values of the predecessor". Further recommendations regarding the carrying amount method are presented below in the section "carrying amount method".

- We also propose that **this method should be used for reorganisations** and for transactions **with negligible economic substance**. At the same time, this method could also be used for accounting for business combinations/acquisitions of ventures under common control. A possible clarification of what constitutes a "reorganisation" and "negligible economic substance" could be presented in the dedicated standard.

- In view of the above, we propose to introduce into **the Act** a provision stating that, **in principle, the acquisition method applies to the business combination/acquisition of entities**, **provided** that the acquisition method shall not be applied in case of (i) reorganisations in which there is no change of control over the merging entities, (ii) transactions under common control that have no economic substance or have little economic substance. Furthermore, the acquisition method may also <u>not be applied</u> in case of mergers/acquisitions under common control other than item (i) and (ii).

- **Proposed definition of a business combination or merger of entities under common control**: a transaction in which all the combining businesses or entities are controlled by the same party or parties before and after the transaction and such control is not temporary.

- **At the level of a dedicated standard** (in the rank of a regulation), guidelines should then be introduced indicating the meaning of the terms reorganisation, economic substance, common control, and when common control is temporary. We would also recommend regulating at the level of the said standard the recognition of transactions where common control arose temporarily before the business combination (in such a situation, the acquisition method should apply, but it would be necessary to regulate in detail the date of acquisition, the elements of the acquisition method and its basis).

Provisions concerning the method of acquisition

- We propose to introduce a **definition of the acquirer at the level of the Act** for the acquisition method – the acquiring entity/party would be the acquirer in the legal sense, unless the facts and circumstances (or economic substance) indicate otherwise.

- We propose that specific regulations concerning the identification of the acquirer should be introduced at the standard level in the regulation's rank.

- This means that the transaction can be accounted for **reverse acquisition** if the economic substance is incoherent with the legal form of the business combination arrangement. Details of when reverse acquisition occur and the accounting approach should be specified in a dedicated business combinations standard.

- We also propose to **limit the scope of the provisions on the acquisition method currently included in the Act** by specifying that in the acquisition method identifiable assets and liabilities acquired are measured at fair value, except for deferred tax balances which are determined on the basis of temporary differences, and deleting the specific provisions currently included in Article 44b(4). On the other hand, specific guidance on how to measure fair value and how to identify assets and liabilities acquired, determine at standard level (using the "Draft statement of position on fair value measurement for the purpose of accounting for business combinations using the acquisition method").

Provisional amounts in the acquisition method

We propose introducing the concept of provisional acquisition accounting, similarly to the provisional amounts under the IFRS – by replacing the provisions of the current Article 44b(8) with the following guidelines:

- An entity has the option to account for the acquisition/business combination at provisional values (i.e. in non-final/preliminary values, which may be subject to further changes in the process of finalising valuation of acquired assets and liabilities to fair values).

- An entity has the option to apply provisionally determined amounts for a specified period, after that period the entity would be obliged to prepare the final accounting and recognise it fully retrospectively, adjusting the values of assets and liabilities recognised at the acquisition/business combination date; the final accounting is made no later than when preparing the financial statements for the next financial year following the year in which the acquisition/business combination took place.

- The following options could be considered for guidance on time to finalise the provisionally determined values:
    - An entity is obliged to finalise the determined provisional amounts before the end of the financial year following the year in which the transaction took place, provided that it adopts a 5-year depreciation period for goodwill; or
    - Provisional accounting is possible only for transactions that took place in the second half of the financial year.
- We assume that using provisional amounts would require appropriate disclosure in the financial statements.

Method based on the carrying amounts of the predecessor as regards the method based on carrying amounts/book values, we recommend that the Act include the following guidelines:

- The carrying amount method is **mandatory** for: (i) reorganisations in which there is no change of control of the merging entities, (ii) transactions under common control that have little or no economic substance. This method MAY also be used to account for other mergers/acquisitions under common control.
- This method, like the current pooling-of-interest method, would involve combining the balance sheet data of the acquiree with the data of the acquirer (after achieving uniform accounting principles and excluding mutual balances) and reflecting any differences that may arise in the equity, with positive amounts of differences arising credited to reserves and negative amounts credited to retained profit/loss. Whether these amounts affect the amounts available for distribution to owners is addressed in a separate item of this report.
- We recommend that in the case of a method based on carrying amounts, the cost of acquisition should be determined as the book value of the transferred assets or the present value of incurred liabilities, and in the case of an issue of capital – their issue price determined in documents related to the business combination (or the value of equity instruments resulting from legal documents), or in the absence thereof – the nominal value of the instruments issued.
- At the level of the Act, provision should be made for the use of existing carrying amounts of the predecessor in place of the use of fair values of assets and liabilities acquired, as well as for the acquisition price. At the same time, this method would prevent recognition of assets or liabilities not previously recognised in the books or financial statements of the predecessor (except where identification of such assets or liabilities results from the need to harmonise accounting principles with the accounting principles of the acquirer).

    - Under the carrying amount method, the acquirer is always the legal acquirer (the acquirer cannot be identified in this method).

    - The carrying amount method **would imply a prospective recognition without the need to restate comparative information** (change of the current regulations in Article 44c(6)). The acquiree would be obliged to close the account books as at the date preceding the merger date and prepare financial statements for that period (This issue has also been addressed in the recommendations on non-annual financial statements). The consequence of that change would also be **to remove the exemption provided for in Article 12(3)(2).**

- **Details of the application of the method based on carrying amounts should be regulated at the level of a dedicated standard –** this applies in particular to indicating what the "predecessor carrying amounts" are to be used, i.e. from which financial statements (separate or consolidated, and if so, at which consolidation level) the carrying amounts used in this method are to be derived, e.g. by stating that where there is more than one set of carrying amounts, then those that are more appropriate from the controlling owner's perspective apply and the standard should provide clear guidance on how this should be determined

- The method based on the carrying amounts of the predecessor is broadly in line with the pooling-of-interest method, but introduces some modifications that address practical problems.

- The reasoning for replacing the pooling-of-interest method with the proposed method based on carrying amounts is the existence of doubts as to the source from which the totalised assets and liabilities come (the Act requires "aggregation of individual items of relevant assets and liabilities" without specifying where these values come from), as well as practical problems in preparing comparative information and in developing an approach to problematic situations – e.g. when the merging entities came under common control during the period covered by the financial statements of the merged entity.

<u>Method based on carrying amounts in consolidated financial statements</u>

- We propose that the consolidated financial statements apply the same methods to account for the acquisition of subsidiaries as would apply to the accounting for a merger in the separate financial statements, i.e. it would be possible to apply the carrying amount method in the consolidated financial statements when the acquirer and the acquiree are under the control of the same party (s) and to apply it in situations of reorganisation under common control and business combinations under common control with negligible economic substance.

<u>Order of merger and acquisition regulations</u>

- We propose to change the name of the current chapter 4a of the Act from "Mergers of companies" to e.g. "Accounting for mergers and business combination".

- The proposed content of this chapter would include:
    - Indication of the type of transactions that result in the need to apply the regulations on accounting for business combination: an entity may acquire a business through: merger, acquisition of an organised part of an enterprise by purchase, contribution in kind or otherwise. Acquisition by a group may take place in addition (to what was indicated in the previous sentence) by taking control of another entity.
    - Where there is an acquisition of a group of assets that does not meet the definition of a business, the price paid should be allocated between the assets and liabilities acquired in such a way that no goodwill or negative goodwill is generated.

      Details on the methodology for allocating the price between assets and liabilities (whether monetary or non-monetary) should be described in the standard/regulation.
    - An indication that the provisions of this Chapter apply both to acquisitions in the separate financial statements and consolidated financial statements.
    - Accounting guidance on the principles of recognition of an acquisition: **in principle, in connection with a business combination/acquisition, the acquisition method applies**, **provided** that the acquisition method is not applied in case of (i) reorganisations in which there is no change of control over the merging entities, (ii) transactions which do not have or have little economic substance. Furthermore, the acquisition method may also be applied in case of other mergers/acquisitions under common control. Where the acquisition method is not used, the method based on the carrying amounts of the predecessor (as mentioned above) applies.
    - Defining the acquisition method: The acquisition method combines the acquirer's data with the acquiree's data in such a way that the acquiree's data are included in the acquirer's data from the acquisition date at fair values at the acquisition date;
    - The acquisition date shall mean the date on which the acquirer acquires control of the business.
    - Identification of the acquiree and the acquirer: the acquirer would be the entity/party legally acquiring control, unless the facts and circumstances (or economic substance) dictate otherwise. The acquiree is a venture over which the acquirer assumes control.
    - Defining the method based on carrying amounts (in line with the guidance described above).

- On the other hand, at the level of the new standard/regulation on mergers/accounting for acquisitions, we propose to regulate specific principles concerning the acquisition method, the value method based on carrying amounts and disclosure of information related to acquisitions. In addition, the standard should address the definition of, for example, temporary control and the identification of acquired assets and liabilities not recognised in the acquiree's balance sheet (including contingent liabilities).

Modifying the provisions on negative goodwill

- The following proposal relates to the revision of Article 44b(11) to (12). These regulations are criticised by some stakeholders due to the high level of complexity and impracticability related to the fact that recording the settlement of negative goodwill in the long term in correspondence to fixed assets requires significant amounts of work.

- We propose to change the guidance on the recognition of negative goodwill. Instead of the existing guidelines, we recommend introducing a provision stating that if a negative goodwill arises as a result of a business combination/acquisition, first of all intangible assets should be eliminated from the balance sheet of the acquired business (possibly with the exception of those listed on an active market, e.g. CO_2 certificates) and thus the identification of acquired fixed assets should be limited to tangible/tangible fixed assets. The reasoning behind this approach is the idea of limiting the creation of negative goodwill as a result of identifying intangible assets, the fair value of which is, in principle, determined not by reference to an active market or other market values, but by reference to other methods/techniques for estimating fair value. The proposed solution is simpler than the approach required by IFRS 3.

- If, after elimination of intangible assets, negative goodwill continues to exist, it would be reasonable to recognise the remaining difference in the profit and loss account unless there is objective evidence that the difference relates to contingent liabilities. In such a case, the recognition of the remaining portion of negative goodwill in the profit and loss account would be deferred until the realisation or expiration of these contingent liabilities. The recognition proposed above assumes separating the settlement of negative goodwill from the value of fixed assets and their depreciation. The reasoning for this separation is that the current settlement method raises practical problems because assets subject to depreciation are subject to constant upgrades, their useful life changes, other additional assets are created – in practice, this makes it impossible to accurately account for negative goodwill. An alternative solution to practical problems may also be an arbitrary statement that the remaining negative goodwill is settled over a period of 5 years (similar to goodwill). This solution can be justified by the fact that negative goodwill usually arises in the case of acquiring an entity that is not profitable, requires restructuring together with the dismissal of some employees – settlement over a period of 5 years will ensure reasonable offsetting of effects of restructuring in the profit and loss account.

- The proposal presented above raised doubts in the course of the project among some respondents who claimed that they would prefer the treatment of negative goodwill to be fully correlated with the IFRS 3 approach.

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable

c. **Indication of the location in the relevant legal act and where in the structure**

Specific guidelines on the location of changes are indicated above in the recommendation – general changes refer to the current regulations included in Article 44a-44c; the recommendations also require the development of a new standard for accounting for mergers/ acquisitions.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

Among the Act's users, there were doubts about replacing the pooling-of-interest method with the carrying amount method – in particular, it was questioned whether the use of a prospective approach was justified from the point of view of users of financial statements.

At the same time, there were proposals that business combinations under common control SHALL NOT be accounted for using the acquisition method.

The issues related to the accounting for mergers/ acquisition and to the negative goodwill were classified by the members of the Accounting Standards Committee as requiring further stakeholder consultation.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☒Developing a new Standard/Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.13.4. A step acquisition and change in percentage interest in subsidiary

- A step acquisition: revaluation to fair value/Medium (6.5.13.)
- Change in the percentage holding in a subsidiary/Medium (6.5.14.)
- A step acquisition/Medium (6.9.12.)
- Recognition of minority interests/Medium (6.5.15.)

Reference to a legal act

A step acquisition of shares in a subsidiary is regulated in Article 60(3) to (4), whereas a business combination as a result of several successive transactions is regulated in Article 44b(7).

Summary (synthetic) description of the problem

- The Act does not clearly indicate whether the assets/liabilities of a subsidiary are to be measured at fair value on the date of each significant transaction or transactions occurring within significant intervals;
- If a measurement should be carried out at fair value at the date of each significant acquisition of additional shares, it is not stated how to recognise the effect of such a measurement;
- There are no guidelines how to recognise additional shares if transactions are not significant or do not occur within significant intervals;
- The Act introduces a specific regulation on changing the percentage of shares in a subsidiary when this is done by issuing additional shares by a co-subsidiary (recognising the amount of difference in financial costs/income), which differ from the recognition of share purchase/sale transactions.

Recommendation

a. **Description of proposed change**

We propose to change the provisions of Article 60(3) so that they state that:

- Assets and liabilities of a subsidiary are measured at fair value **as at the date of acquisition of control only.** Goodwill is determined as at the date of taking control, and for the purpose of calculating goodwill, the measurement of previously held non-controlling interests **is based on their carrying amounts**.
- **An increase in a% interest in a subsidiary does** not result in the need to remeasure the assets and liabilities of the subsidiary to fair values. The difference between the cost of acquisition and the carrying amount of the acquired minority capital is recognised as an adjustment to goodwill.

We also propose to introduce a provision governing the recognition of the so-called **deemed acquisition or disposal**: In the case of changes in the structure of a group in which a given entity does not participate directly (in particular in the case of an issue of shares by a subsidiary – understood as a deemed disposal, or in the case of a redemption by a subsidiary of shares owned by another shareholder – understood as a deemed acquisition), these changes are recognised in a similar manner to the recognition of a regular acquisition or disposal of shares, i.e. (i) additional goodwill is recognised in the case of a deemed acquisition; on the other hand (ii) in case of a deemed disposal, the result on this transaction is recognised as profit or loss of the period. The effect of introducing the above provisions would be to delete the current regulations of Article 60(4).

In summary, instead of the current Article 60(4), we propose to introduce a provision stating that "in the event of a change in the involvement in a subsidiary that does not result in a change of control, the effects of an increase in the involvement in a subsidiary adjust goodwill, while the effects of a decrease in the involvement in a subsidiary are reflected in the profit and loss account", while at the level of the standard/regulation, it should be supplemented with appropriate guidance regulating/illustrating all possible situations, for example an explanation that an increase in the involvement may be through purchase but may also be implicit.

In the context of minority equity, we suggest considering a solution to recognise minority interests as zero.

Reasons for the above recommendations:

- Fair value measurements of assets and liabilities at each point in time when a percentage interest in subsidiaries increases represent an unnecessary burden for entities. In practice, entities do everything to avoid re/multiple pricing.
- It does not appear reasonable that transactions involving an increase in the percentage of a parent company or group's share in the net assets of a subsidiary as a result of the issue/redemption of shares to a third party (minority shareholder) should be accounted for otherwise than in accordance with the general principles on the acquisition and disposal of shares in a subsidiary.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

- Accounting Act – provisions of Chapter 6 Consolidated financial statements of the group: current Article 60(3) to (4)
- Consolidation Regulation – harmonising regulations with changes to the Act

d. Separate statements of position, discrepancies, decisions to be taken (if any)

During this phase of the Project, critical voices arose on the proposal to recognise the effect of a change in a% interest in a subsidiary through goodwill – the issue should be further discussed with a broader group of stakeholders.

We suggest that the shape of the final wording of the provisions on the proposed solution or leaving the issue of recognising minority equity unresolved, i.e. the effect of the approach applied to negative minority equity, which affects the calculation of goodwill, should be presented as the subject of an analysis of expectations among a wider group of stakeholders.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.13.5. Proportionate consolidation

- Proportionate consolidation/Medium (6.5.19.)

Reference to a legal act

The application of the proportionate consolidation is governed by Article 59(2) and described in Article 61(1)

Summary (synthetic) description of the problem

It does not seem reasonable to apply proportionate consolidation outside a limited range of scenarios, such as, e.g., an investment in a simple partnership.

Recommendation

a. **Description of proposed change**

We propose the following changes to Article 59(2) of the Act: In principle, the equity method is applied to joint ventures, except when the investor has the right to the assets of the joint venture and has the obligation to cover its liabilities, in which case the investor recognises in its financial statements the portion of the assets and liabilities of the joint venture.

We propose to regulate the details when an investor has the right to the assets of a joint venture and the obligation to cover its liabilities at the standard/regulation level. The guidelines contained therein could indicate that the proportionate consolidation should be applied to (i) shares in unincorporated companies, (ii) shares in ventures or assets (e.g. co-ownership of a building), or (iii) shares in entities in which an entity contractually has the right to participate in assets and is directly liable for liabilities; in other cases, the equity method applies.

Reasons:

The application of the proportionate consolidation to certain investments and contractual relationships may not reflect economic substance because it may result in identification by the entity of an interest in assets over which the entity has no direct right and an interest in liabilities that the entity is not required to cover. Where an investor has only a right to the net assets of a joint venture, the equity method reflecting the share of such net assets is a reasonable method to price such an investment. We note that the provisions of the Act were based on International Accounting Standard 31: Interests in Joint Ventures ("IAS 31"), which at the time permitted a choice between the equity method and the proportionate consolidation. IAS 31 has been changed in International Financial Reporting Standards 11: Joint Arrangements ("IFRS 11") so that the use of the proportionate consolidation is limited to situations of direct participation in the assets and liabilities of an entity.

The solution proposed above is largely coherent with IFRS 11 principles, although the solution proposed is slightly more precise than described in IFRS 11. IFRS 11 imposes a complex decision-making model to determine whether we are dealing with a joint venture or a joint operation, which is necessary because of the complex operation of entities worldwide. The simplifications proposed by us described above (recognition of a portion of assets in the case of shares in unincorporated companies or where the investor is directly responsible for assets and liabilities) are a reasonable approximation to the requirements of IFRS 11 given the local conditions and the legal environment in Poland.

During discussions, the members of the Accounting Standards Committee confirmed that the issues described above should be further analysed and that syndicated agreements and special cases such as the so-called "silent partnership" should also be dealt with at standard level.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

- Accounting Act – provisions of Article 59(2)

- Relevant provisions of the Consolidation Regulation with additional guidance on the application of the proportionate consolidation

d. Separate statements of position, discrepancies, decisions to be taken (if any)

At this stage of the Project – not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.13.6. Providing regulation of demergers

- Providing regulation of demergers/High (6.9.16)

Reference to a legal act

The demerger transactions are mentioned in Article 44d, but this Article does not govern the accounting of the demerger, but only the accounting of an entity that acquires an organised part of another entity spun off from that entity as a result of its demerger.

Summary (synthetic) description of the problem

The recognition of business divisions is insufficiently regulated in the Act.

Recommendation

a. Description of proposed change

In order to regulate the principles concerning the demergers, we propose to introduce the following regulations:

- In the case of **a demerger** that does not result in a loss of control by the controlling party, if the split entity does not receive compensation as a result of the division transaction, the assets and liabilities issued are recognised in correspondence with equity as distribution to shareholders. If, on the other hand, in the case of such a demerger, the entity receives compensation in the form of shares of the entity that acquires the separate net assets, the shares received are recognised in the carrying amount of the net assets transferred in exchange if the transaction has no or negligible economic substance.

- In addition, we propose to introduce the following regulations on **disposal of business**: The effects of business disposal are recognised in the profit and loss account when control of the business is lost as the difference between the carrying amount of the net assets disposed of and the compensation received, except when:

  - (i) The transaction has no or negligible economic substance, or

  - (ii) The transaction constitutes distribution to the owners without compensation or with compensation differing from the fair value of the disposed business.

- The effects of transactions indicated in items (i) and (ii) are recognised:

  - by reducing the supplementary capital,

  - and if such capital does not exist or is insufficient, the effects of transactions (i)–(ii) are recognised through the adjustment of retained profit/loss,

  except when an entity receives compensation for a disposal in the form of non-cash assets, the carrying amount of net assets of the disposed business is the initial value of the non-cash assets acquired in exchange.

- We also propose adding to NAS 4 a provision stating that the decision on the disposal may be one of the impairment indicators. If an impairment is identified, its effects should be recognised in the profit and loss account before the demerger transaction is recognised.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

- Accounting Act – extension of the current regulations of Article 44d

- Supplement to NAS 4

d. Separate statements of position, discrepancies, decisions to be taken (if any)

At this stage of the Project – not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.13.7. Equity method

- Step acquisition of a joint venture/Medium (6.5.17)
- Change in the percentage holding in a joint venture/Medium (6.5.18.)
- Equity method/Medium (6.5.20.)
- Amortisation of goodwill under the equity method/Medium (6.5.22.)
- Application of the equity method/Low (6.5.21.)

Reference to a legal act

- The equity method is regulated in Article 63(1) to (3)
- Step acquisition of shares in a joint venture is regulated in Article 61(3) to (4)

Summary (synthetic) description of the problem

- 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.

- The equity method also assumes that adjustment is made for the amortisation of goodwill or negative goodwill. In practice, it is usually difficult for affiliates to determine goodwill due to the difficulty in determining the fair value of assets and liabilities indicated above.
- The Act does not unambiguously state if the assets/liabilities of a co-subsidiary are to be measured at fair value as at the date of each significant transaction or transactions occurring within significant intervals;
- If a measurement should be carried out at fair value at the date of each significant acquisition of additional shares, it is not stated how to recognise the effect of such a measurement;
- There are no guidelines how to recognise additional shares if transactions are not significant or do not occur within significant intervals;
- The Act introduces a specific regulation on changing the percentage of shares in a joint venture when this is done by issuing additional shares by the joint venture (recognising the amount of difference in financial costs/income), which differ from the recognition of share purchase/sale transactions.

Recommendation

a. Description of proposed change

We propose to change the provisions of Article 61(3) so that they state that:

- Assets and liabilities of a joint venture are measured at fair value **only as at the date of acquisition of joint control,** except that if prior to the date of acquisition of joint control an investor had significant influence and measured shares using the equity method, the fair value measurement of assets and liabilities is made as at the date of acquisition of significant influence and no revaluations are made as at the date of acquisition of joint control in continuing application of the equity method**.** Goodwill is determined as at the date of acquisition of joint control, and in order to calculate goodwill, the measurement of previously held non-joint control shares **is based on their carrying amounts**.
- **An increase in a% interest in a joint venture**, while maintaining a joint-control relationship, does not result in the need to remeasure the assets and liabilities of the joint venture to fair values. The difference between the cost of acquisition of additional shares and the acquired share in the carrying amount of net assets (carrying amounts are understood as values determined taking into account measurements to fair values as at the date of acquisition of joint control) is recognised as an adjustment to goodwill.
- We propose to follow the same approach for **affiliates** as for joint ventures, i.e. if the equity method is applied, any fair value measurement would be carried out on a one-off basis as at the date of acquisition/acquisition of significant influence, and any subsequent change in the% interest (provided that the equity method continues to be

applied) did not require the assets and liabilities to be remeasured to fair value; any difference arising from the acquisition of additional shares would be recognised as goodwill. Consequently, provisions dedicated to affiliates should be added in the Act, worded in the same manner as suggested above with respect to joint ventures.

We propose two options to change Article 63(1):

- **Option 1:** When the equity method is applied (whether it is applied to a joint venture or affiliate), the fair value measurement of assets and liabilities is performed only at the date of acquisition of the interest that results in the commencement of the equity method. Subsequent increases in an interest in an entity, assuming continuing application of the equity method, do not require revaluation of assets and liabilities at fair value, and goodwill is determined as the difference between cost of acquisition and acquired additional interest in the carrying amount of net assets (including fair value measurements at the date of application of the equity method).

- **Option 2:** In response to stakeholders' concerns about practical issues related to the ability to measure the net assets of affiliates/co-subsidiaries at fair value, significant simplifications in the application of the equity method could be considered. According to this proposal, when the equity method is applied (whether it is applied to a co-subsidiary or affiliate), the assets and liabilities of the acquiree are NOT measured at fair value and the only obligation is to bring those principles into line with the accounting principles of the investor. The resulting **difference** (i.e. goodwill included in the investment) between the cost of acquisition paid and the share in net assets (after bringing the value of assets and liabilities to uniform accounting principles) is settled over a period of 5 years. This settlement is recognised as a share of the profit/loss of the co-subsidiary/affiliate. Further increases or decreases in an entity's interest would be accounted for in the same manner (i.e. without the need to measure to fair value and with the settlement of the resulting difference for 5 years). While the above proposal makes a lot of simplifications, in the course of the works it raised a lot of controversy (reported, among others, by certain members of the Accounting Standards Committee). Therefore, before its possible introduction, we would recommend further debate on this matter.

In addition, we propose to modify Article 63(2): After initial recognition, the value of investment, for which equity method is applied, is adjusted for changes in net assets attributable to a significant investor/partner in a joint venture, the effects of which are reversed to the profit and loss account, except for changes in net assets resulting from amounts recognised directly in equity by the affiliate/joint venture which the significant investor/partner in the joint venture would also recognise in equity. **The reasoning** behind this recommendation is that the effects of a change in net assets, other than profit-based effects, such as revaluation reserve, should be recognised by analogy with the recognition used by the affiliate/joint venture.

We also propose to develop, at the standard (regulation) level, a regulation detailing the application of the equity method, including, among others, elimination of unrealised gains/losses on transactions between an affiliate/joint venture and a significant investor/shareholder of a joint venture.

We also propose to introduce a regulation on the recognition of the so-called **deemed acquisition or disposal**: In the case of changes in the structure of a group in which a given entity does not participate directly (in particular in the case of an issue of shares by a joint venture/affiliate – understood as an deemed disposal, or in the case of a redemption by a joint venture/affiliate of shares owned by another shareholder – understood as an deemed acquisition), these changes are recognised in a manner analogous to the recognition of an acquisition or disposal of shares, i.e. (i) additional goodwill is recognised in the case of a deemed acquisition; on the other hand (ii) in case of a deemed disposal, the result on this transaction is recognised as profit or loss of the period. Regulations mentioned above could be introduced in the proposed standard/regulation, while the effect of introducing the proposed provisions would be to delete the current regulations of Article 61(4).

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

- Accounting Act – modification of provisions of Article 61(3) to (4)
- Similar changes to the Consolidation Regulation with possible additions to guidance on elimination of unrealised profits and losses

d. Separate statements of position, discrepancies, decisions to be taken (if any)

At this stage of the Project – not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.13.8. Absence of a group as at the balance sheet date

- Absence of a group as at the balance sheet date/Medium (6.5.5.)

Reference to a legal act

The obligation to prepare consolidated financial statements is governed by Article 55(1).

Summary (synthetic) description of the problem

The regulations fail to specify if there is a requirement to prepare consolidated financial statements where the capital group no longer exists (there are no subsidiaries) but a group did exist during the financial year.

Recommendation

a. **Description of proposed change**

We propose to supplement Article 55(1) so that the parent company is NOT required to prepare consolidated financial statements when, **at the balance sheet date**, the entity does not hold shares in subsidiaries and held them during the current or/and prior year.

Reasons:
In the situation described above, it is not appropriate to prepare consolidated financial statements which, in principle, do not give rise to tax settlements or dividend payments. At the same time, the value in use of such a consolidated financial statements would be small due to the fact that the group does not exist as at a given balance sheet date.

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Accounting Act – modification of the provisions of Article 55(1).

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

At this stage of the Project – not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation

☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

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

- Exemption from mandatory consolidation if the statutory thresholds are exceeded/Medium (6.5.9)

Reference to a legal act

The provisions of Article 56(1) and (1a) govern the exemption of an entity from the obligation to prepare consolidated financial statements for the fact that a group meets/does not meet the size criteria.

Summary (synthetic) description of the problem

The provisions allowing exemption from the obligation to prepare consolidated financial statements due to not exceeding the size thresholds (Article 56(1)) and the provisions concerning the loss of this right (Article 56(1a)) are asymmetrical, i.e. an entity that has not previously been exempted from the obligation to prepare consolidated financial statements pursuant to Article 56(1) is obliged to prepare consolidated financial statements, if in the current year or comparative period it exceeds the size thresholds, while an entity that has previously acquired the right to exemption under Article 56(1) need not prepare consolidated financial statements even if it has exceeded the size thresholds in the current year. As a result, a group that became a large group of companies in the current period and was entitled to exemption from the obligation to prepare consolidated financial statements in the previous year pursuant to Article 56(1) may still not prepare consolidated financial statements for the current year.

Recommendation

a. Description of proposed change

We propose to modify the current regulations so that an entity is required to prepare consolidated financial statements if, at the balance sheet date of the financial year, the aggregate data of the parent company and all subsidiaries of each tier exceed the defined requirements, including when this is the first year of operation of the group.. 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 prior balance sheet date, the total data of the parent company and all of its subsidiaries at every level do not exceed the specified thresholds.

Consequently, we propose to modify the provisions contained in Article 56(1) a as follows:

“Article 56. 1a A parent company which is not required to prepare consolidated financial statements under paragraph 1(1) or (2) shall lose that right if, as at the balance sheet date of the financial year, the parent entity exceeded two of the amounts stated in paragraph 1(1) or (2), effective for the current financial year.”

Reasons:

The provisions in their current wording mean that a large group may be exempted from the obligation to draw up and therefore audit consolidated financial statements in unjustified cases, e.g. in the first year of formation of the group, if the parent entity's data for the previous year do not exceed the required thresholds.

Since the proposed solution limits the scope of the exemption from consolidation (and at the same time is a step towards simplification of principles – i.e. large groups prepare consolidated financial statements), it would be advisable to consider setting thresholds at the desired level beyond which the preparation of consolidated financial statements is required (instead of a complex list of exemptions).

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Accounting Act – Article 56 sec. 1a.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

At this stage of the Project – not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*

☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.13.10. Recognition of assets and liabilities not previously identified

- Recognition of not previously identified assets in consolidated financial statements/Medium (6.5.12.)
- Accounting for assets and liabilities not previously identified /Medium (6.9.14.)

Reference to a legal act

Article 60(5). The principles set out in Articles 28(5) and 44b(4), (11) and (12) shall be applied accordingly to determine the bases for fair value measurement of net assets and for the settlement of goodwill or negative goodwill.

Article 44b(2) The assets and liabilities of the company being acquired at the date of the business combination also include assets or liabilities <u>not yet recognised</u> in the account books and financial statements of the company being acquired if, as a result of the business combination, they are recognized and meet the definition of assets and liabilities.

Summary (synthetic) description of the problem

Article 44b(2) (governing the settlement of business combinations) indicates the recognition of assets or liabilities not yet recognised in the account books and financial statements of the acquired company. However, the provisions on the application of the full consolidation method in the consolidated financial statements in determining the assets and liabilities acquired and goodwill do not refer to Article 44b(2), but only to Article 44b(4), (11), and (12), so it is not clear whether the assets and liabilities of a subsidiary that are not disclosed in its financial statements are also recognised and measured at fair value in the consolidated financial statements.

Recommendation

a. Description of proposed change

We recommend introducing at the level of the Act a provision stating that assets and liabilities of the acquired business that are identifiable (i.e. meet the criteria for identification and recognition as an asset/liability) are recognised at fair values.

A separately proposed recommendation to change the definition of intangible assets to an IAS 38 definition takes into account the above condition ("identifiable non-monetary asset, not having physical substance").

Consequently, at the standard level in the rank of the regulation (new standard for accounting for acquisitions), it should be regulated, what this means that a given asset (or liability) is identifiable.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

- Accounting Act – area of definition
- Standard for accounting for acquisitions to be drafted

d. Separate statements of position, discrepancies, decisions to be taken (if any)

At this stage of the Project – not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☒Developing a new Standard/Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.13.11. Presentation of consolidated equity

- Presentation of consolidated equity/Medium (6.5.16.)

Reference to a legal act

No regulation available in this area.

Summary (synthetic) description of the problem

In practice, a common issue is how to present in the consolidated statements a distribution/ allocation of the results of subsidiaries included in the consolidation and resulting in a distribution of profit or loss to different equity items. Another doubt is what item of consolidated equity should unrealised 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.

Recommendation

a. Description of proposed change

We propose to modify the presentation of equity in the consolidated financial statements so that equity includes: share capital of the parent company, supplementary capital of the parent company, reserve capital of the parent company, revaluation capital of all entities subject to consolidation **and accumulated gains/losses of the entire group**(This item would take into account the profit or loss of subsidiaries achieved since the date of taking control, regardless of the component of equity to which they have been transferred in the separate financial statements of these entities).

In view of the above proposal:

- We propose to introduce into the Act a provision stating that in the consolidated financial statements all components of equity whose source is the profit or loss of consolidated entities are presented in one item as accumulated gains/losses and any consolidation adjustments related to intercompany transactions adjust these items.
- At the same time, we propose to introduce a provision according to which a parent company may disclose the structure of retained earnings/losses broken down by type of equity at the level of individual group companies, except that it MUST disclose amounts recognized as retained earnings/losses from previous periods and current result that are together (potentially) distributable to shareholders (or loss absorbency). This provision could supplement the existing Consolidation Regulation.
- The template for consolidated financial statements in the Consolidation Regulation would need to be changed.
- The wording of the current Article 60(1) is proposed to be modified to provide that the full consolidation method consists in adding up in full the value of assets, liabilities and equity after consolidation eliminations. This provision should be supplemented by an explanatory provision at the level of the Consolidation Regulation stipulating that the parent company's result and the part of the results generated by subsidiaries from the

date of taking control in the share due to the group of companies should be disclosed as accumulated gains/losses of the group of companies.

The reasoning for the above proposal is to eliminate the above-mentioned doubts and to introduce facilitations for the entity in the consolidation process. In addition, the consolidated financial statements will present clearly the results of the parent company together with the results of the subsidiaries' share of the parent company.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

- Accounting Act – area of definition
- Standard for call clearing to be established

d. Separate statements of position, discrepancies, decisions to be taken (if any)

At this stage of the Project – not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.14. Provisions and accrued expenses and deferred income

3.14.1. Decommissioning provisions

- Decommissioning provisions /Low (6.8.26.)

Reference to a legal act

Issues related to the initial value of fixed assets and depreciation or amortisation charges related to them, including procedures for increasing the initial value in case of improvements to fixed assets, revaluation and allocation of net value differences are regulated in Article 31 of the Act. In addition, the recognition and release of provisions are regulated in Article 3(1)(32e) of the Act.

Summary (synthetic) description of the problem

The Act's users state that it is not clearly specified whether a decommissioning provision is to be disclosed on a one-off basis in the profit and loss account at the time of the obliging event (Article 3(1)(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 property, plant and equipment but does not mention what kind of assets these could be recognised as, e.g., prepayments).

It could be inferred from the current provisions of the Act and the NAS that such provisions are recognised on a one-off basis in profit or loss. However, some stakeholders pointed out that it may not be reasonable to recognise a one-off provision in the profit and loss account when the obligating event arises because it distorts the profit or loss of a given period, while the assets to which this provision relates will be used for many consecutive years. Therefore, the stakeholders indicated that there is also a practice of recognising long-term prepaid expenses and settling them for a period similar to depreciation of fixed assets.

Recommendation

a. **Description of proposed change**

We propose two methods of identifying a decommissioning provision:

Option 1: The recognition of a provision for the full value of a liability with mutual recognition of an asset (prepayments) settled over time.

We propose to change the Act to introduce an obligation to recognise the provision for asset removal costs as a prepayment RMC(such an approach would not necessitate a change in NAS 11 and would be coherent with NAS 5) and to account for these costs over time on an asset-related basis rather than through one-off recognition in the profit and loss account. This solution is coherent with the fact that the asset will be used in the long term and is coherent with the principle of proportionality of revenues and costs related to them.

It should also be clarified where the effects of changes in the value of the provision should be taken into account in the event of a change in the estimated value of the decommissioning provision. Specifying that any subsequent changes in the value of the provision are always raised in the profit and loss account would introduce clarity, however this solution may be further discussed with stakeholders.

We recommend that it be additionally regulated at the level of the Act that when introducing the first method, a provision may be established only there is an obligating event which results in the recognition of a provision in its entirety (as at the moment of its recognition, this provision would be priced taking into account the change in the value of money over time) and that future economic benefits confirming legitimacy/resulting from incurring the cost can be directly determined.

Option 2: A method similar to the approach in International Accounting Standard 19: Employee Benefits ("IAS 19"), consisting in building a provision over time (prepayment is not recognized in this case), but a provision is recognized in such a way that its value is increased evenly over the period so that the provision reflects the full obligation only when the obligation is settled.

Both options ensure that revenues and costs are commensurate, however, we suggest using the former because the former method fully reflects the obligations of the entity and appears simpler to understand for users and preparers of financial statements.

In addition, assuming that our recommendation to introduce mandatory adoption of standards (e.g. by publishing them in the form of a regulation) will be introduced, we also suggest that at the level of National Accounting Standard 6: Provisions, Accrued Expenses and Contingent Liabilities ("NAS 6"), the criterion of the direct nature of future economic benefits should be clarified. Specific provisions are necessary to ensure that the mechanism described above is not applied by analogy and used to account for costs already incurred over time (e.g. marketing costs), which only have an indirect link with the economic benefits achieved.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Supplementing the provisions of the Act and NAS 6.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Since we propose two alternative options for solving the problem, at a later stage of the Project one should be selected as the preferred one.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.14.2. Providing regulation for the issue of provisions and accrued expenses, as well as provisions for employee benefits

- Accounting for accrued expenses and provisions/Medium (6.8.54.)
- Accounting for employee provisions/Medium (6.8.55.)
- Restructuring the terminology for provisions in the Act and in NAS 6/Medium(6.8.56.)
- Imprecise issue related to provisions and accrued expenses/Medium (6.8.57.)

Reference to a legal act

Article 35d of the Act sets out the principles for recognising provisions for certain or highly probable future liabilities the amount of which can be reliably estimated, such as losses on business transactions in progress or future restructuring liabilities, as well as the manner in which they are recognised in the account books and the principles for dealing with changes in the level of risk for which they have been recognised.

Article 39(2) of the Act relates to recognition of accrued expenses in the amount of probable liabilities falling in the current reporting period, while paragraph 2a governs the manner in which the liabilities referred to in paragraph 2(2) are presented in the financial statements.

Summary (synthetic) description of the problem
Stakeholders reported that the provisions of the Act and NAS 6 concerning accrued expenses raise interpretation concerns as certain items of accrued expenses are to be presented as provisions on the balance sheet (e.g. for future employee benefits) and some of them are to be

presented as liabilities. The provisions of the Act read that: "**provisions** Not applicable – no changes were made are recognised as other operating expenses, financial expenses or extraordinary losses, as appropriate, depending on circumstances to which future liabilities relate"; therefore provisions are not expected to be recognised as operating expenses. It is questionable whether the obligation to present them as provisions means that they should be recognised in the oncome statement as other operating costs (as other provisions) or as operating expenses (as accrued expenses).In addition, we note that the current regulations of the Act on recognition of provisions are quite general and 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". In addition, there may be doubts of interpretation in this area as the provisions of NAS 6 prescribe that provisions are recognised only if a so-called obliging event occurs.

Recommendation

a. Description of proposed change

It would be recommended to harmonise NAS 6 in terms of terminology and definition of what should be disclosed as a provision and what constitutes accrued expenses. We propose that the following modified definitions of provisions and accrued expenses are included in the Act.

Provisions are items the amount of which is estimated or the timing of which is uncertain; whereas in case of accrued expenses, the amount payable is certain and the due date is specified in the agreement (e.g. a service has been rendered for which the entity has not yet received an invoice).

In addition, we propose to move away from (waive) the names "accrued expenses" and "provision" in the context of employee benefits. The issue of employee remuneration and what is therefore included in the liabilities is referred to as employee settlement benefits, which should be a separate item/line in short-term and long-term liabilities. In addition, we suggest that all employee benefit arrangements should be included in a dedicated mandatory standard (horizontal; we suggest that the standard should be similar to IAS 19 and IFRS 2 for cash-settled share-based payment transactions when they are a liability) and that all employee-related issues should be removed from NAS 6.

We also propose that obligations concerning employee benefits, as well as the manner in which such benefits are created and settled, be settled at the level of the Act, taking into account the present value of the benefit to the employee for work already performed by this employee. Our proposed provision should include guidance that an entity recognises employee benefits in the period in which the service is performed and recognises a liability at the end of the period at present value that reflects the stage (to the extent) of the service performed by the employee. The scope of the provision should cover both short-term benefits such as remunerations and paid leaves and long-term benefits such as anniversary awards, pensions, as well as cash-settled share-based payment issues. We also suggest that employee benefit costs should be identified in the income statement as operating expenses (employee benefit costs), while for significant credits or charges, e.g. related to effects/resulting from changes in actuarial assumptions that have a material impact on the value of these benefits, they can be identified as other operating revenue/expenses.

Definitions and specific guidelines for actuarial assumptions should be introduced at the standard/regulation level.

As a result of these changes, it may be necessary to update the balance sheet template by adding to liabilities items of employee benefits broken down into short-term and long-term.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

- Supplementing the provisions of the Act and updating the balance sheet template from the appendices to the Act
- Modifying the provisions of NAS 6
- Developing a new employee benefits standard

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☒Developing a new Standard/Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.14.3. Measurement of discounted provisions

- Measurement of discounted provisions/Low (6.8.58.)

Reference to a legal act

The method of measurement of provisions is regulated in Article 28(1)(9) of the Act.

Summary (synthetic) description of the problem

Provisions are measured in accordance with the Act at a reasonable and reliably estimated value. However, the Act does not address the issue of discounting (taking into account the time value of money). On the other hand, this issue is clarified in NAS 6.

Recommendation

a. **Description of proposed change**

We propose to transfer the provisions on taking into account the time value of money (discount) in the measurement of provisions from NAS 6 to the Act level, while the provision should be general (e.g. when accounting for provisions or long-term settlements, the time value of money is taken into account, except for deferred tax liabilities. The effects of changes in the value of the provision resulting from the passage of time or changes in the discount rate are recognised in the profit and loss account.).

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Transfer of the aforementioned provisions regulations from NAS 6 to the Act.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions

☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.14.4. Restructuring the terminology of provisions between the Act and NAS 6

- Restructuring the terminology for provisions in the Act and in NAS 6: onerous contracts/Low (6.8.59.)

Reference to a legal act

Recognition of provisions by entities for certain or highly probable future liabilities is governed by Article 35d of the Act.

Summary (synthetic) description of the problem

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.

Yet, the provisions in NAS 6 fail to clarify whether indirect costs are to be considered in the assessment of onerous contracts.

Recommendation

a. **Description of proposed change**

We would like to propose to change the term present in the Act "losses on business transactions in progress" to the term in the NAS "onerous contracts" in order to be coherent with the terminology used in International Accounting Standard 37: Provisions, Contingent Liabilities and Contingent Assets ("IAS 37") and in practice.

At the same time, we suggest that principles coherent with International Accounting Standard 37: Provisions, Contingent Liabilities and Contingent Assets be introduced in NAS 6 to include indirect costs in the analysis of onerous contracts. Assuming that we supplement NAS 6 with the possibility to include indirect costs when recognising provisions and apply the recommended principle so that standards become mandatory, it is not necessary to regulate this issue in the Act.

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Update of the indicated regulations on provisions in NAS 6.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☒Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.14.5. Other operating income and costs

- Imprecise definition of "other operating costs and income": recognition of provisions/Medium (6.8.66.)
- Categories of operating revenue and expenses recognised as other operating income and costs/Medium (6.8.67.)

Reference to a legal act

Article 3(1)32 of the Act contains the definition of other operating costs and income.

In addition, Article 34(5) describes the recognition of impairment losses on tangible current assets.

Summary (synthetic) description of the problem

Under the Act, impairment of tangible current assets, including allowances resulting from measurement at net realisable values, are recognised as other operating costs. Such costs are directly associated with an entity’s operations and, thus, their inclusion in other operating costs instead of operating expenses distorts the “profit/loss on sales”.

Recommendation

a. Description of proposed change

Since impairment of inventories and fixed assets, in principle, affect operating expenses, its effects shall affect the same lines in the income statement that are affected by the realisation of a given asset, i.e. in the case of fixed assets it shall affect depreciation and in the case of inventories it shall affect their disposal, except in the case of fortuitous events.

We suggest that there should be a provision in the Act which could read as follows: Impairment losses on property, plant and equipment and inventories are recognised in expenses by nature (in those items in which the effects of realising the asset are recognised), except for impairment as a result of fortuitous events.

Specific regulations concerning, among others, examples of fortuitous events should be concluded at the mandatory standard (e.g. in the form of a regulation) of NAS 4 “Impairment of Assets”.

In our opinion, bad debt allowances (for receivables) should be classified as before as other operating income/costs.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

- Modifying the provisions of the Act
- Modifying the provisions of NAS 4

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines

☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.15. Taxes

3.15.1. Disclosures of deferred tax

- Disclosures of deferred tax/Medium (6.3.10.)

Reference to a legal act

Currently, the Act requires an entity to disclose in the notes the reconciliation of the difference between the income tax base and the gross profit or loss– as described in Appendix 1, Notes, paragraph 2(6).

Summary (synthetic) description of the problem

The Act as it currently stands requires only the reconciliation between the income tax base and the gross profit or loss – such limited disclosure does not allow users of financial statements to understand the basis of assessment of deferred tax assets and liabilities, analyse the reasons for deviations of the effective tax rate or know the value of tax losses to be settled in subsequent periods.

Recommendation

a. **Description of proposed change**

In order to increase the useful value of financial statements for the user (in the area of taxation), we recommend that the following mandatory disclosures be included in the dedicated income tax standard (currently NAS 2) or the mandatory disclosures in the standard (planned to be created) concerning the layout and content of financial statements:

(i) a numerical reconciliation of the tax charge and the product of the gross profit or loss and the applicable tax rate in such a way as to enable an understanding of the nature of the individual amounts affecting the difference;

(ii) the value of major/significant temporary differences (carrying amount and tax value);

(iii) the value of tax losses to be settled in subsequent periods.

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Accounting Act or proposed standard for the layout and content of financial statements (depending on the decision to create the proposed standard).

Clarification of the disclosures in NAS 2.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☒Developing a new Standard/Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.15.2. Absence of regulation for other tax charges

- Absence of regulation for other tax charges/Medium (6.8.37.)

Reference to a legal act

No reference regulation.

Summary (synthetic) description of the problem

There are currently no regulations in the Act regarding the accounting of tax burdens (and similar ones) such as e.g. trade tax, sugar tax, asset tax, road fee, excise duty, Developer Guarantee Fund, supervision fees, etc. Users have doubts as to the nature of these charges – i.e. whether they are charges of an income tax or a cost tax nature or whether they constitute a reduction of revenue.

Recommendation

a. **Description of proposed change**

We propose to introduce a new provision at the level of the Act stating that public-law and similar charges are recognised and presented as a reduction of revenues, expenses or income tax, depending on the nature of such charges.

In addition, at the level of specific regulations (i.e. extensive NAS 2 or an additional developed standard), we suggest introducing a definition of turnover tax, income tax and cost tax (whereby the cost tax would be charges that do not meet the definition of income tax or turnover tax), as well as guidelines on the recognition and settlement of these taxes.

Reasons:

Completeness of guidance on the recognition of tax burdens of various types.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Accounting Act as part of the definitions chapter and NAS 2, subject to the following reservation: currently, there is a statement of position on turnover taxes in the development of the Accounting Standards Committee. Once publicly available, it is necessary to consider how the guidelines resulting from this statement of position should be implemented in the context of planned changes in the structure of accounting regulations in Poland. One option would be to update NAS 2, but consider changing the name of NAS 2 to e.g. including taxes in the financial statements.

In addition, it is also necessary to clarify the regulations on cost taxes (presented as Taxes and fees line in the income statement by category), which could also be supplemented by NAS 2 (after changing the name and remit). Issues to be settled for such taxes are when they are recognised as a liability and how they are accounted for.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☒Developing a new Standard/Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.15.3. Tax credits

- Tax credits/Medium (6.8.61.)

Reference to a legal act

Recognition of deferred tax assets and liabilities is regulated in Article 37(1), (4) and (5) of the Act.

The concept of tax credit and investment premium are introduced in Chapter II item 2 of NAS 2.

Summary (synthetic) description of the problem

The Act does not specifically refer to tax credits in the context of recognition of deferred tax assets and liabilities. Such reliefs occur e.g. in special economic zones or when research and development tasks are performed ("R&D Relief").

Recommendation

a. Description of proposed change

- We recommend supplementing the provisions concerning the definition of deferred tax asset by supplementing the provisions of Article 37(4) of the Act on unused tax credits and investment premiums: "4. Deferred 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, **unused tax credit and the investment premium** determined in accordance with the prudence principle."
- We recommend to also reformulate the contents of NAS 2 in terms of definitional coherence (naming) and recognition of investment premiums and tax credits.

<u>Reasons:</u>

It is necessary to supplement the definition of deferred tax assets with the items in NAS 2 in order to ensure coherence and completeness of regulations.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

- Accounting Act – Article 37.4

- Introducing editorial changes to NAS 2

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.15.4. Offsetting deferred tax assets and liabilities

- Offsetting deferred tax assets and liabilities/Medium (6.8.62.)

Reference to a legal act

Offsetting deferred tax assets and liabilities is governed by Article 37(7) of the Act.

Summary (synthetic) description of the problem

The Act as it currently stands allows an entity to choose how to present deferred tax where the offsetting criteria are met, which results in an incoherent approach to this issue among the entities.

Recommendation

a. Description of proposed change

We recommend adding a provision stating that entities are obliged to offset deferred tax assets and liabilities when an entity has the right to settle the current income tax on a net basis.

Therefore, Article 37(7) should be modified to provide that if an entity has the right to settle current income tax on a net basis, it is obliged to offset deferred tax liabilities and assets.

Reasons:

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 choice. This has led 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). The proposed solution is also coherent with the requirements of International Accounting Standard 12: Income Tax ("IAS 12").

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

- Change to the Accounting Act – Article 37(7)
- Introducing similar changes to NAS 2

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.15.5. Change of tax status

- Change of tax status/Medium (6.8.63.)

Reference to a legal act

No regulation.

Summary (synthetic) description of the problem

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.

Recommendation

a. **Description of proposed change**

Recommendation unfounded at this stage of work.

b. **Reasons if no changes are made to a given problem area (if any)**

The above issue has already been addressed in the form of an update of NAS 2 ("income tax") – as a result of the work on the revised version of NAS 2, which in its changed form will be presented for public discussion shortly.

c. **Indication of the location in the relevant legal act and where in the structure**

Not applicable.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions

☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☒Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.15.6. Recognition of deductible tax loss

- Recognition of deductible tax loss/Medium (6.8.64.)

Reference to a legal act

The measurement of deferred tax assets is regulated in Article 37(4) of the Act.

Summary (synthetic) description of the problem

Under Article 37(4) of the Act, deferred 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 allowance for impairment. These divergent formulations may raise interpretation concerns regarding the presentation of a deferred tax asset in gross value (i.e. before allowances) vs net (i.e. after allowances).

Recommendation

a. Description of proposed change

In view of the above concerns, we propose to reconsider **at the level of NAS 2** which of the two options described below regarding the method of recognition of deferred tax assets should be applied. Once the decision is taken, the current regulations of Article 37(4) should be clarified by clearly specifying the method of recognition of deferred tax assets.

- Option 1: a method similar to IAS 12, i.e. recognition of deferred tax assets on a net basis (i.e. net of any allowance) corresponding to their recoverable amount – an asset is recognised only if the criteria of probability of recovery (our preferred option) are met.

- Option 2: US GAAP approach: full recognition of deferred tax assets with possible recognition of allowance on non-recoverable part (and disclosure of those values in the notes to the financial statements).

<u>Reasons:</u>

Clarifying the provisions.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Supplementing Article 37(4) of the Act and amending NAS 2 in accordance with the option chosen.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Option to choose – as described in item a above.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.16. Financial institutions

3.16.1. Filing of the annual report of investment funds with the Court Register

- Filing of annual financial statements with the court register – applies to investment funds/Medium (6.2.6.)

Reference to a legal act

Article 69 governs the obligation for the entity's management to file with the relevant court register the financial statements of the entity together with the audit report and the management report within a specified period of time.

Summary (synthetic) description of the problem

The relevant court register for investment (pension) funds is the Circuit Court in Warsaw. The file of the Circuit Court in Warsaw is not as readily available as financial statements filed with the National Court Register; therefore it is doubtful whether, in the case of investment (pension) funds, filing financial statements with the Circuit Court satisfies the obligation arising from Article 69 of the Accounting Act and whether Article 70 of the Act applies in such a case.

Recommendation

a. Description of proposed change

We propose to change the Regulation of the Minister of Finance of 24.12.2007 on specific accounting principles of investment funds (the “Funds Regulation”) as follows:

- Supplementing § 40(1) by adding a provision on the **obligation to** file annual financial statements and annual combined financial statements with separate annual financial statements of the sub-fund, together with the statutory auditor's report and a copy of the resolution on approving the annual report adopted by the approving authority **in the Register of Investment Funds**.

Reasons:

The current wording of the provisions creates difficulties of interpretation on the market. TFI (PTE) is not sure whether filing financial statements in the Register of Investment (Pension) Funds kept by the Circuit Court in Warsaw is mandatory and whether filing them in the Register of Investment (Pension) Funds releases from the obligation to publish the report in the Court and Economic monitor pursuant to Article 70(1) and (2) of the Act.

- Adding a provision allowing access to documents filed pursuant to Article 69(1) of the Accounting Act to the Register of Investment (Pension) Funds as for documents filed with the National Court Register.

Although changes to tax regulations are not the subject matter hereof, we suggest considering the following changes to the Act of 15 February 1992 on Corporate Income Tax:

- Modifying the provisions of Article 27 stipulating that the accounts of Open-Ended Investment Funds and Specialised Open-Ended Investment Funds other than those applying the principles laid down for Closed-Ended Investment Funds are exempted from the obligation referred to in Article 27(2) (i.e. filing financial statements).
- Introducing a simplification consisting in the absence of an obligation for Closed-Ended Investment Funds or Private Equity Closed-Ended Investment Funds whose investment certificates have not been admitted to official listing to prepare financial statements **in XML format**; such funds would be obliged to prepare financial statements in electronic form enabling them to be easily viewed by users and submitted in such form to the National Tax Administration pursuant to Article 27(2).

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

- Modifying the provisions of § 40(1) of the Funds Regulation
- Modifying the provisions of the Act of 15 February 1992 on Corporate Income Tax

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☒Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☒Change of other (not directly accounting-related) legal provisions*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.16.2. Information and disclosures in the financial statements of investment funds

- Selected information disclosed in financial statements and disclosures in financial statements, including 6.3.25.Financial instruments disclosures – statutory delegation/Medium

Reference to a legal act

Article 81(2)(1) governs the authorisation of the Minister competent for public finance to lay down, by way of a regulation, after consulting the President of the Polish Financial Supervision Authority, specific accounting principles for investment funds, including the principles of recognition, valuation methods, scope of disclosure and presentation of financial instruments.

Summary (synthetic) description of the problem

It is not clear whether investment funds in matters not regulated by the Funds Regulation should apply the provisions of the Financial Instrument Regulation. Indeed, there is no reference in the Funds Regulation to the Financial Instrument Regulation.

In addition, the scope of notes and disclosures in the financial statements of investment funds needs to be clarified.

Recommendation

a. Description of proposed change

We propose the following changes to the Financial Instruments Regulation:

- Adding to § 1. Scope of the regulation, the following paragraph 3:

"The provisions of the Regulation of the Minister of Finance of 12.12.2001 on specific principles of recognition, valuation methods, scope of disclosure and manner of presentation of financial instruments do not apply to entities applying regulations issued pursuant to Article 81(2)(1) and (6)(b) of the Act."

We propose to introduce to following changes the "Funds Regulation":

- Addition to paragraph 8. Notes in Appendix 1 of the Funds Regulation, concerning provisions on disclosure of the audit firm's compensation paid or due for the financial year separately for:
    a) statutory audit within the meaning of Article 2(1) of the Act on Statutory Auditors,
    b) review of half-yearly financial statements,
    c) other assurance services,
    d) tax consultancy,
    e) other services.

specifying the part of compensation covered by the Fund/Sub-Fund and the part of compensation covered by the Fund/Sub-Fund Management Company

- In order to facilitate the use of the provisions, supplement paragraph 8. Notes in Appendix 1 to the Funds Regulation, with subsections:
    - In the cases referred to in § 23(3), the fund shall disclose information on individual financial assets and liabilities measured in accordance with this provision and their value and share in the assets or liabilities of the fund as at the balance sheet date.
    - In the cases referred to in § 24(1)(2) and (3), the fund shall:

    a) Disclose a description of the measurement techniques and the extent and sources of observable and unobservable data used to measure fair value.

    b) It is required to inform the members and potential members of the fund in the financial statements of the fund of the total share of such investments in the net assets of the fund and of the risks involved.

  - In the case referred to in § 32(4), the separate annual financial statements of the sub-fund shall disclose information about the exchange rate used to convert individual items for the purpose of preparing the combined financial statements.
  - In the case referred to in § 36(3), the relevant information shall be included in the introduction to the combined financial statements, describing the reasons for including the separate financial statements of the sub-funds referred to in clause 2 in the combined financial statements.

- Supplementing § 37(1) by adding the following item to it:

3) in the case of financial statements of Open-Ended Investment Funds or combined financial statements of Open-Ended Investment Funds, the information required under other provisions in the annual and half-yearly reports referred to in Article 68 of Directive 2009/65/EC shall be attached to the financial statements as other information;

- Modifying the provisions of item 1) of Note 5 to the risk of Appendix 1 to the Funds Regulation by specifying that the level of exposure to interest rate risk is disclosed for assets and liabilities measured at fair value.

- Amending Appendix 1 to the Funds Regulation Note 7 – Repo/sell-buy back and reverse repo/buy-sell back transactions, securities lending - by clarifying the information required to disclose in case of repo/sell-buy back and reverse repo/buy-sell back transactions and securities lending transactions, including the purpose of entering into these transactions and exposures.

- Giving § 38(1)(1)(c) the following wording:

c) statements of investments and statements of changes in net assets – for at least the previous financial year, in case of information required by **Note 5, Note 6** and statements of investments comparable data are prepared only for the items in the main table specified in Appendix 1 to the Regulation;

- Adding the following wording to § 38(1)(2):

2) annual financial statements – including data for the current financial year and comparable data for at least the previous financial year. Whereas statements of investments and statements of changes in net assets – for at least the previous financial year, in case of Note 5, Note 6 and statements of investments, comparable data are prepared only for the items in the main table specified in Appendix 1 to the Regulation.

- Adding the following wording to § 38(2)(2):

2) combined annual financial statements and the separate annual financial statements of the sub-fund – comprising data for the current financial year and comparable data for at least the previous financial year, whereas with **respect to the statement of investments, comparable data shall be prepared only for items aggregated in the main table specified in Appendix 1 to the Regulation.**

- Introducing the following changes to the supplementary table (Appendix 2) for derivatives: cancellation of columns number and value at cost of acquisition and introduction of the column nominal value
- Introducing disclosure obligation regarding exceeding limits – we suggest that funds disclose exceeding of statutory limits as at the balance sheet date together with information on the nature of exceeding (active/passive) and whether corrective actions have been taken until the date of preparation of the report on exceeding limits. Alternatively, the disclosure requirement may be extended to overruns during the financial year, provided that such overrun lasted more than 6 months.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Modifying the provisions of the Funds Regulation and the Financial Instruments

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☒Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.16.3. Additional issues related to fair value measurement for investment funds

- Additional issues related to fair value measurement for investment funds

Reference to a legal act

§ 24. 1. The Funds Regulation governs that a reliable estimate of the fair value of a component of investments is deemed to be the price from an active market (level 1 of the fair value hierarchy), in the absence thereof – the price obtained using a measurement model where all significant inputs are observable directly or indirectly (level 2 of the fair value hierarchy), and in the absence of both of the above – the fair value determined using a measurement model based on unobservable data (level 3 of the fair value hierarchy).

Summary (synthetic) description of the problem

The guidance on fair value measurement in investment funds needs to be supplemented in determining the fair value of participation units, investment certificates and shares in collective investment institutions.

Recommendation

a. Description of proposed change

We propose to change the Financial Instrument Regulation and the "Funds Regulation" as follows:

- The method of determining the fair value of investment components listed on an active market (para. 24(1) of the Funds Regulation) should be supplemented by the following:

item 4) the price at which the issuer of the participation title, participation unit or investment certificate agrees to redeem provided that the price is not older than 90 days and the issuer has not withheld or significantly reduced redemptions;

item 5) quotes established by specialised entities on the basis of direct brokerage transactions and transactions on regulated markets, which individually cannot be considered an active market, but cumulatively, given the volume and frequency of direct transactions and on regulated markets, an instrument can be considered as actively traded.

- Supplementing § 2(1) of the Funds Regulation by introducing a definition of regular measurements at level 3 of the fair value hierarchy – the proposed provision could read as follows:

Through regular measurements at level 3 of the fair value hierarchy means a situation where a measurement at level 3 of the fair value hierarchy is made for 32 days during the financial year and 16 days during the half year, respectively.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Modifying the provisions of the Funds Regulation.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☒Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.16.4. Equity in funds subject to liquidation

- Equity in funds subject to liquidation/Medium (6.8.71.)

Reference to a legal act

Article 36(3) governs the method of combining components of equity in entities subject to liquidation or bankruptcy, depending on the type of entity, into one share capital (fund) and specifies that in the case of joint-stock companies and simple joint-stock companies, this capital is reduced by contributions due to equity and own shares, unless they have been contributed.

Summary (synthetic) description of the problem

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 (fund) as at the start date of liquidation or bankruptcy. This issue is not addressed by the regulation on the liquidation procedure for investment funds.

Recommendation

a. Description of proposed change

We propose the following changes to the Regulation of the Council of Ministers of 21 June 2005 on the procedure for winding up investment funds – supplementing Sections 7 and 14 as regards:

- Required to disclose notes; and
- Application guidance for Article 29 of the Accounting Act as regards the provision for decommissioning costs, including cases where the liquidation costs are fully covered by TFI;
- An indication that NAS 14 applies to matters not regulated by this Regulation and the Accounting Act;
- Providing regulation of the presentation of the fund's capital in relation to the provisions of Article 36(3) of the Accounting Act (together with the possible statutory exclusion of this provision in relation to the funds);
- Providing regulation of the timing of audit of the financial statements by the audit firm.

Reasons:

The provisions in their current wording are anachronic and have not been updated despite 2 significant changes to the accounting regulations for investment funds in 2007 and 2020 and on the occasion of the publication of NAS 14. Regulations are ambiguous, difficult to interpret and difficult to apply in practice.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Modifying the provisions of the Regulation of the Council of Ministers on the procedure for winding up investment funds.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☒Self-standing change under an existing Regulation

☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.16.5. Business combinations of investment funds

- Business combinations of funds and comparative information – additional item to chapter 6.9. Business combination and demerger transactions

Reference to a legal act

Not applicable.

Summary (synthetic) description of the problem

There are no guidelines governing mergers of investment funds, and the regulations resulting from the Accounting Act are inadequate in the context of mergers of investment funds.

Recommendation

a. Description of proposed change

We propose to introduce provisions governing mergers of investment funds – by adding to the current Funds Regulation Chapter 5a on mergers of investment funds. We propose to introduce the following principles:

- In the event of a business combination of two sub-funds within one investment fund with separate sub-funds, the financial statements of the acquirer fund as at the date for the end period for which the financial statements are prepared shall include the financial data of the acquirer fund and the financial data of the fund ceasing to exist for the same period from the date of the business combination. At the same time, comparable data of the acquirer fund do not need to be transformed. In addition, the financial statements of the acquired fund for the period from the beginning of the financial year to the date of the business combination are added to the combined financial statements of the investment fund with separate sub-funds (comparable information for the entire semi-annual or annual period, respectively).

- In addition, the consolidated financial statements would require disclosure of information on (i) exchange parity of entities/investment certificates and (ii) value of entities/investment certificates of the combined funds as at the business combination date.

- In the case of business combinations of two independent investment funds, disclosure of information on the lack of comparability of comparable data of the acquirer fund and information on the exchange parity of entities/investment certificates and the value as at the date of business combination/investment certificates of the merged funds would be required.

Reasons:

There is no guidance in the current legislation on the accounting for mergers of investment funds. The provisions of the Accounting Act treating business combinations (under common control or not) do not adapt to the nature of business combinations of investment/pension funds. As business combination of funds is quite common, this should be made explicit in the legislation.

The solutions proposed above may deviate from the acquisition method and a method based on carrying amount proposed in the general regulations – however, they more usefully govern the financial reporting of funds, given the fragmented nature of shareholders and the methods used for valuing assets and liabilities by investment funds.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Modifying the provisions of the Funds Regulation.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☒Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions

☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

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

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

Reference to a legal act

Article 49(2) governs the contents of an entity's management report by requiring material information about the entity's assets, financial position, risks and other relevant aspects of the entity's operations.

Summary (synthetic) description of the problem

In addition to the provisions of Article 49(2) of the Act, analogous regulations for Alternative Investment Funds (“AIFs”) (Alternative Investment Companies – “ASIs”) 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.

Recommendation

a. **Description of proposed change**

We propose that the Act should make it clear that the scope of disclosures in the management report for AIFs (AICs) and insurance company is exhaustively regulated by the sector-specific standard/ regulation, indicating that the guidance (other than that governing the scope of disclosures) on the preparation of the management report contained in National Accounting Standard 9: Management Report (“NAS 9”) is valid.

<u>**Reasons:**</u>

The current wording of the provision raises interpretation doubts.

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

- Modifying the provisions of the Act – Article 49(2)
- Modifying the provisions of the Regulation of the Minister of Finance on specific accounting principles of insurance and reinsurance companies and the Funds Regulation

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.16.7. Financial statements templates for financial institutions

- Financial institutions templates/Medium (6.3.3.)
- Template of financial statements for insurers/High (6.3.4.)

Reference to a legal act

Article 46(5) provides that the balance sheet should contain certain information depending on the type of entity and this information is specified in the Appendices to the Act, depending on the category of entity, such as banks, insurance companies, micro entities, small entities and public benefit organisations.

Appendix 3 to the Act governs the scope of information disclosed in the financial statements of insurance and reinsurance companies.

Summary (synthetic) description of the problem

Chapter 5 of the Accounting Act sets out the templates of the core statements (balance sheet, profit and loss account, cash flow statement, statement of changes in equity) and the scope of the notes (introduced and additional explanatory notes)
For some entities, doubts arise whether the template 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.
Similar doubts are valid for the profit and loss account and the cash flow statement.

Moreover, the scope of information to be reported in financial statements as set out in Appendix 3 to the Act requires restructuring; the part on investments, receivables and liabilities is over extensive. On the other hand, inward and outward reinsurance receivables (liabilities) that are of completely different business nature are recognised as one item.

In the technical (general) account, the part concerning returns on investment is also over extensive, and separation of realised profit or loss from returns on investment is unintuitive.

The scope of the notes required for insurance companies also needs to be harmonised.

Recommendation

a. Description of proposed change

We propose the following changes **to the Regulation of the Minister of Finance on specific accounting principles of insurance and reinsurance companies**:

1) An indication of the obligation to present the reinsurer's share of reserves and estimated recourses and recoveries in assets, and a change in the line items relating to receivables and liabilities to subordinated entities to receivables and liabilities to related entities to ensure compliance with the Directive.

<u>Reasons:</u>

Harmonisation with the Directive

2) Abolishing the obligation to include technical accounts drawn up by accounting group and class in the financial statements, while maintaining the obligation to draw up such accounts for statistical reporting purposes and introducing the obligation to include information on premiums, indemnities, acquisition costs broken down by accounting group and class in the notes.

Alternatively, we suggest: exclusion of technical accounts drawn up by accounting group/class from the definition of core statements, with the obligation to draw up them and to attach them to the financial statements as part of the notes.

Reasons:

The insurance industry is the only one where regulations sometimes require more than 30 "primary statements" to be prepared. This results in a lack of legibility of the information provided to stakeholders.

3) Providing regulation of the recognition of non-proportional reinsurance contracts and reinsurance contracts settled on the basis of the so-called accounting year or calendar year

Reasons:

The current regulations do not sufficiently govern the recognition of non-proportional reinsurance and those settled in a manner other than based on the underwriting year. In practice, there are 3 main methods of settling reinsurance contracts:

i) Underwriting year
ii) Accounting year
iii) Calendar year.

The current regulations are not suitable for proper presentation of non-proportional contracts and those settled in a manner other than based on the underwriting year.

4) Supplementing Appendix 4 and 5 – item 1, Introduction to the financial statements of an insurance or reinsurance company, by adding the following item based on the provisions applicable to entities covered by Appendix 1 to the Accounting Act: "discussion of adopted accounting principles (policies), including valuation methods of assets and liabilities (including depreciation and amortisation), determination of the profit or loss and manner of preparation of financial statements to the extent that the Act leaves the entity a choice."

Reasons:

Insurance companies are the only industry where discussion of the adopted accounting principles (policies) is not explicitly and literally required to be disclosed in the relevant regulation and is consequently not included in the XML scheme.

5) Transfer of item: information on the compensation of the statutory auditor or entity authorised to audit financial statements paid or due for the financial year …, from the introduction to the financial statements to the notes, similar to other entities. Refers to Appendices 4 and 5.

Reasons:

Insurance companies are the only industry in which the required disclosure of the audit firm's compensation is presented in the introduction to the financial statements.

6) We propose to modify § 53 and § 58(4). The Regulation of the Minister of Finance on specific accounting principles of insurance and reinsurance companies, worded as follows:

§ 53. An integral part of the financial statements of an insurance or reinsurance company is the notes to the financial statements of an insurance or reinsurance company, prepared in accordance with Appendix 4 to the Regulation. **The notes are prepared within the scope referred to in Appendix 4 is sufficient and subject to item II. 10) and 18) of Appendix 4, the information and explanations required by Appendix 1 of the Act do not apply to financial statements prepared by insurance companies.**

§ 58(4). The notes to the consolidated financial statements of the group of companies should take into account the scope of information specified in Appendix 5 to the Regulation. **Appendix 6 the Regulation of the Minister of Finance of 25.09.2009 on specific principles of preparation of group consolidated financial statements by entities other than banks or insurance or reinsurance companies and the information and explanations required by Appendix 4 to the Regulation do not apply.**

Reasons:

The absence of such unambiguous provisions causes differences in interpretation and incoherences in the preparation of financial statements in the industry, especially with respect to consolidated financial statements.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

- Removing a specific provision from the Act and introduce guidelines at the level of the standard planned to be created regarding the layout and content of financial statements in place of the currently existing Appendix 1 to the Act
- Modifying the provisions of § 53 and § 58(4) of the Regulation of the Minister of Finance on specific accounting principles of insurance and reinsurance companies

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Since we propose two alternative options for one of the areas for discussion, at a later stage of the Project one of them should be selected as preferred.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act

☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☒Developing a new Standard/Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.16.8. Indirect method for insurance companies

- Indirect method for insurance companies/Medium (6.3.24.)

Reference to a legal act

Article 48b – governs the preparation of the cash flow statement, which may be prepared either applying direct or indirect method, depending on the choice of the entity's management, and specifies the required information and appendices to the cash flow statement for different types of entities, such as entities other than banks, banks, insurance and reinsurance companies;

Appendix 3 – scope of information disclosed in the financial statements of insurance and reinsurance companies.

Summary (synthetic) description of the problem

For insurance companies, the Act does not permit any method for preparing cash flow statements other than the direct method.

Recommendation

a. Description of proposed change

Not applicable.

b. Reasons if no changes are made to a given problem area (if any)

Based on input from key stakeholders, we are waiving any changes in this area. From the point of view of the PFSA Office representatives, it would not be reasonable to allow a method of preparing the cash flow statement other than the direct method.

c. Indication of the location in the relevant legal act and where in the structure

Not applicable.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☒Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.16.9. Measurement of investments in insurance companies

- Measurement of investments in insurance companies/Low (6.8.16.)

Reference to a legal act

Article 30(5) governs that life insurance companies and reinsurance companies engaged in life reinsurance business shall recognise exchange gains and losses on investments to cover technical provisions, as investment income or cost, and disclose them in the technical account of life insurance.

Summary (synthetic) description of the problem

The provision states that all exchange gains and losses on investments to cover technical provisions are presented in the technical account whereas fair value revaluation, in some cases, is included in the revaluation capital.

Recommendation

a. **Description of proposed change**

We propose to transfer the provisions of the Act, including Article 30(5), relating strictly to insurance companies, to the Regulation of the Minister of Finance on specific accounting principles of insurance and reinsurance companies, and to regulate that the exchange gains and losses in the part not related to depreciated cost is an integral part of revaluation to fair value and should be recognised as revaluation to fair value of a given instrument.

Reasons:

The application of the provision in its current wording, which is used literally, leads to an incoherence in that the change in fair value resulting from the exchange gains and losses is presented as a result, while in the remainder, in some cases, in revaluation capital.

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Transfer of the provisions of Article 30(5) of the Act to the Regulation of the Minister of Finance on specific accounting principles of insurance and reinsurance companies and change of the rule of presentation of exchange gains and losses in the part not related to depreciated cost, in accordance with the recommendation above.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.16.10. Measurement and income from investments in insurance companies

- Measurements of deposits and other investments in insurance companies/Low (6.8.17.)
- Income on investments in insurance companies/Medium (6.8.73.)

Reference to a legal act

Article 30(6) governs that exchange gains and losses on investments covering technical and underwriting reserves in the part thereof referring to the investment of capitalised pension value funds, as well as reserves for bonuses and rebates for the insured , non-life and personal insurance companies and non-life and reinsurance companies are recognised in the deposit activity revenues or costs and shown in the technical personal and property insurance account..

Article 44(2) governs the calculation of the technical result of insurance, which is the difference between the revenue and expenses of an insurer, taking into account certain exceptions, such as investing funds to increase technical provisions or for life insurance and reinsurance companies, where these operations are taken into account separately.

Summary (synthetic) description of the problem

This provision of Article 30(6) 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").

In addition, the provision of Article 44(2) seems ambiguous for some users and may result in discrepancies in interpretation of the provision of Section 22(2) and Section 25(2) of the Insurer Accounting Regulation. It is not specified that returns on investments, including unrealised revenue, which is used to set the technical rate is presented in the technical account.

Recommendation

a. **Description of proposed change**

1) We propose to transfer the provisions of the Act, including Article 30(6), regarding pure insurance companies to the Regulation of the Minister of Finance on specific accounting principles of insurance and reinsurance companies.

We propose to introduce into the Financial Instrument Regulation the rule that the exchange gains and losses in the part that does not relate to depreciated cost is an integral part of revaluation to fair value and should be recognised as the revaluation to fair value of a given instrument (this issue has also been addressed in recommendations on financial instruments).

Reasons:

All sector-specific entries should be included in a dedicated sector/industry-specific regulation/standard. Moreover, the current provision raises difficulties in practical application in the case of instruments denominated in foreign currencies and measured at fair value, which involves unbundling the change in fair value resulting from a change in the exchange rate and the measurement of the instrument itself in a foreign currency.

2) We propose to change the Insurer Accounting Regulation by modifying the provisions of Chapter 3 of the Regulation by adding paragraph 6 to § 22 of the Regulation as follows: "Portfolio investments on the basis of which the applicable technical rate is determined shall be deemed to be taken into account upon determining the amount of technical provisions".

Reasons:

The current provision is worded in ambiguous terms and raises important questions of interpretation.

3) Modifying § 19(1)(2) "Financial assets held for trading and financial assets available for sale when the fair value cannot be reliably established:

a) financial assets with fixed maturity – at amortised cost less impairment losses),
b) in cases other than those referred to in item a – at cost of acquisition.

Reasons:

If an entity is able to determine an impairment loss, i.e. it has sufficient information to determine fair value, then valuation at cost of acquisition less impairment is internally contradictory.

4) Taking into account in Section 19(4) items provided for in § 1(25) of the Project of 8 December 2022 Regulation of the Minister of Finance amending the Regulation on specific principles of recognition, valuation methods, scope of disclosure and manner of presentation of financial instruments.

Reasons:

Harmonising sector-specific and financial instruments legislation and update the provision, which is obsolete in its current form and does not take into account current knowledge on asset impairment.

5) Deletion of § 21 of the Regulation.

Reasons:

Neither the balance sheet of insurance companies nor the notes show a distinction between short and long-term investments.

6) Regulating the division of investments into portfolios

We propose that the insurance company divides the assets covering technical and underwriting provisions into portfolios taking into account the following factors:

- nature and character of the reserves they cover,
- product,
- policy activation date,
- expected dates of realising the reserves.

In addition, we recommend that the insurance company keeps documentation allowing to link specific investments to the portfolio and taking into account inclusion criteria, exclusion of investments to individual portfolios and conditions under which investments can be transferred between portfolios or between the portfolio and free funds.

We propose that the technical rates referred to in the chapter on measurement and principles of recognising provisions technical provisions should be set at the portfolio level.

Reasons:

In practice, insurance companies divide assets covering provisions. This division determines the value of net returns on investments transferred from the general profit and loss account to the technical non-life insurance account and from the technical life insurance account to the general profit and loss account. In addition, it affects the amount of the technical rate used to calculate technical reserves and the shares in profits due to the insured persons. The lack of regulation in this respect, at least in accounting matters, leaves some freedom and room for manipulation.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

- Transfer of the provisions of Article 30(6) of the Act to the Regulation of the Minister of Finance on specific accounting principles of insurance and reinsurance companies

- Modifying the provisions of the Regulation of the Minister of Finance on specific accounting principles of insurance and reinsurance companies, including supplementing the provisions of § 19 and deleting the provisions of § 21

- Supplement the provisions of the Financial Instrument Regulation

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☒Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.16.11. Valuation of real estate in insurance companies

- Valuation of real estate in insurance companies/Low (6.8.19.)

Reference to a legal act

Article 28(9) governs the measurement of investments, the risk of which is borne by the policyholder, and specifies that differences between fair values and acquisition costs affect life insurance provisions, as well as the valuation of real estate and foreign financial instruments, and if it is not possible to determine the fair value of other investments, their measurement is carried out at costs less impairment, except for financial instruments with a definite maturity date, which are measured at amortised cost less impairment.

Summary (synthetic) description of the problem

The provision above seems to be obsolete; the current wording of the provision reads that the fair value of real estate 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.

Recommendation

a. **Description of proposed change**

We propose to transfer the provisions of the Act, including Article 28(9), relating strictly to insurance companies, to the Insurer Accounting Regulation.

We also propose to delete from the Act the provision of Article 28(9) concerning the valuation of real estate constituting an investment, the risk of which is borne by the policyholder, “the fair value of real estate is determined by a property appraiser at least once every 5 years. “and the provision of Appendix 4 – item II 1.b) of the Insurer Accounting Regulation “... with respect to investments in real estate, the fair value of real property is measured at least once every 5 years,”

Reasons:

The current wording of the cited provisions sets a precedent to which managers of insurance companies refer and price real estate once every 5 years, including for Solvency II purposes. In addition, in today's dynamic times, disclosure of the fair value of real estate determined 4 to 5 years earlier may distort the information provided to stakeholders in the notes.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

- Transfer of the provisions of Article 28(9) of the Act to the Insurer Accounting Regulation
- Removing the provision on valuation of real estate being an investment from the Act

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.16.12. Reserves in insurance companies

- Reserves in insurance companies/Low (6.8.72.)

Reference to a legal act

Article 38(1) governs the obligation for insurance companies to recognise as operating costs changes in technical and underwriting reserves which should ensure full coverage of current and future liabilities that can arise out of insurance and reinsurance contracts..

Summary (synthetic) description of the problem

Provisions are recognised for future liabilities; the above reserves do not mention that this is for the purposes of meeting the obligations under insurance contracts.

Recommendation

a. **Description of proposed change**

We propose to supplement the provision of Article 38(1) and (1a) so as to make it clear that insurance companies recognise as operating costs changes in technical reserves created to meet obligations arising from insurance contracts or accepted reinsurance contracts, while deleting from the existing provisions the provision stating that technical provisions are created to cover current and future liabilities.

Reasons:

In view of the planned change in the definition of provisions other than technical provisions, the current wording eliminates the risk of overinterpretation that provisions are created for future liabilities.

We propose the following changes to the Insurer Accounting Regulation:

1) Introducing a mandatory liability adequacy test as at the balance sheet date similar to International Financial Reporting Standard 4: Insurance Contracts ("IFRS 4"). If it is found that provisions are insufficient, the obligation to increase the relevant provisions to a sufficient level, i.e. to recognise/increase a provision for unexpired risks in the event of finding that the premium provision is insufficient, to increase the provision for outstanding claims in the event of finding that the provision is insufficient in this respect, to increase the provision for life insurance in the event of finding that the provision is insufficient.

Reasons:

The current regulations do not require such a test, which creates the risk that provisions created according to the method/technique used so far and under the assumptions made so far may not be sufficient.

2) Introducing a mandatory disclosure of the impact on the measurement of provisions/activated costs of the change in the estimation method/technique, the impact of a material change in assumptions, together with a reasons for the change. In Sections: 33(1)(2b), (2)(2b), (47)(1) shall be worded as follows: unwarranted changes in the size of the index are unacceptable/unwarranted changes in the principles, methods and assumptions are unacceptable.

3) We recommend adding: Changes in the size of the ratio/changes in the principles, methods and assumptions without which the estimated provision would be significantly understated or materially distorted are considered justified.

Reasons:

The current regulations do not require such disclosures and are imprecise what circumstances justify changes in parameters etc.

4) Introducing definitions of actuarial methods;

Reasons:

The term “actuarial methods” appears many times in the provisions of the Insurer Accounting Regulation and is not defined, which raises interpretation difficulties as to which methods should be considered actuarial.

5) Providing regulation of the issue of measurement of the provision for unexpired risks, including what costs are taken into account and its presentation – before or after compensation with capitalised acquisition costs;

   We propose to make it clear that if circumstances arise which make it necessary to recognise a provision for unexpired risks, it is recognised in the first step as deferred acquisition costs related to products to which the provision for unexpired risks applies and only the surplus is presented as a supplement to the provision for premiums.

Reasons:

The provision for unexpired risks is treated very laconically in the regulations and gives high interpretation discretion.

6) Introducing the concept of revision of pensions and guidelines on calibration of this assumption;

   We propose defined terms of pension review – as a significant parameter of the provision for the capitalised value of pensions.

   Revision of the amount of pensions is a parameter that reflects the expected increase of the pension benefit other than contractually agreed and takes into account economic factors, including inflation, increase in salaries, increase in care and nursing costs, increase in costs of medical and non-economic services, including the legal environment and case law, and deterioration of the recipient's health. When accepting the assumption of revision of the amount of pensions, the insurance company takes into account the history of pension liquidation to date and credible expectations of future factors. The rate of revision of pensions is determined separately from the technical rate.

Reasons:

An issue not regulated by law.

7) Providing regulation of the issue of recognising provisions for indirect costs of claims adjustment;

Reasons:

The current regulations do not govern this issue, there is a lot of freedom in practice in this area, the results are not comparable.

8) Providing regulation of the measurement of deferred reinsurance commissions;

   We propose to introduce the following provisions:

   i) In section II insurance, reinsurance commissions accrued in the reporting period in the part attributable to future reporting periods are settled over time, in accordance with the principles applicable when recognising provisions for the premium provision for the respective reinsurer's share of the premium provision.

   ii) In section I insurance, reinsurance commissions accrued in the reporting period in the part attributable to future reporting periods are settled over time, in accordance with the principles applicable when activating acquisition costs of risks to which the reinsurance commissions relate.

9) Providing regulation of the issue of deferred acquisition costs other than commissions.

   We propose to introduce a definition of deferred acquisition costs indicating that incremental acquisition costs are deferred.

   The definition could be formulated as follows: Incremental acquisition costs are costs incurred by an insurance company to obtain a contract with a customer that the entity would not have incurred had the contract not been entered into.

Reasons:

The current regulations do not govern which acquisition expenses may be deferred and the practice differs.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

- Supplementing Article 38(1) of the Act with provisions on the recognition of technical provisions
- Modifying the provisions of Section 33(1)(2b), (2)(2b), 47(1) Insurer Accounting Regulation
- Supplementing the Insurer Accounting Regulation with provisions on:
  - mandatory liability adequacy test;
  - definition of actuarial methods;
  - specific methods of recognising provisions for indirect damage adjustment costs;
  - the concept of revision of pensions and guidelines for calibration of this assumption;
  - measurement of deferred reinsurance commissions;
  - the issue of deferred acquisition expenses other than commissions, including the introduction of definitions of deferred acquisition expenses.
- Clarification of the provisions of the Insurer Accounting Regulation regarding the provision for unexpired risks

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☒Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.16.13. Impairment of premium receivable

Reference to a legal act

§ 2. 1. 15) Insurer Accounting Regulation governs the manner in which premiums are identified by insurance companies, while Article 35b governs the impairment of receivables.

Summary (synthetic) description of the problem

Due to the specific nature of unit-linked insurance, the identification/recognition of premium should not affect the result by itself. Premium collection is offset by recognising a provision for life insurance when the investment risk is borne by the policyholder, in correspondence with a corresponding change in the provision in the technical account of insurance. In the absence of premium collection and consequently no premium allocation to the net assets of life insurance, when the investment risk is borne by the policyholder, there is no right to recognise a provision for life insurance, when the investment risk is borne by the policyholder. Therefore, another operation should be performed that offsets the impact on the result of the identified premium. Insurance companies shall create:

- impairment or;
- life insurance provision.

Each of these solutions has its drawbacks:

1) Pursuant to Article 35b(1)(5) of the Act, an impairment of overdue or non-overdue receivables with a significant probability of irrecoverability is established, where justified by the type of business or the structure of recipients, in the amount of a reliably estimated amount of an impairment loss, including a general one, for irrecoverable debts. In practice, for receivables overdue by 1 day, a 100% write-down must be created, which is not in line with the facts as the vast majority of receivables are settled in 100% within a few days from the maturity date.
2) Recognition of a provision for life insurance is regulated by § 42 of the Regulation of the Minister of Finance on specific accounting principles of insurance and reinsurance companies. Life insurance provision formed as the equivalent of outstanding but unpaid unit-linked insurance premiums related to an unit trust does not reflect the essence of life insurance provision.

Recommendation

a. **Description of proposed change**

We propose that the Regulation/Standard allow the premium written for unit-linked insurance to be identified at the time of collection or otherwise explicitly address the above issue.

Reasons:

In the opinion of some stakeholders, the current regulations do not govern this issue. The approaches adopted by the entities are different and incoherent.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Modifying the provisions of the Insurer Accounting Regulation and the Funds Regulation.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) the provisions covered by the change will be indicated in the recommendation

**) details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project

3.16.14. Other issues relating to insurers

- Other general considerations for insurers

Reference to a legal act

Not applicable.

Summary (synthetic) description of the problem

Not applicable.

Recommendation

a. Description of proposed change

We propose the following changes to the Insurer Accounting Regulation:

1) Introducing a definition of insurance and reinsurance, including financial reinsurance, indicating that financial reinsurance is an agreement in which the transfer of insurance risk is not significant.

2) Providing regulation of the recognition in the account books of contracts classified as financial reinsurance and the extent of such disclosures.

Reasons:

The current regulations do not govern which acquisition costs may be deferred and the practice differs.

3) Modifying the definition of total capital contained in § 2(1)(24) of the Insurer Accounting Regulation by changing the term "total capital" to the term "sum at risk".

Reasons:

The notion of total capital is misleading.

4) Clarification of whether the records are sub-ledgers within the meaning of Chapter 2 of the Accounting Act

   We propose to introduce a provision stating explicitly that the records referred to in Chapter 2 of the Regulation are equivalent to the sub-ledgers referred to in Chapter 2 of the Act.

Reasons:

The current regulations leave interpretation doubts in this respect.

5) We propose that in the regulations on branches in the Insurer Accounting Regulation, the method of documenting the separation of the capital of the parent entity dedicated to a branch of an insurance/reinsurance company should be regulated by introducing a provision stating that the separation of the capital of the parent entity shall be deemed to take place if it is documented in the form of an appropriate resolution of the authority supervising the parent entity or the authority approving the parent entity's report.

Reasons:

The current regulations do not govern this issue.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

- Supplementing the provisions of the Insurer Accounting Regulation with:
  - definition of insurance and reinsurance contracts, including financial ones;
  - provisions on the method of documenting the separation of capital of the parent entity dedicated to a branch of an insurance/reinsurance company.
- Modifying the provisions of § 2(1) of the Insurer Accounting Regulation
- Clarifying the provisions on registers in the Insurer Accounting Regulation

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☒Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.17. Branches

- Need to regulate the accounting of foreign company branches, foreign credit institutions and foreign insurance companies/High (6.1.8.)
- Insufficient regulation of branch accounting for branches of foreign companies, foreign credit institutions and foreign insurance companies/High (6.8.50.)

- Appointment of the statutory auditor for branches/High (6.10.2.)

Reference to a legal act

Among others:

Article 3(1)(6) governs who is considered to be the management of an entity, including management board members or other managing body, partners in the case of companies, as well as liquidator, receiver, restructuring and successor manager.

Article 53(2)(b) provides that the annual financial statements of a branch of a foreign entrepreneur are deemed approved if the financial statements of the foreign entrepreneur covering the details of that branch have been approved.

Article 69(1b)–(1c) imposes the obligation to submit annual financial statements of a branch of a foreign entrepreneur by the branch manager, as well as the obligation to translate and file with the relevant court register the financial statements of a credit or financial institution operating outside the territory of Poland.

Article 36(1) provides that the entity's equity must be entered in the account books by type and in accordance with the law, the articles of association or the contract.

Article 66(4) states that the selection of the audit firm to conduct the audit of the financial statements rests with the approving body, unless otherwise provided, and that the management of an entity is not entitled to appoint the auditor.

Summary (synthetic) description of the problem

The definition of the entity's management fails to address the specificities of branches. When applied to foreign company branches, the above definition raises doubts about who to consider the branch management, especially where branches of financial institutions (banks or insurers) are concerned.

The definition of entity management does not indicate that a management may be a proxy, while a person representing a foreign entrepreneur in a branch usually acts on the basis of a power of attorney granted by the management board (it is not elected by the general meeting). On the other hand, common practice for many years has shown that a large part (if not the majority) of branch financial statements is signed by persons representing the branch (i.e. literally looking at the definition – by proxies), and supervisory authorities accept such action, moreover the MoF issued an interpretation that persons representing the entrepreneur in the branch can be treated as the entity's management. Failure to regulate this issue causes many practical problems, e.g. doubts arise as to who is supposed to sign financial statements, whether the provisions on statements or refusal to sign financial statements and on the form of such signatures should be applied in the same way as for other entities, etc.

In addition, the Act does not state what is meant by an approving body in the case of a foreign company branch.

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.

Recommendation

a. Description of proposed change

Article 2(1)(6) *("Provisions of the Accounting Act, hereinafter referred to as the "Act" applies, subject to paragraph 3, to branches and representative offices of foreign entrepreneurs within the meaning of the provisions of the Act of 6 March 2018 on the Principles of Participation of Foreign Entrepreneurs and Other Foreign Persons in Business Transactions within the Territory of the Republic of Poland (Journal of laws of 2022, item 470)")* does not include branches regulated by banking law and the Act on insurance activity. Therefore, we propose to supplement the fact that the provisions of the Act apply also to the main branches of insurance companies within the meaning of the Act on insurance activity and branches of foreign banks and credit institutions within the meaning of the Banking Act (in subsequent provisions, the Act refers to these entities, even though these legal forms are not listed in Article 2 as falling within the scope of the Act).

We propose to clarify the Act as regards the definition (in the glossary and with reference to other regulations, e.g. banking law) that a branch means all types of branches, i.e. a branch of a foreign company, a branch of a credit institution, a branch of a foreign bank, a branch of an insurance company, a main branch of an insurance company.

We propose to supplement the definition of the entity's management as it currently does not include e.g. branch attorneys. Proposed definition: in the case of branches, a management of an entity is understood as a representative, provided that he is seconded to this role by the relevant authority of a foreign entrepreneur. It should also be clarified that the management is responsible for signing the audit engagement and signing the financial statements.

In the context of the selection of the branch audit firm, we propose to introduce in the Act a provision stipulating that the branch audit committee shall appoint the branch's statutory auditor. If the branch does not have an audit committee in Poland, unless otherwise provided, the appointment of a statutory auditor by the parent entity shall be effective for the branch, provided that an audit firm has been appointed to audit the parent entity which meets the definition in the Act on Statutory Auditors pursuant to Article 2(14*) ("Where reference is made in this Act to: networks, this should be understood as a structure: (a) which is aimed at cooperation and to which the statutory auditor or audit firm belongs, and (b) which is aimed at profit-sharing, or costs, or that operates under common ownership relationships, or that has a common control system or management, or that has a common quality control policy and procedures, or that has a common economic strategy, or that uses a common designation or a substantial portion of resources,")*, provided that the head of the parent entity designates the audit firm from the list of audit firms within the meaning of the Act on Statutory Auditors, unless indicated. In other cases, the statutory auditor of the branch is appointed by the body approving the financial statements of the parent entity.

In the context of approving the financial statements, we propose to introduce into the Act a provision that where the financial statements of a branch have not been approved by the authority approving the financial statements of the parent entity, the approval of the financial statements of the branch shall be performed by the same entity that appointed the statutory auditor. Where the financial statements are not subject to the statutory auditor's audit, the branch's financial statements are approved by the management of the parent entity.

In the context of the presentation of equity, we suggest that in the case of branches, funds/contributions received from the head office for the operation of the branch should be recognised as core capital (fund) if established by a resolution of the parent entity, otherwise we propose that they should be recognised as liabilities and profits and losses of the branch. In addition, we propose to introduce into the Act a provision that unless otherwise stipulated (in the articles of association or in the head office agreement), the profit or loss distribution is decided by the management of the head office.

Introducing a simplification consisting in the fact that branches of foreign entrepreneurs, credit institutions, foreign bank, insurance company and main branches of insurance company (operating under various laws, including those concerning filing, approval etc. of financial statements, e.g. some companies file the financial statements of their head office, while others file their own financial statements) are exempted from the obligation to prepare and file their financial statements, and they file the financial statements of their head office to the National Court Register ("NCR") (recommendation from the PFSA Office)). However, it should be remembered that the main branches of an insurance company and branches of foreign banks are supervised by the PFSA and therefore these entities are obliged to file their financial statements.
It seems reasonable to unify in such a way that each branch should prepare its financial statements (reasonable from the point of view of the branch's obligation to pay taxes) and file them with the NCR together with the financial statements of their head office.

Therefore, the introduction of the obligation to file financial statements of the branches with the NCR should be additionally considered, as listed in Article 69(1c) of the Act ("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 in the relevant court register, 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.").

In addition, in order to eliminate any doubts as to the composition of the authority signing the audit engagement and to draw attention to the timeliness of signing this agreement, which is crucial in this provision, we recommend modifying the provisions of Article 66(5) so as to specify that “the entity management shall **ensure** that the audit engagement is signed with the audit firm **in time** to enable the audit firm to participate in the stocktaking of significant assets.”

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Supplementing and modifying the provisions of the Act, including Article (2), Article 66 and definitions (Article 3).

d. Separate statements of position, discrepancies, decisions to be taken (if any)

In the context of the obligation to file financial statements of the head office with the NCR, some stakeholders, e.g. the Polish Bank Association (“ZBP”), raised doubts as to the deadline for filing financial statements within 15 days of their approval, which is too short given the obligation to translate these financial statements. The translation of these reports can only start once they have been made available to the branches, i.e. after they have been published at the level of the head office, and the translation process itself is time consuming due to the volume of these documents. In addition, the requirement for a sworn translator to translate may represent an excessive financial burden for some entities.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.18. Other topics

3.18.1. Introduction of the term “core financial statements” (“faces”)

- Introduction of the concept of “core financial statements”/Low (6.2.5.)

Reference to a legal act

Not applicable – no specific regulation.

Summary (synthetic) description of the problem

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. Introducing such a term would facilitate communication and bring some conceptual order and make some of the provisions simpler.

Recommendation

a. Description of proposed change

We propose to introduce definitions of “core financial statements” (“faces”), including balance sheet, profit and loss account, cash flow statement and statement of changes in equity. The scope of the definition could be tailored to the type of the financial statements prepared by the entity, for example for micro-entities, by limiting the definition to the balance sheet and profit and loss account.

The proposed provision could read as follows:

Whenever the Act refers to core financial statements, this shall mean balance sheet and profit and loss account as well as, if required to do so, statement of changes in equity (fund) and the cash flow statement.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Supplementing the provisions of the Act, most likely Article 3 concerning definition.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act

☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.18.2. Disclosures of impairment losses

- Disclosures of impairment losses/Medium (6.3.18.)

Reference to a legal act

Impairment disclosures are regulated in Appendix 1 to the Act (Notes, paragraph 1(2), Section 40(7) and Section 5(1) of the Financial Instrument Regulation and Chapter XI of NAS 4.

Summary (synthetic) description of the problem

The Act requires that the impairment charge is to be disclosed only for non-current assets, which is incoherent with the scope of information required by the Financial Instrument Regulation.

Recommendation

a. **Description of proposed change**

We propose to regulate the scope of disclosures related to impairment losses at the level of individual standards and regulations, while at the level of the Act a reference to specific provisions in this respect should be provided.

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Modifying the provisions of the Act and relevant standards and regulations (including NAS 4 and the Financial Instrument Regulation).

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.18.3. Table of movements

- Table of movements for long-term investments/Low (6.3.19.)
- Comparative information in tables of movements/Medium (6.3.20.)

Reference to a legal act

The provisions in Appendix 1, section entitled Notes, paragraph 1) govern the obligation to present changes in the value of certain groups of assets, i.e. fixed assets, intangible assets and long-term investments, in particular the opening balance , decreases, increases and the closing balance. In addition, similar changes in value should be presented for depreciated assets with respect to depreciation or amortisation.

Summary (synthetic) description of the problem

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.

Moreover, the Act does not explicitly indicate whether information for the comparative period should be shown in the table of movements, with the same detail as for the current period.

Recommendation

a. Description of proposed change

We propose supplementing the provisions of Appendix 1, Notes: paragraph 1(1). The proposed provision could read as follows:

“Notes to the financial statement include the following disclosures:

1) Changes in the value of fixed assets, intangible assets and long-term investments **other than financial instruments** by class, comprising the opening balance, additions and decreases resulting from revaluation, acquisition, disposal or internal transfer, and the closing balance, and for assets subject to depreciation, a similar presentation of balances and movements in depreciation or accumulated depreciation **– in respect of the current and comparative period**”

In accordance with our recommendations in other parts of the Report, we suggest that specific disclosure regulations should be included in a dedicated standard rather than in the content of the Act.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Modifying the provisions of Appendix 1, Notes in the Act and development of a new standard on the layout and content of financial statements.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☒Developing a new Standard/Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions

☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.18.4. Disclosures regarding consolidation exemptions

- Disclosure of reasons for not consolidating/Low (6.5.11.)

Reference to a legal act

Appendix 1, Notes: paragraph 7(4)(b) and (5) govern the scope of information required from undertakings that do not prepare consolidated financial statements.

Summary (synthetic) description of the problem

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 intermediate parent entity preparing consolidated financial statements and their place of publication shall be disclosed.

It seems redundant as item (4)(a) mandates the disclosure of information on: (a) the legal basis and data supporting the decision not to consolidate whereas item (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 financial statements and the place where the financial statements are available.

Recommendation

a. Description of proposed change

We propose to remove paragraph 7(4)(b) from Appendix 1, Notes.

<u>Reasons:</u>

It seems unnecessary for the indicated disclosure requirement to be specified in the Act twice in the following items of Appendix 1, Notes, paragraph 7.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Modifying the provisions of the Act.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.18.5. Group accounting policies

- Group accounting policies/Medium (6.5.23.)

Reference to a legal act

The provisions of Article 63b(1) to (2) stipulate that entities which are included in the consolidated financial statements (inter alia, subsidiaries and joint ventures) should use valuation methods of assets and liabilities and methods of preparation of financial statements **identical to methods adopted in the accounting policy of the parent company**.

Summary (synthetic) description of the problem

In practice, the accounting policies of the parent company may not provide for the recognition and measurement policies applied by subsidiaries/affiliates operating in other industries and may not regulate intercompany or other consolidation adjustments.

Recommendation

a. Description of proposed change

We propose to introduce into the Act an obligation to prepare the group accounting policy by the management of the parent entity. The provision should state that the parent entity's management develops and adopts the group accounting and provides the management of the group members with access to these accounting policies.

In addition, we recommend introducing a provision stating that the group accounting policy:

(i) it must comply with the requirements set out in the present Articles 4 to 8 of the Act;

(ii) take into account the specific nature of particular group entities;

(iii) it must be applied uniformly by all group entities for the consolidation;

(iv) indicate how transactions of the same nature are aggregated;

(v) indicate how transactions between entities belonging to this group are identified; and

(vi) indicate the manner in which consolidation eliminations are made and other consolidation adjustments are made.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Supplementing the provisions of the Act.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.18.6. Marketing and advertising materials

- Marketing and advertising materials/Medium (6.8.3.)

Reference to a legal act

The provisions of Article 3(1)(19) define tangible current assets as materials acquired for own use, finished products (i.e. goods and services) manufactured or processed by the entity (either available for sale or work in progress), semi-finished products and goods acquired for resale in the unprocessed state.

Summary (synthetic) description of the problem

There are doubts whether marketing or advertising materials (such as samples, advertising films, billboards) represent an expense for the period (cost of services) or assets (an item of current assets or intangible assets).

Recommendation

a. **Description of proposed change**

We would like to propose extending the definition of current assets to marketing and advertising materials provided if they have a market value. We also recommend indicating the moment when such an asset would be recognized, e.g. when it is available for use to the entity.

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Modifying the provisions of the Act.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation

☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.18.7. Valuation without going concern assumption

- Measurement if no longer a going concern/Medium (6.8.8.)

Reference to a legal act

The provisions of Article 29(1) to (2) stipulate that if it is not reasonable to assume that an entity will continue as a going concern, the assets of the entity are measured at net realisable values, but not higher than their cost of acquisition or cost of manufacture, less depreciation, amortisation and impairment losses.

Summary (synthetic) description of the problem

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, i.e. whether it is possible to remeasure the value up and where such revaluation shall be recognized.

Recommendation

a. **Description of proposed change**

We recommend clarifying the provisions of the Act by introducing the term “net realisable value in liquidation conditions”. Specific guidelines, on the other hand, should be regulated in NAS 14.

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Modifying the provisions of the Act and NAS 14.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.18.8. Definitions of materiality and prudence

- Definitions of materiality and prudence/Low (6.8.9.)

Reference to a legal act

The prudence principle is referred to in Articles 7(1) and 8(1) In turn, the concept of materiality is referred to in Article 4(4)(a) in the context of the information disclosed in the financial statements.

Summary (synthetic) description of the problem

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.

At the same time, accounting regulations make little reference to the application of the materiality principle.

Recommendation

a. **Description of proposed change**

We recommend introducing a definition of materiality in the Act (which principle we understand will be described in detail in the standard on simplifications, i.e. NAS 16 "simplifications allowed under the Accounting Act" – in the preparation of the Accounting Standards Committee). In addition, we propose to introduce into the Act a provision stating that the entity management is responsible for setting materiality thresholds in the accounting policy (Materiality expressed in amounts or as a ratio, e.g.% of net assets). The specific guidelines, on the other hand, should be covered by the said NAS 16 Standard.

We propose that the provision of Article 7 of the Act on prudence be supplemented with the provisions of item 2.16 of the IAS Conceptual Framework (i.e., prudence means that assets and revenues are not overstated and liabilities and expenses are understated; similarly, prudence does not result in underestimation of assets or revenues or overstatement of liabilities or expenses).

At the same time, the conditions of recognition of provisions described in Article 35d(1) should be supplemented with the requirements described in NAS 6, item 2.2, i.e. existence of a legal obligation or a normally expected commercial/ constructive obligation.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

- Developing a new standard – NAS 16 “simplifications permitted under the Accounting Act”
- Supplementing the provision of Article 7 of the Act

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☒Developing a new Standard/Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.18.9. Market value and fair value

- Market value and fair value/ Medium (6.8.10.)

Reference to a legal act

Article 28(1)(3) refers to the concept of both fair value and market value.

Summary (synthetic) description of the problem

Article 28(1)(3) of the Act refers to both fair value and fair market value. This raises doubts about the use of the terms “market price” and “fair value” interchangeably – there are doubts as to whether market value is equivalent to fair value.

Recommendation

a. **Description of proposed change**

We propose to replace the concept of market value/ price with the concept of fair value at the level of the Act, which would be defined in detail at the level of a dedicated standard.

We also recommend considering introducing changes to the CCC, which uses the term “marketable value”. We propose to modify the provisions of the CCC concerning the measurement of the company's assets in the event of liquidation so as to replace the term “marketable value” with “net realisable value”.

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

- Modifying the provisions of the Act
- Modifying the provisions of the CCC

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation

☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☒Developing a new Standard/Regulation
☐Developing Application Guidelines
☒Change of other (not directly accounting-related) legal provisions*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.18.10. Clarifying the definition of the cost of acquisition

- Clarifying the definition of the cost of acquisition/Low (6.8.11.)

Reference to a legal act

Article 28(2) governs the cost of acquisition of an asset.

Summary (synthetic) description of the problem

The definition of the cost of acquisition needs some clarification as it fails to address aspects such as discounting, fair value or non-monetary consideration. The absence of any regulation in this respect leads to practical concerns, e.g. in the case of deferred payments or the so-called acquisition at a symbolic price of PLN 1.

Recommendation

a. **Description of proposed change**

A specific definition of cost of acquisition and cost of manufacture should be introduced at a dedicated standard that would define cost of acquisition and cost of manufacture depending on the context and the manner in which a specific asset is obtained. At the standard level, we would also recommend the introduction of the following principles:

- As regards the definition of the amount due to the seller, it would be advisable to use the term “fair value of payment to the seller”, which is a broader concept and is not limited to payment in cash only. Introducing this change would also address the issue of discounting.
- In addition, we would suggest introducing the principle that if it is not possible to determine the cost of acquisition of an asset, in particular an asset accepted free of charge (including by way of donation), its measurement is carried out at fair value or another value resulting from the economic substance of the transaction.”

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Modifying the provisions of the Act.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☒Developing a new Standard/Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.18.11. Harmonising tax and accounting laws for currency translations

- Harmonising tax and accounting laws for currency translations/Medium (6.8.13.)

Reference to a legal act

Article 30(2) governs the recognition of business transactions in foreign currencies.

Summary (synthetic) description of the problem

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 Value Added Tax (“VAT”) purposes; or measurement for CIT purposes.

Therefore, practical problems occur in view of the obligation to apply different measurement principles for different purposes and the need to maintain separate records for tax and accounting purposes.

In addition, challenges were reported around the need to specially adapt the use of financial and accounting systems to support the complex principles for calculating exchange rate gains and losses on a foreign currency cash account.

Recommendation

a. **Description of proposed change**

We propose considering harmonising the provisions of the Act with tax regulations regarding the measurement of business transactions expressed in foreign currencies, in order to simplify the practical application of the regulations.

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Modifying the provisions of the Act and/or relevant provisions of the tax law.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☒Change of other (not directly accounting-related) legal provisions*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.18.12. Measurement of non-monetary assets

- Measurement of non-monetary assets/Low (6.8.14.)

Reference to a legal act

Article 30(1) governs the measurement of assets and liabilities denominated in foreign currencies.

Summary (synthetic) description of the problem

In practice, there are doubts what assets denominated in a foreign currency are to be remeasured as at the balance sheet date, specifically:

- 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 NBP if the investment is measured at cost of acquisition less allowances for impairment;

- investment properties measured at fair value; valuation reports most commonly specify the fair value in a foreign currency (EUR) and entities report concerns whether changes in value resulting from changes in exchange rates should be presented separately as exchange gains or losses.

Recommendation

a. **Description of proposed change**

Option 1: We propose to clarify that monetary assets and liabilities are measured as at the balance sheet date. At the same time, we would recommend extending the definition of monetary assets in the Act to the definition of monetary items in International Accounting Standard 21: The Effects of Changes in Foreign Exchange Rates ("IAS 21") – as the current definition in the Act seems too narrow.

Option 2: Alternatively, the issues outlined above can be addressed by stating that non-monetary assets are not translated as at the balance sheet date using the definition of non-monetary assets in the Accounting Standards Committee's statement of position on the recognition of exchange a non-monetary asset for another non-monetary asset.

We propose to clarify at the standard level (e.g. a new standard in the development of the NAS on investment properties) that in the case of investment properties, exchange gains and losses are an element of fair value measurement at the measurement date, without any subsequent conversion if the measurement date is different from the reporting date (also using the proposed modified approach of measuring investment properties at fair value through equity).

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Modifying the Act and the planned investment property standard.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

Since we propose two alternative options, at a later stage of the Project one should be selected as the preferred option.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☒Developing a new Standard/Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.18.13. Definition, recognition and measurement of crypto-assets and crypto-liabilities

- Definition, recognition and measurement of crypto-assets and crypto-liabilities/Low (6.8.18.)

Reference to a legal act

Not applicable – no specific regulation

Summary (synthetic) description of the problem

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.

Recommendation

a. Description of proposed change

We would like to propose the following principles:

- Introducing a definition of crypto-assets as intangible assets based on blockchain technology and including a corresponding definition of crypto-liabilities;
- Recognition of crypto-assets as an investment in intangible assets – provided that the definition of an investment is met (i.e. maintenance for the purpose of increasing the value) and, in other cases, recognition as inventories, however, consideration should be given to prohibiting the fair value measurement of crypto-assets produced by the entity (in order to avoid situations that lead to artificially overstated assets held by an entity);
- Recognition of crypto liabilities if they are in the nature of a performance obligation in a manner similar to International Financial Reporting Standard 15: Revenue from Contracts with Customers ("IFRS 15") or, if such a liability component is neither a financial liability nor a performance obligation, recognition as a provision.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Supplementing the provisions of the Act.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Since we propose two alternative options for solving the problem, at a later stage of the Project one should be selected as the preferred one.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.18.14. Disclosures of the current profit and profit carried forward

- Disclosures of the current profit and profit carried forward/Medium (6.3.13.)

Reference to a legal act

Appendix 1, Notes: paragraph 1(10) states that Notes shall include, in particular, proposals as to how to distribute the profit or cover the loss for the financial year.

Summary (synthetic) description of the problem

The Act requires disclosures of the proposed distribution of profit or coverage of loss for the financial year. The disclosure of the distribution 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.

Recommendation

a. **Description of proposed change**

We propose to supplement the disclosure requirements for the distribution of profit or coverage of loss for the financial year with information on the use or coverage of: retained earnings, gains and losses arising from errors or changes in accounting principles, and other items of equity distributable, if any.

As mentioned elsewhere in this Report, the requirement for specific disclosures should be included in a dedicated standard for the layout and content of financial statements.

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Developing a new NAS Standard for the layout and content of financial statements.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard

☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☒Developing a new Standard/Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.18.15. Scope extension of impairment losses

- Scope extension of impairment losses/Low (6.8.41.)

Reference to a legal act

Article 35(2) governs impairment losses in case of investments classified as fixed assets.

Summary (synthetic) description of the problem

Article 35(2) states that an impairment losses in case of investments classified as non-current assets are 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.

Recommendation

a. **Description of proposed change**

We propose to modify the provisions of Article 35(2) so that they do not apply exclusively to fixed assets.

b. **Reasons if no changes are made to a given problem area (if any)**

Not applicable.

c. **Indication of the location in the relevant legal act and where in the structure**

Modifying the provisions of the Act.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.18.16. Capitalisation of borrowing cost

- Capitalisation of borrowing cost/Low (6.8.27.)

Reference to a legal act

Article 28(8) governs that the cost of acquisition and cost of manufacture of fixed assets under construction, fixed assets and intangible assets include all expenses incurred by the entity during the period of construction, assembly, adaptation and improvement until the balance sheet date or the moment of commissioning. The cost of acquisition and cost of manufacture also includes non-deductible taxes and excise duty, as well as costs of financing costs incurred in connection with the borrowing of funds, together with related exchange gains and losses, less any related revenues.

Summary (synthetic) description of the problem

Practical problems with the capitalisation of borrowing cost were observed. For instance, it is unclear if, in the context of construction of fixed assets 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.

Recommendation

a. **Description of proposed change**

We would like to propose to regulate the above-mentioned issue at the NAS level – determining the direction of regulation requires further discussion among stakeholders.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Supplementing the provisions of NAS 11.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

At this stage of the Project – not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☒Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

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

- Presentation of contributions received and not registered as at the balance sheet date/Low (6.8.48.)

Reference to a legal act

Article 36(2) governs the recognition of capital by companies.

Summary (synthetic) description of the problem

Article 36(2) provides that the share capital of companies is to be recognized at the amount specified in the articles of association and entered in the court register. Capital contributions not made but declared shall be recognised as called up capital contributions. However, the Act does not specify how contributions received but not recorded at the balance sheet date should be presented as capital. In practice, a separate line item is inserted under equity: “Capital paid but not registered”.

Recommendation

a. Description of proposed change

We propose to clarify in Article 36(2) that capital received but not registered at the balance sheet date is shown under a separate line as “contributed capital not registered”. Consequently, the aforesaid position in the structures of XML should also be taken into account.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Supplementing the provisions of the Act.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.18.18. Coherence between the Act and other legislation

- Coherence between the Act and other legislation/High (6.1.2.)

Reference to a legal act

Not applicable.

Summary (synthetic) description of the problem

During workshops, stakeholders pointed out that, as a legal act, the Act should be coherent with the legislation in other branches of law. There are some discrepancies between accounting and tax regulations which in practice generate significant costs especially for smaller entities.

In addition, it was mentioned the Act does not sufficiently govern 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.

Recommendation

a. **Description of proposed change**

<u>Coherence with tax regulations</u>

As part of simplifying and harmonising certain provisions, we would like to propose introducing the possibility of using tax regulations as accounting principles (as regards measurement and classification, where possible, that the taxation principles will not conflict with the principles of the Directive, or for undertakings not subject to the Directive). Examples of potential simplifications in this respect are presented below.

Our recommendations relate primarily to simplifying accounting principles for micro and small entities. We do not refer in our recommendation to thresholds defining such entities, as this is outside the scope of our project.

Apart from the existing separation of micro and small entities, we do not demand separating a group of medium-sized entities, as this does not seem necessary. We recommend that the exemptions regarding the measurement and presentation methods applicable to individual entities be regulated at the level of the Act. On the other hand, a specific scope of disclosures necessary for individual entities would be described by individual standards or by a standard dedicated to simplifications or proposed to establish a standard on the content and layout of financial statements.

<u>Proposed approach for micro-entities:</u>

- A micro entity shall use the most simplified accounting method. It has one specific measurement and disclosure regime and this simplified regime is mandatory and an entity cannot choose its accounting principles. Consequently, such an entity does not need to describe and disclose its accounting principles as they will be specified in the Act.

- These principles should lead to a situation in which the differences between accounting and tax principles for micro-entities are minimised as far as possible and in line with the Directive. Therefore, this would require the identification of such areas in the Act, which currently require the application of measurement principles other than taxation principles and a point indication of simplifications that can be applied by micro entities in these areas.
- At the same time, the application of certain simplifications consisting in the application of tax principles could not be coherent with the accrual principle and the prudence principle and would be contrary to the principle of true and fair presentation of the assets, liabilities, financial position and profit or loss of an entity set out in the Directive. In this context, it would have to be decided whether these simplifications (i) are to be available only to micro-entities not covered by the Directive – thereby adding another category of entities in the Act (micro-entities "non-directive"), (ii) or whether the simplification should be limited to fully compliant core principles of the Directive.
- The Act would enumerate exhaustively which areas and items are simplified. This list could include, for example, the following items:
    - Depreciation at tax rates only;
    - Write-downs on receivables and inventories in accordance with tax principles;
    - Recognition of provisions, including provisions for employee benefits or discounts only in accordance with tax principles;
    - Using tax relevant rates to measure foreign currency positions;
    - Tax classification and measurement of leases;
    - Tax measurement of financial instruments to fair value;
    - No deferred tax calculations.
- Applying the simplifications described above, a micro entity would be required to disclose whether it has made use of these simplifications (whether a given phenomenon exists or not). This disclosure could even be presented in a table format with the respective markings YES/NO and included in the schema.
- These disclosures could form part of the description of accounting principles required by the Directive also for small entities.

Proposed approach for small entities:

- Small entities could use simplifications designed for micro entities, but would not have to do so. As in the case of micro-sized entities, small entities would also need to provide information on simplifications applied. Such disclosure could, as in the case of micro-entities, be presented in the format of a table with the corresponding designations YES/NO and included in the schema.

- As a minimum, small entities would have the following options to apply simplifications and could disclose their approach in this structured way:
    - The exemption applied and the entity availed itself of it;
    - The exemption applied but the entity did not use it (the entity applied general accounting principles).
- An entity would then present the approach it has taken for individual items of the financial statements. Further work would consider whether the Directive requires an entity to disclose the accounting approach: (a) for all items in the financial statements, (b) for items for which it has not made use of the simplifications permitted for it, or (c) for items for which it has made use of the simplifications, or (d) with such level of detail as the entity's management thinks fit. These disclosures could form part of the description of accounting principles required by the Directive also for small entities.
- Simplifications for small entities could be applied selectively, for individual asset/liability items selected by the entity.

Proposed approach for other entities:

- All other entities that do not meet the criteria of micro and small entities would be required to apply the accounting principles on a general basis, without any simplification.

Coherence of the Act with the CCC – distributable equity

It would be recommended to provide regulation governing what categories of equity are distributable to shareholders and what categories are not. Therefore, it would be useful to define the concept of retained earnings as an accounting category. With the cross-cutting 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 stakeholders. In addition, in the course of further design work, it should be determined in which of the existing legal acts (the Act, the CCC) the aforesaid issue should be regulated.

The principles proposed below would apply to both entities applying the Act and IFRS.

We would like to propose the following provisions:

- Distributable items (defined collectively as distributable equity) include amounts of profit earned and other adjustments to equity arising from transactions and events arising during the financial period, except for balances arising from transactions increasing or decreasing equity arising from:

- (a) balances arising from transactions with owners and prospective owners, where owners shall mean holders of equity instruments of the entity;
- (b) balances that, in accordance with the entity's accounting principles, are either reclassifiable to profit or loss or represent an adjustment to the carrying amount of assets/liabilities in future periods if the events provided for in those policies occur;
- (c) balances of equity for which specific accounting principles postpone the possibility of increasing retained profits until the events provided for in those provisions occur;
- (d) parts of profits for which:
    - (i) there are separate provisions restricting distribution; or
    - (ii) the entity's articles of association require their retention in the entity or limit their payment to owners.

Examples illustrating the above principles are presented in Appendix 9.

- Balances described in items (a) to (d) above should be understood as amounts resulting directly from events and transactions as well as related deferred tax amounts recognised in equity.
- Since some of the distributable amounts may be negative, the question arises whether, in such a situation, the company should not include the negative amounts in its dividend capacity. Our recommendation would therefore be not to create any additional restriction, but to clarify that no amounts can be drawn from the pool of distributable items if this would result in a reduction of the total capital below 50% of the share capital. Therefore, we would like to propose the following wording: Distributable amounts may be paid provided that this does not result in a breach of separate regulations on restrictions on dividend distribution.

b. Reasons if no changes are made to a given problem area (if any)

At this stage of the Project – not applicable**..**

c. Indication of the location in the relevant legal act and where in the structure

Under a separate chapter of the Act (in accordance with the recommendations concerning the Structure of the Act).

d. Separate statements of position, discrepancies, decisions to be taken (if any)

At this stage of the Project – not applicable**.**

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☒Change to the Act **and** applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☒Change of other (not directly accounting-related) legal provisions*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.18.19. Simplification of regulations debt-to-equity conversion

- Simplification of regulations on debt-to-equity conversion/Low (6.8.49.)

Reference to a legal act

Article 36(2)c governs the conversion of debt securities, liabilities and loans into shares.

Summary (synthetic) description of the problem

In the opinion of some users of the Act, the provisions of Article 36(2)c are difficult to interpret.

Recommendation

a. Description of proposed change

We propose to simplify the provisions of Article 36(2)c by replacing the entire description of what amounts are recognized in the case of debt to equity conversion with a statement that equity is recognized at the value corresponding to the carrying amount (i.e. depreciated cost) of debt securities determined in accordance with the requirements of the Act/Financial Instrument Regulation as at the moment immediately preceding the conversion date.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Modifying the provisions of the Act.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.18.20. Recognition of liabilities for dividends declared

- Recognition of liabilities for dividends declared/Low (6.8.47.)

Reference to a legal act

No regulation available in this regard.

Summary (synthetic) description of the problem

Guidance on the moment of recognition of a liability for shareholder dividends declared, including interim dividends, is missing from the Act. There are doubts of the Act's users as to whether the relevant moment for identifying a liability or a provision is the approval of the dividend by the General Meeting or its payment, or some other moment.

Recommendation

a. Description of proposed change

We propose to regulate in detail in the Act the moment of recognising the dividend liability and its advance settlement. We suggest that the dividend liability arises when the relevant approving authority adopts a resolution on how to distribute the profit (or meet the requirements of the CCC – in the case of an interim dividend) disclosed in the approved financial statements. If interim dividends were paid during the year, we suggest that the company identifies a capital reserve, which would have a negative value corresponding to the value of advance payments made, and then settles such a capital reserve when the relevant approving authority adopts a resolution on how to distribute profit on a one-off basis, at the end of the year.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

New provision in the Act in the area of measurement of liabilities and provisions.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.18.21. Accounting for additional contributions

- Accounting for additional contributions/Low (6.8.51.)

Reference to a legal act

The provisions of Article 36(2e) govern shareholders' contributions.

Summary (synthetic) description of the problem

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).

Recommendation

a. Description of proposed change

We propose that if the adoption of additional payments gives rise to a company's claim to make additional payments by shareholders, such amounts should be disclosed in assets, which would additionally be coherent with the recognition of declared but unpaid capital contributions resulting from Article 36(2) of the Act.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Modifying the provisions of the Act.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.18.22. Accounting for grants

- Accounting for grants/Medium (6.8.60.)

Reference to a legal act

The provisions of Article 41(1)(2) and (2) govern the recognition of cash received to finance the acquisition or manufacture of fixed assets.

Summary (synthetic) description of the problem

The provision in Article 41(1)(2) is very broad (i.e. it refers to cash received to fund the acquisition or creation of fixed assets, including fixed assets under construction and development projects), but it does not identify who such funds are received from.

There is no regulation how to proceed if the grant received exceeds the value of the fixed asset.

In addition, there is no guidance how to account for a connection fee (in relation to a heat or power supply contract with a contractor).

Recommendation

a. **Description of proposed change**

We propose to modify the above provisions so that their application is limited to funds received from state authorities, government institutions, government agencies and similar local, national or international bodies.

In the case of other donations received, it should be assessed whether specific obligations arise from the donation received. If there are such obligations, the donation should be recognised as a liability, otherwise it should be settled through profit or loss.

In the case of donations received from related parties, such donation should be recognised as an increase in equity.

b. **Reasons if no changes are made to a given problem area (if any)**

Connection fee – assuming mandatory application of the NAS, this issue should be recognised based on the provisions of NAS 15.

c. **Indication of the location in the relevant legal act and where in the structure**

Modifying the provisions of the Act.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.18.23. Revenue from services within 6 months

- Revenue from services within 6 months/Medium (6.8.65.)

Reference to a legal act

The provisions contained in Article 3(1)(30) contain definitions of revenues and profits. On the other hand, Article 34a (1) governs the identification of revenue from the performance of an outstanding service.

Summary (synthetic) description of the problem

The Act provides very limited guidelines for the recognition of revenue (currently, partially supplemented 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 of services to be supplied within 6 months.

The absence of more precise regulation in the Act may, in certain circumstances, result in revenue being recognised too early, e.g. as at the invoice date.

Recommendation

a. Description of proposed change

We propose considering two possible options for change:

<u>Option 1:</u> Indicating in National Accounting Standard 3: Construction Services ("NAS 3") that its principles also apply to other services, including short-term ones.

<u>Option 2:</u> Deletion of the 6-month provision from Articles 34a-34d of the Act with simultaneous introduction of simplification consisting in the fact that in the case of services below 6 months, revenue and cost are recognised on a one-off basis in the profit and loss account at the end of the service or revenue is identified only in the amount in which the service was provided, but not higher than the amount of invoices issued.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

If Option 1 is chosen – modification of the provisions of NAS 3, if Option 2 is chosen – modification of the provisions of the Act.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Since we propose two alternative options for solving the problem, at a later stage of the Project one should be selected as the preferred one.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☒Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.18.24. Incentive schemes

- Incentive schemes/Medium (6.8.69.)

Reference to a legal act

No regulations in this respect.

Summary (synthetic) description of the problem

There is no regulation for executive incentive plans (other than monetary compensation) or for non-compete payments.

Recommendation

a. Description of proposed change

We recommend adding relevant provisions to Chapter 4 of the Act providing 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 identified in the profit and loss account in the period of service in correspondence with equity. Other specific issues could be resolved in the relevant Standard.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Supplement the provisions of the Act and develop a new standard for employee benefits.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☒Developing a new Standard/Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.18.25. No definitions of a transaction or a balance

- No definitions of a transaction or a balance/Low (6.11.4.)

Reference to a legal act

None.

Summary (synthetic) description of the problem

During workshops with stakeholders, the problem was raised that the Act does not contain a definition of a transaction or a definition of a balance, which may be relevant, e.g. for disclosures in the area of transactions with affiliated undertakings or for the provision that account book shall be opened as at the date of the first transaction.

Recommendation

a. **Description of proposed change**

Not applicable.

b. **Reasons if no changes are made to a given problem area (if any)**

We do not propose to introduce definitions of balance and transactions as we do not identify a problem related to interpretation of regulations in the areas of confirmation of balances and stocktaking of settlements or disclosure of balances/transactions in the financial statements by entities. Recommendations in areas 3.5.6 and 3.18.26 should address the problem raised by stakeholders.

c. **Indication of the location in the relevant legal act and where in the structure**

Not applicable.

d. **Separate statements of position, discrepancies, decisions to be taken (if any)**

Not applicable.

Scope of changes [multiple areas can be ticked]

☐Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard
☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions

☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☒Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

3.18.26. Affiliated undertakings

- Transactions with affiliated undertakings/Medium (6.3.8.)
- Presentation of transactions with affiliated undertakings/Medium (6.3.21.)
- Clarifying the definition of "affiliated undertakings"/Medium (6.5.4.)
- Definitions of affiliated undertakings/Medium (6.11.5.)

Reference to a legal act

Appendix 1, Notes: paragraph 5(2) indicates that an entity is obliged to disclose transactions with **related parties** (within the meaning of IFRS) only if such transactions are concluded on non-arm's length terms.

At the same time, Appendix 1, Notes: paragraph 7(2) (as well as "templates" of the balance sheet and profit and loss account) requires the entity to disclose certain information about transactions with affiliated undertakings and balances, which in turn are narrowly defined in Article 3(1)(43) as entities belonging to a capital group.

The Directive distinguishes between affiliated undertakings, which include group entities, and related parties as defined under IFRS.

Summary (synthetic) description of the problem

The definition of affiliated undertaking is narrow and limited to group entities and, on top of that, refers to commercial law companies and partnerships only. This may lead to doubts how to interpret the term "commercial law companies and partnerships" in the context of foreign entities. In addition, the definition excludes individuals.

Further, only those related-party transactions which are not at arm's length are required to be disclosed in financial statements. 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. A vast share of related-party transaction may not be covered by the required disclosures.

There are doubts of interpretation about the disclosure requirements for transactions with affiliated undertakings, i.e. whether information on transactions with affiliated undertakings is to be presented separately for each entity (stating the name of the entity) or only globally in an aggregated manner.

In addition, the terms “related parties” and “affiliated undertakings” may confuse the Act's users.

Recommendation

a. Description of proposed change

We propose the following changes:

- Introducing a definition of a related party (similarly to International Accounting Standard 24: Related Party Disclosures – “IAS 24”) instead of affiliated undertaking;
- Introducing a requirement to disclose transactions with related parties whether or not at arm’s length, keeping in mind that this would put an additional burden on entities;
- Supplementing the provision with information on how to present information on transactions with affiliated undertakings, i.e. it would be recommended to present it on an aggregated basis, but distinguishing between types of entities (relationship), transactions with the parent company and with affiliated undertakings would be presented separately, but without distinguishing between individual transactions with a particular entity (similarly as in IAS 24).
- In addition, transactions should be grouped because of similarity in nature (“similar nature” similarly to IAS 24).
- Considering changing the name to a term better reflecting the nature of the term “Affiliated undertakings”, which are required by the Act to be separated on the balance sheet and profit and loss account (based on the Directive), as the current term affiliated undertakings creates confusion. During the discussion, there were suggestions to use the English language term “affiliated undertakings” or to create another term that would not be associated with the term “related party”. An example of such a term could be “related group entities”.

b. Reasons if no changes are made to a given problem area (if any)

Not applicable.

c. Indication of the location in the relevant legal act and where in the structure

Supplementing the provisions of the Act.

d. Separate statements of position, discrepancies, decisions to be taken (if any)

Not applicable.

Scope of changes [multiple areas can be ticked]

☒Separate (self-standing / independent) change under the Act
☐Self-standing change under an existing Standard

☐Self-standing change under an existing Regulation
☐Change to the Act **and** the applicable Standards, Regulations or other accounting regulations
☐Developing a new Standard / Regulation
☐Developing Application Guidelines
☐Change of other (not directly accounting-related) provisions of law*
☐Need to develop complex transitional provisions
☐Significant impact of the changes on other provisions of the Act
☐Issue of an MoF communication/interpretation in another established form
☐ Not applicable – no changes were made

*) *the provisions covered by the change will be indicated in the recommendation*

**) *details of these transitional provisions will be provided in the recommendation, if possible at this stage of the Project*

4. Initial transition plan

This chapter describes the high level transition plan ("AS IS") to the proposed target ("TO BE"), which includes outlining the strategy and steps to be taken to smooth the transition from the existing legal framework to the reformed one.

1. Defining the need for reform in the existing legal system. This step was taken before the start of the Project.

2. Identification of key stakeholders. This step was taken before the start of the Project.

3. Assessment of applicable law: analysis of the existing legal framework, strengths and weaknesses and identification of areas for reform, taking into account stakeholder feedback and expert opinions. This step was taken in Phase II of the Project.

4. Benchmarking of selected issues in selected EU countries. This step was taken in Phase III of the Project.

5. Developing proposals for a new legal framework: identification of key elements of the reformed law, suggested changes and improvements, together with specification of the reasoning, purpose and principles behind the proposed changes – where justified and not derived directly from the content of the change itself. This step was taken in Phase IV of the Project.

6. Building public awareness and conducting consultations (partially carried out during the Project) – the aim of this step is to inform stakeholders about proposed changes within established mechanisms and to consult stakeholders to ensure inclusion and transparency.

7. Assessment of all proposals, including optional ones – acceptance of implementation or decision not to implement – between Phase IV and V of the Project.

   This step was initiated in Phase IV – in consultation with stakeholders, part of the recommendation was abandoned, which is reflected in this report.

   We assume that most of the recommendations included in the Report will be accepted as they have been consulted with both the beneficiary and key stakeholders on an ongoing basis.

   As part of this step, it is necessary, in particular, to decide on the target legal structure (in particular, what level is to be the standard or whether it will take the form of a regulation) and assess each recommendation as to the level of addressing it in the target structure.

8. Decision on the change of the legal status of the Accounting Standards Committee – depending on the decisions made on the target legal structure.

9. Developing a plan for drafting new legal regulations and standards (including identification of resources necessary to prepare draft regulations and assigning roles and responsibilities to individual groups of legal, accounting and tax specialists). Elements of this step will be performed as part of Phase VI of the Project).

10. Communication with stakeholders – materials will be prepared as part of Phase VII of the Project, which can be used in that step.

11. Legislative process (according to the current guidelines of the Government Legislative Centre or another body competent for the legislative process when the planned reform takes place at this stage):

    a. Request to introduce the draft act in the list of legislative works of the Council of Ministers.
    b. Preparation of the draft act. Phase IV and V Reports could contribute in part to the preparation of this step.
    c. Preparation of the project statement of reasons.
        i. The “appropriate” part of the draft statement of reasons – among others, clarification of the need for and purpose of issuing the act, presentation of the actual state of affairs, indication of differences between the current and planned state of affairs (including the expected legal effects of the entry into force of the act). Phase II, IV and V Reports could contribute in part to the preparation of this step.
        ii. Implementation Appraisal (IA).
    d. Consultations:
        i. Identification of entities to be presented with the project as part of arrangements, public consultations and opinions.

           Public consultations should be conducted at each stage of work on the planned solution and the consultation process should start at the earliest possible stage, in particular at the conceptual stage (so-called pre-consultations) – which has already occurred since the initial stages of the Project (Phase II). It is recommended to use different consultation methods.

        ii. Presenting the draft and making the documents available to entities selected for the consultation stage.
        iii. Analysis of separate statements of position.

iv. Reconciliation conference.
v. Changes to the draft act (on the basis of the statements of position and findings adopted in the course of consultations, public consultations or opinions on the project or on the basis of the statements of position and findings adopted in the course of a consultation conference or conferences attended by entities that made comments on the project in the framework of public consultations).
vi. Re-approval of the project (if needed after the consultation stage).

12. Training – analysis of the need to develop training programs to ensure that relevant stakeholder groups (e.g. lawyers, regulators, tax authorities, auditors and other stakeholders) are well acquainted with the new legal framework.

13. Developing timetable: definition of key stages and planned timelines. Materials developed as part of Phase VI of the Project may partly serve as a basis for work on this step.

14. Planning of monitoring and assessment: establishing mechanisms for monitoring and assessment of the impact of the reform.

15. Considering whether it is necessary to plan assistance and legal support for the affected entities.

16. Refer the draft act to the Sejm or the draft regulation for signature by the Prime Minister.

17. Implementation.

18. Ex post evaluation of the law – evaluation of the functioning of the legal act in order to establish:

    a. whether the objectives of the regulation have been achieved,

    b. the effects of the act, including undesirable effects, that have occurred,

    c. assess whether the problems that led to the enactment of the legislation have actually been solved and whether the legislation is functioning properly or needs to be revised.

19. Amendment (if justified).

Our recommendations will assign a level of complexity (green – easy; yellow – medium and red – difficult) based on our experience and our first assessment of the time and costs required to fill the existing gap.

Scope of changes	Complexity level	Comment
Separate (self-standing / independent) change under the Act	Easy	Self-standing, independent changes under an Act, Regulation or Standard will require relatively the lowest involvement
Self-standing change under an existing Standard	Easy	
Self-standing change under an existing Regulation	Easy	
Change to the Act and applicable accounting Standards, Regulations or other legal provisions	Difficult	
Developing a new standard/regulation	Difficult	Developing a new standard requires significant time and commitment from all stakeholders
Developing application guidelines	Medium	
Change in other (not directly accounting) legal provisions	Medium	
The need to develop complex transitional provisions	Difficult	
Significant impact of changes on other provisions of the Act	Medium	
Issue of an MoF message/interpretation in another agreed form	Medium	

5. Appendices

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
SAF-T or JPK	Standard Audit File – 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	Standard Audit File for account books
JPK_MAG	Standard Audit File for warehouse management
IFRIC 21	Interpretation of the IFRS Interpretations Committee 21: Fees
NCR	National Court Register
KSeF	National System of e-Invoices
CCC	Polish Commercial Companies Code
NAS, 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 9	National Accounting Standard 9: Management Report
NAS 11	National Accounting Standard 11: fixed assets
NAS 13	National Accounting Standard 13: Cost of Manufacture as the Basis for Product Measurement
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 7	International Accounting Standard 7: Statement of Cash Flows
IAS 8	International Accounting Standard 8: Accounting Principles, Changes in Accounting Estimates and Errors
IAS 12	International Accounting Standard 12: Income tax
IAS 16	International Accounting Standard 16: Property, Plant and Equipment
IAS 17	International Accounting Standard 17: Leases
IAS 19	International Accounting Standard 19: Employee Benefits
IAS 21	International Accounting Standard 21: The Effects of Changes in Foreign Exchange Rates
IAS 24	International Accounting Standard 24: Related Party Disclosures
IAS 28	International Accounting Standard 28: Investments in Affiliates and Joint Ventures

IAS 29	International Accounting Standard 29: Financial Reporting in Hyperinflationary Economies
IAS 31	International Accounting Standard 31: Interests In Joint Ventures
IAS 32	International Accounting Standard 32: Financial Instruments: Presentation
IAS 37	International Accounting Standard 37: Provisions, Contingent Liabilities and Contingent Assets
IAS 38	International Accounting Standard 38: Intangible Assets
IAS 39	International Accounting Standard 39: Financial Instruments: Recognition and Measurement
IFRS	IAS, International Financial Reporting Standards and related interpretations
EU IFRS	International Financial Reporting Standards and the related interpretations ("IFRS") published as regulations of the European Commission
IFRS 2	International Financial Reporting Standards 2: Share-based Payment
IFRS 3	International Financial Reporting Standard 3: Business Combinations
IFRS 4	International Financial Reporting Standards 4: Insurance Contracts
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 15	International Financial Reporting Standards 15: Revenue from Contracts with Customers
IFRS 16	International Financial Reporting Standards 16: Leases
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: Journal of Laws 2022, item 2587, as amended). - Act of 11 March 2004 on Value-Added Tax (consolidated text: Journal of Laws 2022, item 931, as amended). - Act of 29 August 1997 – Tax Ordinance (Journal of Laws 1997, No. 137, item 926))
Project	Project entitled 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, valuation methods, scope of disclosure and manner of presentation of financial instruments (Journal of Laws 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 (Journal of Laws 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
EU	European Union
R&D Relief	Research and development tax credit

Act	Act of 29 September 1994 on Accounting (Journal of Laws 2023, item 120)
Act on Statutory Auditors	Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws 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
ESG	Reporting of non-financial information
CSR	Sustainability issues
SKwP	Accountants Association in Poland
PIBR	Polish Chamber of Statutory Auditors
PAP	Polish Accounting Principles
PAS	Polish Accounting Standards
PFSA Office	Polish Financial Supervision Authority Office
ESRS	Sustainability reporting
GDPR	Data protection
CEAOB	Committee of European Auditing Oversight Bodies
EEA	European Economic Area
EBC	Economic benefit centre
SPPI	Solely Payments of Principal and Interests
IA	Implementation Appraisal

Appendix 2 – List of meetings with key stakeholders

Date	Key stakeholder group	Discussion theme
30 May 2023	Accounting Standards Committee	Preliminary meeting and work plan
4 July 2023	Polish Financial Supervision Authority Office	Bank Accounting
29 August 2023	Accounting Standards Committee	Restructuring of accounting regulations and adoption of IFRS
31 August 2023	Polish Financial Supervision Authority Office	Investment Fund Accounting
12 September 2023	Accounting Standards Committee	Bookkeeping – principles, technical aspects and archiving and protection Stocktaking method: use of computer systems
15 September 2023	Polish Financial Supervision Authority Office	Accounting of insurance and reinsurance companies
25 September 2023	Team dealing with tax issues within the Ministry of Finance	Bookkeeping
13 October 2023	Polish Financial Supervision Authority Office	Accounting of insurance and reinsurance companies
21 November 2023	Accounting Standards Committee	Investments and financial instruments and selected topics in the area of fixed assets, preparation of financial statements, inventories and equity
29 November 2023	Accounting Standards Committee	Acquisitions, business combinations and divisions of companies

Appendix 3 – allocation of discussion areas identified in Phase II of the Project to groups of recommendations developed in Phase IV of the Project

Matter to be discussed/priority	Phase II Area	Phase IV recommendations Group	Recommendations were abandoned	Recommendation in the form of options
6.1.1. The remit of the Act and the obligation to apply NAS/High	System of accounting regulations	3.1.1. System of accounting regulations and structure of the Act	NO	YES
6.1.2. Coherence between the Act and other legislation/High	System of accounting regulations	3.18.18. Coherence between the Act and other legislation	NO	NO
6.1.3. Restructuring the Act/High	System of accounting regulations	3.1.1. System of accounting regulations and structure of the Act	NO	YES
6.1.4. Obligation to apply the Act by IFRS adopters/Medium	System of accounting regulations	3.1.2. Compliance with the Act by IFRS adopters	NO	NO
6.1.5. Voluntary IFRS adoption/High	System of accounting regulations	3.1.3. Voluntary IFRS adoption	NO	YES
6.1.6. Mandatory auditing of IFRS-compliant financial statements/High	System of accounting regulations	3.1.3. Voluntary IFRS adoption	NO	YES

Matter to be discussed/priority	Phase II Area	Phase IV recommendations Group	Recommendations were abandoned	Recommendation in the form of options
6.1.7. Voluntary resumption of the Act/High	System of accounting regulations	3.1.3. Voluntary IFRS adoption	NO	YES
6.1.8. Need to regulate the accounting of foreign company branches, foreign credit institutions and foreign insurance companies/High	System of accounting regulations	3.17. Branches	NO	NO
6.2.1. Separate identification of the responsibility of the entity’s manager and regulatory authorities/Medium	Preparation, filing and publication of financial statements and other reporting	3.2.1. Responsibility of the entity's management and supervisory bodies for the financial statements	NO	NO
6.2.2. Timeline for the preparation of financial statements/Medium	Preparation, filing and publication of financial statements and other reporting	3.2.2. Timeline for the preparation of financial statements	NO	NO
6.2.3. Refusal to sign financial statements/Medium	Preparation, filing and publication of financial statements and other reporting	3.2.3. Refusal to sign financial statements	NO	YES
6.2.4. Combined financial statements/Medium	Preparation, filing and publication of financial statements and other reporting	3.2.4. Combined financial statements	NO	NO

Matter to be discussed/priority	Phase II Area	Phase IV recommendations Group	Recommendations were abandoned	Recommendation in the form of options
6.2.5. Introduction of the concept of "core statements"/Low	Preparation, filing and publication of financial statements and other reporting	3.18.1. Introduction of the term "core statements"	NO	NO
6.2.6. Filing of annual financial statements with the court register/Medium	Preparation, filing and publication of financial statements and other reporting	3.2.5. Submission of financial statements 3.16.1. Filing of the annual report of investment funds with the Court Register	NO	NO
6.2.7. Disclosures of financial instruments in the management report on activities/Medium	Preparation, filing and publication of financial statements and other reporting	3.2.6. Financial instruments disclosures in the management report	YES	NO
6.2.8. Management report on activities of AIFs (AICs) and insurance companies/Medium	Preparation, filing and publication of financial statements and other reporting	3.16.6. Management report on activities of AIFs (AICs) and insurance companies	NO	NO
6.2.9. Events after balance sheet date/Medium	Preparation, filing and publication of financial statements and other reporting	3.2.7. Events after balance sheet date	NO	NO
6.2.10. Error corrections/Medium	Preparation, filing and publication of financial statements and other reporting	3.2.8. Adjustments of errors	NO	NO
6.3.1. Alignment between	Scope of information to be	3.2.9. Scope of information to be	NO	NO

Matter to be discussed/priority	Phase II Area	Phase IV recommendations Group	Recommendations were abandoned	Recommendation in the form of options
the scope of information reported in financial statements and the entity's business operations/High	reported in financial statements	reported in financial statements		
6.3.2. Overextensive scope of information to be reported in core financial statements/High	Scope of information to be reported in financial statements	3.2.9. Scope of information to be reported in financial statements	NO	NO
6.3.3. Scope of information to be reported in the financial statements of financial institutions/Medium	Scope of information to be reported in financial statements	3.16.7. Financial statements templates for financial institutions	NO	YES
6.3.4. Scope of information to be reported in the financial statements of insurers/Medium	Scope of information to be reported in financial statements	3.16.7. Financial statements templates for financial institutions	NO	YES
6.3.5. Discontinued operations/Medium	Scope of information to be reported in financial statements	3.2.10. Discontinued operations	NO	NO
6.3.6. Finance leases for lessees/Medium	Scope of information to be reported in financial statements	3.11.3. Finance leases from the lessees' perspective	NO	NO
6.3.7. Directors' remuneration/Medium	Scope of information to be reported in financial statements	3.2.11. Management Board compensation	NO	YES

Matter to be discussed/priority	Phase II Area	Phase IV recommendations Group	Recommendations were abandoned	Recommendation in the form of options
6.3.8. Transactions with affiliated undertakings/Medium	Scope of information to be reported in financial statements	3.18.26. Affiliated undertakings	NO	NO
6.3.9. Disclosures for the direct method/Medium	Scope of information to be reported in financial statements	3.2.12. Additional disclosures for the direct method	NO	NO
6.3.10. Disclosures of deferred tax/Medium	Scope of information to be reported in financial statements	3.15.1. Disclosures of deferred tax	NO	NO
6.3.11. Impairment of fixed assets/Low	Scope of information to be reported in financial statements	3.6.1. Impairment of fixed assets	NO	NO
6.3.12. Difference between the value of the financial assets received and the liability to pay for them/Low	Scope of information to be reported in financial statements	3.12.1. Revision of accounting regulations for financial instruments and investments	NO	YES
6.3.13. Disclosures of the current profit and profit carried forward/Medium	Scope of information to be reported in financial statements	3.18.14. Disclosures of the current profit and profit carried forward	NO	NO
6.3.14. Notes on changes in equity for entities not preparing a statement of changes in equity/Medium	Scope of information to be reported in financial statements	3.2.13. Additional disclosures if no statement of changes in equity (fund) is drawn up	NO	NO
6.3.15. Disclosures of financial instruments/Low	Scope of information to be reported in financial statements	3.12.5. Disclosures of financial instruments	NO	NO

Matter to be discussed/priority	Phase II Area	Phase IV recommendations Group	Recommendations were abandoned	Recommendation in the form of options
6.3.16. Disclosures of operating leases/Medium	Scope of information to be reported in financial statements	3.11.2. Disclosures of operating leases	NO	NO
6.3.17. Disclosures of land in perpetual usufruct/Low	Scope of information to be reported in financial statements	3.6.2. Disclosures of land in perpetual usufruct	NO	NO
6.3.18. Disclosures of allowances for impairment/Medium	Scope of information to be reported in financial statements	3.18.2. Disclosures of impairment losses	NO	NO
6.3.19. Table of movements for long-term investments/Low	Scope of information to be reported in financial statements	3.18.3. Table of movements	NO	NO
6.3.20. Comparative information in tables of movements/Medium	Scope of information to be reported in financial statements	3.18.3. Table of movements	NO	NO
6.3.21. Presentation of transactions with affiliated undertakings/Medium	Scope of information to be reported in financial statements	3.18.26. Affiliated undertakings	NO	NO
6.3.22. Presentation of adjustments/Low	Scope of information to be reported in financial statements	3.2.18. Presentation of adjustments	NO	NO
6.3.23. Cash flow statement in investing entities/Medium	Scope of information to be reported in financial statements	3.2.14. Cash flow statement in entities whose operations consist in investing	NO	NO
6.3.24. Indirect method for	Scope of information to be	3.16.8. Indirect method for	YES	NO

Matter to be discussed/priority	Phase II Area	Phase IV recommendations Group	Recommendations were abandoned	Recommendation in the form of options
insurance companies/Medium	reported in financial statements	insurance companies		
6.3.25. Disclosures of financial instruments: statutory delegation/Medium	Scope of information to be reported in financial statements	3.16.2. Information and disclosures disclosed in the financial statements of investment funds	NO	NO
6.3.26. Disclosure of the accounting policies/Low	Scope of information to be reported in financial statements	3.2.19. Disclosure of the accounting policies	NO	NO
6.3.27. Change in products/Medium	Scope of information to be reported in financial statements	3.2.9. Scope of information to be reported in financial statements	NO	YES
6.3.28. Model statement of changes in equity/Medium	Scope of information to be reported in financial statements	3.2.9. Scope of information to be reported in financial statements	NO	YES
6.3.29. Disclosure of exchange rates used for measurement/Low	Scope of information to be reported in financial statements	3.2.20. Disclosure of exchange rates used for measurement	NO	YES
6.3.30. Presentation of discontinued operations/Medium	Scope of information to be reported in financial statements	3.2.10. Discontinued operations	NO	NO
6.4.1. Timeline for preparation and format of statements other than annual statements/High	Financial statements other than annual financial statements	3.3.Financial statements other than annual financial statements	NO	NO

Matter to be discussed/priority	Phase II Area	Phase IV recommendations Group	Recommendations were abandoned	Recommendation in the form of options
6.4.2. Comparative information in statements other than annual statements/High	Financial statements other than annual financial statements	3.3. Financial statements other than annual financial statements	NO	NO
6.4.3. Signing statements other than annual statements/Medium	Financial statements other than annual financial statements	3.3. Financial statements other than annual financial statements	NO	NO
6.5.1. Pooling-of-interest method for the purposes of consolidation/Medium	Consolidated financial statements	3.13.3. Accounting for acquisitions and mergers	NO	YES
6.5.2. Modifying the definition of a "controlling parent company"./Medium	Consolidated financial statements	3.13.2. Definition of controlling parent company, subsidiaries and affiliates	NO	NO
6.5.3. Definitions of subsidiaries and affiliates/Medium	Consolidated financial statements	3.13.2. Definition of controlling parent company, subsidiaries and affiliates	NO	NO
6.5.4. Clarifying the definition of "affiliated undertakings"/Medium	Consolidated financial statements	3.18.26. Affiliated undertakings	NO	NO
6.5.5. Absence of a group of companies as at the balance sheet date/Medium	Consolidated financial statements	3.13.8. Absence of a group of companies as at the balance sheet date	NO	NO
6.5.6.Consolidated financial statements in groups of	Consolidated financial statements	3.1.4. Consolidated financial statements prepared in	YES	NO

Matter to be discussed/priority	Phase II Area	Phase IV recommendations Group	Recommendations were abandoned	Recommendation in the form of options
companies preparing financial statements in accordance with IFRS that do not constitute EU IFRS/High		accordance with non-EU IFRS		
6.5.7. Discontinuation of IFRS in consolidated statements/Medium	Consolidated financial statements	3.1.3. Voluntary IFRS adoption	NO	YES
6.5.8. Exemption from mandatory consolidation if IFRS are adopted/High	Consolidated financial statements	3.1.5. Exemption from the obligation to prepare consolidated financial statements when applying IFRS	NO	NO
6.5.9. Exemption from mandatory consolidation if the statutory thresholds are exceeded/Medium	Consolidated financial statements	3.13.9. Exemption from mandatory consolidation if the statutory thresholds are exceeded	NO	NO
6.5.10. Exemption from mandatory consolidation if IFRS 10 is adopted by the original parent company/Medium	Consolidated financial statements	3.1.5. Exemption from the obligation to prepare consolidated financial statements when applying IFRS	NO	NO
6.5.11. Disclosure of reasons for not consolidating/Low	Consolidated financial statements	3.18.4. Disclosures regarding consolidation exemptions	NO	NO
6.5.12. Identification of not previously identified assets	Consolidated financial statements	3.13.10. Recognition of assets and liabilities not previously	NO	NO

Matter to be discussed/priority	Phase II Area	Phase IV recommendations Group	Recommendations were abandoned	Recommendation in the form of options
in consolidated financial statements/Medium		identified		
6.5.13. Staged acquisition: revaluation to fair value/Medium	Consolidated financial statements	3.13.4. A step acquisition and change in percentage interest in subsidiary	NO	NO
6.5.14. Change in the percentage holding in a subsidiary/Medium	Consolidated financial statements	3.13.4. A step acquisition and change in percentage interest in subsidiary	NO	NO
6.5.15. Recognition of minority interests/Medium	Consolidated financial statements	3.13.4. A step acquisition and change in percentage interest in subsidiary	NO	NO
6.5.16. Presentation of consolidated equity/Medium	Consolidated financial statements	3.13.11. Presentation of consolidated equity	NO	NO
6.5.17. Staged acquisition of a co-subsidiary/ Medium	Consolidated financial statements	3.13.7. Equity method	NO	YES
6.5.18. Change in the percentage holding in a co-subsidiary/Medium	Consolidated financial statements	3.13.7. Equity method	NO	YES
6.5.19. Proportionate consolidation/Medium	Consolidated financial statements	Proportionate consolidation	NO	NO
6.5.20. Equity method/Medium	Consolidated financial statements	3.13.7. Equity method	NO	YES

Matter to be discussed/priority	Phase II Area	Phase IV recommendations Group	Recommendations were abandoned	Recommendation in the form of options
6.5.21. Application of the equity method/Low	Consolidated financial statements	3.13.7. Equity method	NO	YES
6.5.22. Amortisation of goodwill under the equity method/Medium	Consolidated financial statements	3.13.7. Equity method	NO	YES
6.5.23. Accounting policies of a group of companies/Medium	Consolidated financial statements	3.18.5. Group accounting policies	NO	NO
6.5.24. Consolidation packages/Medium	Consolidated financial statements	3.2.15. Consolidation packages	NO	NO
6.6.1. Place of keeping account books/Medium	Accounting and bookkeeping; documentation of the accounting system	3.5.1. Place of keeping account books	NO	NO
6.6.2. Language of bookkeeping/Medium	Accounting and bookkeeping; documentation of the accounting system	3.5.2. Language of bookkeeping	NO	YES
6.6.3. Currency of bookkeeping/Low	Accounting and bookkeeping; documentation of the accounting system	3.5.3. Currency of bookkeeping	NO	YES
6.6.4. Responsibility for accounting and bookkeeping/Medium	Accounting and bookkeeping; documentation of the accounting system	3.5.4. Responsibility for accounting and bookkeeping	NO	NO

Matter to be discussed/priority	Phase II Area	Phase IV recommendations Group	Recommendations were abandoned	Recommendation in the form of options
6.6.5. Documentation of the accounting system: preparation of statements/Low	Accounting and bookkeeping; documentation of the accounting system	3.5.5. Documentation of the accounting system	NO	NO
6.6.6. Definition of the business start date/Medium	Accounting and bookkeeping; documentation of the accounting system	3.5.6. Definition of the business start date	NO	NO
6.6.7. Closing of books and preparation of financial statements/Medium	Accounting and bookkeeping; documentation of the accounting system	3.3. Financial statements other than annual financial statements	NO	NO
6.6.8. Closing of books as at the business combination registration date/Medium	Accounting and bookkeeping; documentation of the accounting system	3.3 Financial statements other than annual financial statements	NO	NO
6.6.9. Documentation of the financial and accounting system/High	Accounting and bookkeeping; documentation of the accounting system	3.5.7. Digitalisation in the area of bookkeeping	NO	YES
6.6.10. Specific provisions on accounting and bookkeeping techniques/High	Accounting and bookkeeping; documentation of the accounting system	3.5.7. Digitalisation in the area of bookkeeping	NO	YES
6.6.11. Supporting and other accounting documents/High	Accounting and bookkeeping; documentation of the	3.5.7. Digitalisation in the area of bookkeeping	NO	YES

Matter to be discussed/priority	**Phase II Area**	**Phase IV recommendations Group**	**Recommendations were abandoned**	**Recommendation in the form of options**
	accounting system			
6.6.12. Statement of turnover and balances/Medium	Accounting and bookkeeping; documentation of the accounting system	3.5.8. Trial balance	NO	NO
6.6.13. Currency conversion result in a supporting accounting document/Medium	Accounting and bookkeeping; documentation of the accounting system	3.5.9. Currency conversion result in a supporting accounting document	NO	NO
6.6.14. Correcting errors in records/Medium	Accounting and bookkeeping; documentation of the accounting system	3.5.10. Correcting errors in records	NO	NO
6.6.15. Providing regulation of issue of mandatory recordkeeping of documents in the context of electronic document distribution (e-invoices)/High	Accounting and bookkeeping; documentation of the accounting system	3.5.7. Digitalisation in the area of bookkeeping	NO	YES
6.6.16. Reports required under the Act and implementation of electronic books vs. tax laws/High	Accounting and bookkeeping; documentation of the accounting system	3.5.7. Digitalisation in the area of bookkeeping	NO	YES
6.6.17. Providing acceptability of keeping	Accounting and bookkeeping;	3.5.11. Recording in sub-ledgers of inventory	YES	NO

Matter to be discussed/priority	Phase II Area	Phase IV recommendations Group	Recommendations were abandoned	Recommendation in the form of options
sub-ledgers of inventory by way of records other than value and volume records and the obligation to prepare JPK_MAG./Low	documentation of the accounting system			
6.6.18. Data retention and protection/High	Accounting and bookkeeping; documentation of the accounting system	3.5.7. Digitalisation in the area of bookkeeping	NO	YES
6.7.1. Stocktaking method: use of computer systems/High	Stocktaking	3.10.1. Stocktaking manner	NO	YES
6.7.2. Stocktaking in automated warehouses/Medium	Stocktaking	3.10.2. Stocktaking in automated warehouses	NO	YES
6.7.3. Stocktaking timeline/Medium	Stocktaking	3.10.3. Stocktaking timeline	NO	YES
6.7.4. Balance confirmation/Medium	Stocktaking	3.10.4. Balance confirmations	NO	NO
6.7.5. Clarification of the types of assets, equity and liabilities subject to stocktaking/Low	Stocktaking	3.10.5. Clarification of the types of assets, equity and liabilities subject to stocktaking	NO	YES
6.8.1. Definition of intangible assets/Medium	Classification and measurement of assets, equity and liabilities;	3.8.1. Definition, indefinite useful life, costs of improvement of intangible assets	NO	NO

Matter to be discussed/priority	**Phase II Area**	**Phase IV recommendations Group**	**Recommendations were abandoned**	**Recommendation in the form of options**
	recognition of transactions			
6.8.2. Definition of property under construction/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.7.1. Definition of property under construction	NO	NO
6.8.3. Marketing and advertising materials/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.18.6. Marketing and advertising materials	NO	NO
6.8.4. Reclassifications between asset types/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.7.2. Reclassifications between asset types	NO	NO
6.8.5. Segregation of intangible assets, fixed assets and investments in property into long-term and short-term items/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.7.3. Classification of intangible assets, fixed assets and investments in property into long-term and short-term items	NO	NO
6.8.6. Trade receivables and liabilities as financial liabilities/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.12.1. Revision of accounting regulations for financial instruments and investments	NO	YES
6.8.7. Going concern assessment/High	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.2.16. Going concern assessment	NO	NO

Matter to be discussed/priority	Phase II Area	Phase IV recommendations Group	Recommendations were abandoned	Recommendation in the form of options
6.8.8. Measurement if no longer a going concern/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.18.7. Valuation without going concern assumption	NO	NO
6.8.9. Definitions of materiality and prudence/Low	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.18.8. Definitions of materiality and prudence	NO	NO
6.8.10. Fair market value and fair value/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.18.9. Market value and fair value	NO	NO
6.8.11. Clarifying the definition of the cost of acquisition/Low	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.18.10. Clarifying the definition of the cost of acquisition	NO	NO
6.8.12. Need to restructure impairment provisions between the Act and NAS 4/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.6.3. Impairment of fixed assets	NO	NO
6.8.13. Harmonising tax and accounting laws for currency measurement/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.18.11. Harmonising tax and accounting laws for currency transactions	NO	NO
6.8.14. Measurement of non-monetary assets/Low	Classification and measurement of assets, equity and liabilities;	3.18.12. Measurement of non-monetary assets	NO	YES

Matter to be discussed/priority	Phase II Area	Phase IV recommendations Group	Recommendations were abandoned	Recommendation in the form of options
	recognition of transactions			
6.8.15. Recognition of exchange gains and losses for debt instruments/Low	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.12.2. Recognition of exchange gains and losses for debt instruments	NO	NO
6.8.16. Measurement of investments in insurance companies/Low	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.16.9. Measurement of investments in insurance companies	NO	NO
6.8.17. Measurements of deposits and other investments in insurance companies/Low	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.16.10. Measurement and income from investments in insurance companies	NO	NO
6.8.18. Definition, recognition and measurement of crypto assets and crypto liabilities/Low	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.18.13. Table of movement	NO	YES
6.8.19. Measurement of immovable property for insurance companies/Low	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.16.11. Valuation of real estate in insurance companies	NO	NO
6.8.20. Indefinite useful life of intangible assets/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.8.1. Definition, indefinite useful life, costs of improvement of intangible assets	NO	NO

Matter to be discussed/priority	Phase II Area	Phase IV recommendations Group	Recommendations were abandoned	Recommendation in the form of options
6.8.21. Cost of improvement of intangible assets/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.8.1. Definition, indefinite useful life, costs of improvement of intangible assets	NO	NO
6.8.22. Clarification of the provisions on ongoing development projects/Low	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.8.2. Clarification of provisions for ongoing development projects and their capitalisation	NO	NO
6.8.23. Capitalisation of development projects/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.8.2. Clarification of provisions for ongoing development projects and their capitalisation	NO	NO
6.8.24. Possibility to reevaluate fixed assets/High	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.6.7. Revaluation of fixed assets	NO	YES
6.8.25. Definition of the cost of manufacture of a fixed asset/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.6.8. Definition of the cost of manufacture of the fixed asset	NO	NO
6.8.26. Provision for costs of asset retirement or	Classification and measurement of assets,	3.14.1. Decommissioning provisions	NO	YES

Matter to be discussed/priority	Phase II Area	Phase IV recommendations Group	Recommendations were abandoned	Recommendation in the form of options
reinstatement/Low	equity and liabilities; recognition of transactions			
6.8.27. Capitalisation of borrowing cost/Low	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.18.16. Capitalisation of borrowing cost	NO	NO
6.8.28. Starting point of depreciation/Low	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.6.4. Starting point of depreciation	NO	NO
6.8.29. Acceptable changes of the depreciation and amortisation method/Low	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.6.5. Depreciation period and methods	NO	NO
6.8.30. Removing specific regulations of fixed assets impairment from the Act/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.6.3. Impairment of fixed assets	NO	NO
6.8.31. Simplified approach to low-value fixed assets/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.6.6. Low value fixed assets	NO	YES
6.8.32. Lease classification	Classification and	3.11.1. Lease classification	NO	NO

Matter to be discussed/priority	Phase II Area	Phase IV recommendations Group	Recommendations were abandoned	Recommendation in the form of options
criteria/Medium	measurement of assets, equity and liabilities; recognition of transactions	criteria		
6.8.33. Measurement of mandatory reserves/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.9.1. Measurement of mandatory reserves	NO	YES
6.8.34. Measurement of own-produced films, software and similar items/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.9.2. Measurement of films, software and similar items produced by an entity	NO	NO
6.8.35. Measurement of heterogenous inventory/Low	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.9.3. Measurement of heterogenous inventory	NO	NO
6.8.36. Measurement of inventories at fixed prices/Low	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.9.4. Measurement of inventories at standard prices	NO	NO
6.8.37. Absence of regulation for other tax charges/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.15.2. Absence of regulation for other tax charges	NO	NO
6.8.38. Allowance for accounts not yet due where	Classification and measurement of assets,	3.12.1. Revision of accounting regulations for financial	NO	YES

Matter to be discussed/priority	Phase II Area	Phase IV recommendations Group	Recommendations were abandoned	Recommendation in the form of options
the portion due is past due/Medium	equity and liabilities; recognition of transactions	instruments and investments		
6.8.39. Allowances for doubtful accounts in the context of significantly increased risk of uncollectible accounts/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.12.1. Revision of accounting regulations for financial instruments and investments	NO	YES
6.8.40. Revision of regulations governing the recognition and measurement of financial assets and liabilities/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.12.1. Revision of accounting regulations for financial instruments and investments	NO	YES
6.8.41. Extension of allowances for impairment for investments/Low	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.18.15. Scope extension of impairment for investments	NO	NO
6.8.42. Cost of transactions and their recognition: revision of the provisions of the Act and the Financial Instrument Regulation/Low	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.12.1. Revision of accounting regulations for financial instruments and investments	NO	YES
6.8.43. Acceptable measurement principles: revision of the provisions of	Classification and measurement of assets, equity and liabilities;	3.12.1. Revision of accounting regulations for financial instruments and investments	NO	YES

Matter to be discussed/priority	Phase II Area	Phase IV recommendations Group	Recommendations were abandoned	Recommendation in the form of options
the Act and the Financial Instrument Regulation/Low	recognition of transactions			
6.8.44. Measurement of hedged assets or equity and liabilities: revision of the provisions of the Act and the Financial Instrument Regulation/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.12.4. Measurement of hedged assets or liabilities and use of hedge accounting	NO	NO
6.8.45. Application of hedge accounting/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.12.4. Measurement of hedged assets or liabilities and use of hedge accounting	NO	NO
6.8.46. Measurement of financial instruments upon reclassification/Low	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.12.1. Revision of accounting regulations for financial instruments and investments	NO	YES
6.8.47. Recognition of liabilities for dividends declared/Low	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.18.20. Recognition of liabilities for dividends declared	NO	NO
6.8.48. Presentation of contributions received and not registered as at the balance sheet date/Low	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.18.17. Presentation of contributions received and not registered as at the balance sheet date	NO	NO
6.8.49. Simplification of regulations on conversion	Classification and measurement of assets,	3.18.19. Simplification of regulations debt-to-equity	NO	NO

Matter to be discussed/priority	Phase II Area	Phase IV recommendations Group	Recommendations were abandoned	Recommendation in the form of options
to equity/Low	equity and liabilities; recognition of transactions	conversion		
6.8.50. Insufficient regulation of branch accounting for branches of foreign companies, foreign credit institutions and foreign insurance companies/High	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.17. Branches	NO	NO
6.8.51. Accounting for additional contributions/Low	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.18.21. Accounting for additional contributions	NO	NO
6.8.52. Providing regulation of additional capital contributions/Low	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.12.3. Providing regulation of additional capital contributions	NO	NO
6.8.53. Issue of discounted securities/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.12.1. Revision of accounting regulations for financial instruments and investments	NO	YES
6.8.54. Recognition of accrued expenses and deferred income and provisions/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.14.2. Providing regulation for the issue of provisions and accrued expenses, as well as provisions for employee benefits	NO	NO
6.8.55. Recognition of employee	Classification and measurement of assets,	3.14.2. Providing regulation for the issue of provisions and	NO	NO

Matter to be discussed/priority	Phase II Area	Phase IV recommendations Group	Recommendations were abandoned	Recommendation in the form of options
provisions/Medium	equity and liabilities; recognition of transactions	accrued expenses, as well as provisions for employee benefits		
6.8.56. Restructuring the terminology for provisions in the Act and in NAS 6/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.14.2. Providing regulation for the issue of provisions and accrued expenses, as well as provisions for employee benefits	NO	NO
6.8.57. Clarification of the issues of provisions and accrued expenses/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.14.2. Providing regulation for the issue of provisions and accrued expenses, as well as provisions for employee benefits	NO	NO
6.8.58. Measurement of discounted provisions/Low	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.14.3. Measurement of discounted provisions	NO	NO
6.8.59. Restructuring the terminology for provisions in the Act and in NAS 6: onerous contracts/Low	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.14.4. Restructuring the terminology of provisions between the Act and NAS 6	NO	NO
6.8.60. Settlement of grants/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.18.22. Accounting for grants	NO	NO
6.8.61. Tax credits/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.15.3. Tax credits	NO	NO

Matter to be discussed/priority	Phase II Area	Phase IV recommendations Group	Recommendations were abandoned	Recommendation in the form of options
6.8.62. Offsetting deferred tax assets and liabilities/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.15.4. Offsetting deferred tax assets and liabilities	NO	NO
6.8.63. Change of tax status/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.15.5. Change of tax status	NO	NO
6.8.64. Recognition of deductible tax loss/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.15.6. Recognition of deductible tax loss	NO	YES
6.8.65. Revenue from services within 6 months/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.18.23. Revenue from services within 6 months	NO	YES
6.8.66. Imprecise definition of “other operating costs and revenue”: recognition of provisions/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.14.5. Other operating revenue and expenses	NO	NO
6.8.67. Categories of operating revenue and expenses recognised as other operating revenue and expenses/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.14.5. Other operating income and costs	NO	NO
6.8.68. Absence of sufficient guidelines for the	Classification and measurement of assets,	3.7.4. Lack of sufficient guidelines for recognition of	NO	YES

Matter to be discussed/priority	Phase II Area	Phase IV recommendations Group	Recommendations were abandoned	Recommendation in the form of options
recognition of the effects of revaluation of investment property/Low	equity and liabilities; recognition of transactions	revaluation effects in case of investment property 3.12.1. Revision of accounting regulations for financial instruments and investments		
6.8.69. Incentive schemes/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.18.24. Incentive schemes	NO	NO
6.8.70. Change of depreciation/amortisation rate during the year/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.6.5. Depreciation period and methods	NO	NO
6.8.71. Equity in funds for liquidation/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.16.4. Equity in funds subject to liquidation	NO	NO
6.8.72. Provisions in insurance companies/Low	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.16.12. Provisions in insurance companies	NO	NO
6.8.73. Returns on investments for insurance companies/Medium	Classification and measurement of assets, equity and liabilities; recognition of transactions	3.16.10. Measurement and income from investments in insurance companies	NO	NO

Matter to be discussed/priority	Phase II Area	Phase IV recommendations Group	Recommendations were abandoned	Recommendation in the form of options
6.9.1. Limitations on the applicability of the acquisition method for common control transactions/High	Business combination and division transactions	3.13.3. Accounting for acquisitions and mergers	NO	YES
6.9.2. Pooling-of-interest method where individuals or the State Treasury have control/Medium	Business combination and division transactions	3.13.3. Accounting for acquisitions and mergers	NO	YES
6.9.3. Clarification of the area of “joint control”/Low	Business combination and division transactions	3.13.3. Accounting for acquisitions and mergers	NO	YES
6.9.4. Clarifying of the definition of combined assets, equity and liabilities/Medium	Business combination and division transactions	3.13.3. Accounting for acquisitions and mergers	NO	YES
6.9.5. Capital from business combination/High	Business combination and division transactions			
6.9.6. Post-acquisition comparative information under the pooling-of-interest method/Medium	Business combination and division transactions	3.13.3. Accounting for acquisitions and mergers	NO	YES
6.9.7. Cost of acquisition under the pooling-of-interest method/Low	Business combination and division transactions	3.13.3. Accounting for acquisitions and mergers	NO	YES
6.9.8. Elimination of	Business combination and	3.13.3. Accounting for	NO	YES

Matter to be discussed/priority	Phase II Area	Phase IV recommendations Group	Recommendations were abandoned	Recommendation in the form of options
investments under the pooling-of-interest method/Low	division transactions	acquisitions and mergers		
6.9.9. Definition of an enterprise/High	Business combination and division transactions	3.13.1. Definition of business and asset deal	NO	YES
6.9.10. Acquisition of an enterprise and acquisition of a group of assets/Medium	Business combination and division transactions	3.13.1. Definition of business and asset deal	NO	YES
6.9.11. Reverse business combination/High	Business combination and division transactions	3.13.3. Accounting for acquisitions and mergers	NO	YES
6.9.12. Staged acquisition/Medium	Business combination and division transactions	3.13.4. A step acquisitions and change in percentage interest in subsidiary	NO	NO
6.9.13. Provisional acquisition accounting/Medium	Business combination and division transactions	3.13.3. Accounting for acquisitions and mergers	NO	YES
6.9.14. Recognition of not previously identified assets and liabilities/Medium	Business combination and division transactions	3.13.10. Recognition of assets and liabilities not previously identified	NO	NO
6.9.15. Structuring the Act in matters of mergers and acquisitions/Medium	Business combination and division transactions	3.13.3. Accounting for acquisitions and mergers	NO	YES
6.9.16. Providing regulation	Business combination and	3.13.6. Providing regulation of	NO	NO

Matter to be discussed/priority	Phase II Area	Phase IV recommendations Group	Recommendations were abandoned	Recommendation in the form of options
of business division transactions/High	division transactions	demergers		
6.10.1. Appointment of the statutory auditor/Medium	Audits of financial statements	3.4.1. Appointment of the statutory auditor	NO	NO
6.10.2. Appointment of the statutory auditor for branches/High	Audits of financial statements	3.17. Branches	NO	NO
6.10.3. Audit agreement for sub-funds/High	Audits of financial statements	3.4.2. Audit agreement for sub-funds	NO	NO
6.10.4. Audit agreement/Medium	Audits of financial statements	3.4.3. Contract and costs of auditing the financial statements	NO	YES
6.10.5. Audit cost/Medium	Audits of financial statements	3.4.3. Contract and costs of auditing the financial statements	NO	YES
6.10.6. Information about the beneficial owner/Medium	Audits of financial statements	3.4.4. Access to information for the purpose of auditing the financial statements	NO	NO
6.10.7. Access to information/Medium	Audits of financial statements	3.4.4. Access to information for the purpose of auditing the financial statements	NO	NO
6.10.8. Balance confirmation/Medium	Audits of financial statements	3.5.12. Balance confirmations	NO	NO
6.11.1. Definition of the	Other topics	3.2.17. Definition of the financial	NO	NO

Matter to be discussed/priority	Phase II Area	Phase IV recommendations Group	Recommendations were abandoned	Recommendation in the form of options
financial year/Medium		year		
6.11.2. No definition of annual financial statements/Medium	Other topics	3.3. Financial statements other than annual financial statements	NO	NO
6.11.3. Use of the abbreviation IFRS/Low	Other topics	3.1.6. Use of the abbreviation IFRS	NO	NO
6.11.4. No definitions of a transaction or a balance/Low	Other topics	3.18.25. No definitions of a transaction or a balance	YES	NO
6.11.5. Definitions of affiliated undertakings/Medium	Other topics	3.18.26. Affiliated undertakings	NO	NO
Additional discussion areas identified in Phase IV of the Project				
-	-	3.16.3. Additional issues related to fair value measurement for investment funds	NO	NO
-	-	3.16.5. Business combinations of investment funds	NO	NO
-	-	3.16.13. Write-down on premium receivable	NO	NO
-	-	3.16.14. Other issues relating to insurers	NO	NO

Appendix 4 – New standards (initial proposal)

Proposed new Standard name	Interaction with the Act and proposed content	Source of information
Standard for intangible assets	The Act should contain only general provisions on intangible assets indicating that they are measured at historic cost, need to be depreciated over the period when economic benefits are received in a way that best reflects such generation, and capitalisation of costs is limited (only in the start-up phase and excluding general and administrative expenses, training, etc.). On the other hand, the standard should expand the content contained in the Act and, among others, regulate issues such as: ● What meets the definition of an intangible asset; ● In which situations it is justified to recognise an intangible asset (acquisition externally, acquisition as a result of a business combination transaction, own generation and improvement of the intangible asset); ● What specific costs may or may not be capitalised; ● How to determine the useful life of the intangible asset or how to derive economic benefits from it, what depreciation methods are acceptable, whether and how to determine the residual value, whether the adopted depreciation method can be changed; ● Other issues that raise doubts in the accounting practice of intangible assets.	Certain existing provisions of the Act Standard to be developed from scratch (currently under development by NAS)
Standard for property investment	At the level of the Act, a general provision should be included defining what is an investment in real estate and indicating that such investments are measured in one of two methods (1. historical cost – depreciation and impairment or 2. fair value measurement), together with an indication of where the effects of changes in value should be achieved. On the other hand, the standard should expand the content contained in the Act and, among others, regulate issues such as: ● What is an investment property (land, building, construction), how to proceed when the property is partly used to gain lease benefits and partly for own needs; ● When reclassifications are made to and from investment property; ● How to reflect the effects of subsequent expenditures depending on the	Certain existing provisions of the Act Standard to be developed from scratch (currently under development by NAS)

	valuation method applied; ● What principles should be applied to ongoing real estate investments; ● Other issues that raise doubts in the accounting practice of real estate investments.	
Standard for determining what is significant in financial statements and applying simplifications permitted by the Act	The Act should clearly indicate who may apply specific simplifications (micro, small) and in which areas (e.g. deferred tax, financial instruments, etc.) and generally indicate that when applying statutory simplifications, the simplifications applied should be stated in the notes. The Act should also specify that each entity may apply simplified solutions if they relate to matters that are immaterial and do not affect the true presentation of the financial statements. On the other hand, the standard should expand the content contained in the Act and, among others, regulate issues such as: ● How simplification should be applied if permitted by the Act (e.g. state explicitly that a tax arrangement is applied for a given area); ● Specify the extent of the information that an undertaking using statutory simplifications must provide, depending on whether it is a micro or a small undertaking; ● Refer to situations where an entity applies simplifications because of materiality and indicate how the entity should proceed (how to apply the simplifications and what to disclose as little as possible) and indicate what limits are allowed for the use of simplifications; ● Indicate how to determine materiality for the financial statements, individual items of the financial statements, core statements, disclosures; ● Other matters that raise questions in accounting practice concerning the determination of what material in the financial statements and the use of simplifications permitted by the Act is.	Certain existing provisions of the Act Standard to be developed from scratch (currently under development by NAS)
Standard for presenting the discontinuing or discontinued activities and disclosing the related information	At the level of the Act, it is sufficient to note that if a decision is made to discontinue activities now or during the period covered by the financial statements or after the balance sheet date, and before the date of the financial statements, significant information should be disclosed that allows the user of the financial statements to assess how those activities affected the financial and property position and results of operations during the period covered by the financial statements. On the other hand, the standard should expand the content contained in the Act and, among others, regulate issues such as:	Certain existing provisions of the Act Standard to be developed from scratch (currently under development by NAS)

	- What do the discontinuing or discontinued activities involve, when are they present; - What information should be disclosed both in the core statements and in the notes; - How to determine the amounts relating to discontinued activities; - Other matters that raise questions in accounting practice with respect to the recognition and disclosure of discontinuing or discontinued activities.	
Standard for control combined with consolidation rules	At the level of the Act, it should be noted that an entity prepares consolidated financial statements that include the data of all entities under the direct or indirect control of the parent company as if the parent company and all entities controlled by it formed a single economic entity. The Act should indicate in general what control means and that entities are consolidated from the moment the control arises until the parent company loses control. The Act should also specify that the capital and result should include the part related to the rights of non-controlling (minority) shareholders to consolidated net assets and their share of the net profit achieved in the period. The Act should contain regulations allowing for the waiver of the preparation of consolidated financial statements (e.g. due to strictly defined size thresholds) or allowing/excluding the inclusion of certain entities in full consolidation. The Act should specify the need to include disclosures where consolidation is waived, significant judgements about the existence of control, and other relevant information for understanding the group structure and the manner and methods of preparing consolidated financial statements. The Act should also specify generally the principles for settling negative and positive goodwill. On the other hand, the standard should expand the content contained in the Act and, among others, regulate issues such as: - Expand audit issues and address controversial areas in this respect (e.g. de facto audit issue); - Describe the mechanics of the consolidated financial statements, including issues of consolidation exclusions, elimination of unrealised gains, allocation between majority and minority shareholder amounts; - Regulate in detail the effects of deconsolidation of the entity, including where the entity leaves its involvement in an entity over which it has lost control; - Refer to the regulations or standards relating to acquisitions or mergers in order to clarify the specificities of the consolidated financial statements;	Certain existing provisions of the Act 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

	• Regulate in detail the accounting for goodwill; • Other issues that raise questions in accounting practice regarding audit issues and consolidation rules.	
Standard for financial instruments	The Act should contain content indicating generally the classification of financial instruments, valuation methods of individual categories and the effects of changes in measurements of financial instruments as well as exemptions (e.g. in the situation of GTC use exemption). In this regard, the Act should describe the content presented in diagrams in Appendices 7 and 8. The Act should define a financial instrument and specify that a financial instrument is recognised when an entity becomes a party to a contract and ceases to be recognised on disposal, settlement, expiration or substantial transfer of all rights and benefits attaching to that instrument. The Act should also contain regulations on exemption from measurement requirements (who may be exempted and who must apply it in return). On the other hand, the standard should expand the content contained in the Act and, among others, regulate issues such as: • An extension of the definition of a financial instrument together with an indication of the specific guidelines when the instrument is a debt, equity instrument and a specific indication of how GTC use exemption should be applied; • Specific principles on the moment of initial recognition of a financial instrument, the moment of derecognition of a financial instrument, including in particular principles on derecognition of financial assets, the effect of converting financial instruments from one financial instrument to another; • Extensive principles on the applicability of hedge accounting, including the definition of specific conditions to be met, the calculation of the amounts of effective hedge and the recognition of the ineffective portion; • Matters relating to the scope of disclosures concerning financial instruments, including matters relating to disclosures when statutory exemptions are applied; • Other issues that raise concerns in the accounting practice of financial instruments.	Certain existing provisions of the Act Regulation of the Minister of Finance on specific principles of recognition, valuation methods, scope of disclosure and manner of presentation of financial instruments
Standard for significant influence and methodology for applying the equity method	The Act should provide that if significant influence is exercised, investments in the entity should be recognised using the equity method. The Act should generally define what is understood by exerting significant influence, introduce	Certain existing provisions of the Act

	the concept of an affiliate and broadly describe what the equity method consists of, as well as the fact that the method is applied from the moment when significant influence arises until the moment when it ceases. The Act should also include a general provision that an entity discloses information that is necessary for users to understand the effect of investments in affiliates on financial statements. On the other hand, the standard should expand the content contained in the Act and, among others, regulate issues such as: ● Issues of determining a significant impact in problem situations; ● Specific mechanics for the application of the equity method and an indication of the recognition of the transaction between the investor and the affiliate; ● Regulate in detail increases and decreases in interest in an affiliate; ● The extent of disclosures related to an investment in an affiliate; ● Other matters that raise questions in accounting practice with respect to the exercise of significant influence and the application of the equity method.	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
Standard for fair value measurements	The Act should introduce a general definition of fair value and indicate for which items of assets and liabilities fair value measurement is mandatory or acceptable. On the other hand, the standard should elaborate on, or refer directly to, the fair value methodology and content similar to that in IFRS 13. In addition, the standard should specify the principles for grants/donations received to finance assets identified at fair value, including those that meet the definition of grants within the meaning of IAS 20, as well as other donations that do not.	Certain existing provisions of the Act IFRS 13 Statement of Position on fair value measurement of acquired assets and liabilities
Standard for the principles of determining the cost of acquisition and cost of manufacture, or the so-called historical cost	The Act should introduce a definition of cost of acquisition and cost of manufacture (alternatively historical cost) and indicate which assets and liabilities are measured at its application. On the other hand, the standard should expand the content contained in the Act and, among others, regulate issues such as: ● What constitutes a historical cost component if acquired or manufactured internally, what costs and when may or may not be capitalised; ● What constitutes a reasonable cost or effort; ● Regulate in detail the issues of borrowing costs, determination of the	Certain existing provisions of the Act NAS's statement of position on the recognition of the swap transaction a non-monetary asset for another non-monetary asset

	initial price in case of application of hedge accounting (the so-called basis Adjustment); • Contain content on the exchange of non-monetary assets from a Statement of Position on the recognition of a transaction for the exchange of a non-monetary asset into another non-monetary asset; • Identify an alternative to determining historical cost if the asset has not been recognised as a result of its own acquisition or manufacture (i.e., it was received in a donation, disclosed, etc.); • Specify the principles for grants/donations received to finance items identified in historical cost, including those that meet the definition of grants within the meaning of IAS 20, as well as other donations that do not meet that definition; • Other issues that raise doubts in accounting practice regarding the principles of determining the cost of acquisition and cost of manufacture, i.e. the so-called historical cost.	NAS 11 NAS 12 NAS 13
A standard that provides guidance on the scope of analysis and assessment of an entity's ability to continue as a going concern and on determining accounting principles when the going concern basis of accounting is not applicable	In our opinion, the existing statutory provisions are in principle at a good level of detail, while the existing NAS 14 Standard should be supplemented in the part concerning issues of principles and methodology for determining whether an entity meets the conditions to be classified as going concern in the foreseeable future due to recommendations made elsewhere in the report.	NAS 14
Standard for bookkeeping (including archiving and data protection)	*The scope and shape of the standard will depend on the decision to introduce recommendations in the area of bookkeeping (mainly introduction of bookkeeping in digitalised form as the basic obligatory bookkeeping method – see recommendation 3.5.7).* The Act should regulate the basic aspects related to keeping the books, i.e. keeping the books in digitalised form as the basic mandatory method of keeping the books, specifying which entities are subject to this obligation, the form of accounting document, which data sets should be protected and subject to the retention time regime, definition of the accounting system concept, minimum requirements for accounting entries, responsibility for ensuring compliance of the financial and accounting system with the Act	Certain existing provisions of the Act Statement of Position on certain bookkeeping principles

	On the other hand, the standard should expand the content contained in the Act and, among others, regulate issues such as: minimum requirements for accounting systems, obligations related to risk assessment aimed at establishing appropriate security measures for accounting systems and data, specific aspects related to confirmation of balances, correction of errors in accounting entries, result of currency conversion on the accounting document and these contents are currently clarified in the Statement of Position on certain bookkeeping principles, which will remain valid with the possible introduction of the obligation to keep accounting entries digitalised.	
Standard for the layout and content of financial statements	At the level of the Act, it is sufficient to define that financial statements comprise core statements and notes that usefully and usefully disclose information about property and financial position, result, cash flows and changes in equity. The Act should also define the concept of core statements, what it consists of and when a given report may not be prepared (exemption from preparation of cash flow statement and statement of changes in equity (fund)). Other issues relating to the layout and content of financial statements should, in our opinion, be regulated at standard level in the form of a regulation. In particular, we consider it reasonable to establish a generic standard for the layout and content of financial statements, the scope of such a standard is based on IAS 1, IAS 7, IAS 8, IAS 10 and expected IFRS 18. Under the assumption, this standard would be the main source of regulation for entities other than those subject to regulation arising from sector-specific standards. On the other hand, the content contained in this standard would, after being transferred to sector-specific standards, be modified accordingly, taking into account the specific nature of the given sector (e.g. in the sector-specific standard for banks and financial institutions, the bank balance sheet would be presented instead of the standard balance sheet layout). This general standard should take into account, inter alia: ● A specific layout of individual core statements together with specific guidelines on the classification of individual assets, liabilities, revenues and expenses (e.g. the issue of the distinction between long-term and short-term); ● A specific indication of the minimum scope of accounting principles that an entity must include in its financial statements; ● Specific scope of disclosures, including any issues included in the current Appendix 1 to the	Certain existing provisions of the Act Appendix 1 to the Act IAS 1 IAS 7 IAS 8 IAS 10 IFRS 18 NAS 1

	● Acts and fundamental disclosure issues transferred from other standards.	
Standard for stocktaking	The Act should indicate in a general manner that assets and liabilities recognised in account books or recognised off-balance sheet and disclosed in financial statements must be periodically verified. The Act should additionally regulate the minimum frequency of such verification and allow for the possibility of using a continuous random stocktaking, provided that they meet the general objective of verifying the existence of specific components. The standard should contain all specific standards and regulations for carrying out the stocktaking, including the acceptable methodology, frequency, deadlines, etc.	Certain existing provisions of the Act Statement of Position on stocktaking by means of physical count of materials, goods, finished products and semi-finished products In the context of stocktaking taking: IAS 2
Standard for the recognition of taxes and charges other than income taxes	At the statutory level, it should be maintained that revenue is reported net of taxes directly related to turnover, and we suggest introducing the terminology of turnover taxes and defining them as public-law burdens, regardless of their name, in which the entity acts as an intermediary in the collection and payment of amounts and the ultimate economic burden related to taxation is borne by the consumer. At the same time, we propose to introduce into the Act the term cost tax or operating expense tax, which includes amounts recognised in taxes and charges by nature, together with an indication of the general rule that a liability for such tax is recognised when an event occurs that makes a charge unavoidable and its cost is recognised immediately in the profit and loss account, unless the charge relates to future periods or the generation of assets. On the other hand, the following issues, among others, should be regulated at the standard level: ● When the tax meets the definition of income, turnover or cost tax; ● How to settle the turnover tax, in particular when the moment when the tax liability arises is different from the recognition of revenue; ● What does it mean that the charge becomes unavoidable and the cost tax liability should be recognised (based on IFRIC 21); ● Specific guidance on how to account for a cost related to the cost tax, including whether to account for it in the measurement of inventories,	Planned statement of position of NAS regarding turnover taxes NAS 2 IFRIC 21 IAS 12 NAS 15/IFRS 15 as regards the determination of revenue-reducing taxes

	fixed assets or when it relates to future periods. These issues can be addressed in a separate dedicated standard, e.g. turnover and cost taxes, or by extending the Standard of NAS 2: Income Tax and creating a universal standard for all public-law charges.	
Standard for the recognition of employee benefits including incentive plans	A general provision should be included in the Act stating that an entity recognises in its financial statements costs related to employee benefits in connection with the services received in a manner that ensures that the identification of the expense is consistent throughout the period in which the services are provided, regardless of whether the benefits are paid by the entity, its shareholders or related parties. In addition, the Act should specify that in the case of long-term benefits, assumptions concerning the probability of satisfaction of the conditions for obtaining the benefit, the estimation of changes in the value of compensation and the effect of changes in the value of money over time should be taken into account when measuring the benefit. On the other hand, the standard should expand the content contained in the Act and, among others, regulate issues such as: ● Who the employee is; ● What constitutes an employee benefit; ● When the employee benefit is long-term and short-term; ● When the benefit is a paid benefit during the period of work, at the end of the work and after the period of work; ● How to recognise short-term work, including base compensation, bonuses, holiday entitlements and equivalents, and where to affect the revaluation of these liabilities; ● How to recognise long-term benefits, including long-term bonus plans, jubilee awards, additional holiday benefits, retirement allowances, post-employment benefit liabilities and where to have the effects of revaluation of those liabilities; ● How to recognise benefits paid in the form of equity instruments of the entity or its affiliated undertakings (share-based payment); ● How to recognise those benefits if the entity is not directly required to pay such benefits but the liability is borne by the shareholder or a related company; ● Other issues that raise questions in accounting practice with respect to the recognition of employee benefits, including incentive plans.	Certain existing provisions of the Act NAS 6 IAS 19 IFRS 2

	At the same time, we consider it reasonable to maintain the issue of employee benefit liabilities from the provisions standard (NAS 6), as the methodology for determining employee benefits and their specificities are different from those for determining other provisions.	
Accounting policies for business combinations in separate and consolidated financial statements	At the level of the Act, in accordance with the recommendations, definitions of business activity, a set of assets, an organised part of an enterprise and general provisions indicating the use of an acquisition method or a method based on carrying amounts should be included at the level of the Act. General records should only indicate when each method is instructed/prohibited/acceptable and general statements on what is an acquisition method and a method based on carrying amounts. The following issues, among others, should be considered at the dedicated standard level: 1) With respect to the acquisition method: ● Specification of the moment of acquisition; ● Determining which party is the acquiring party and the manner of proceeding where the acquiring party is not an entity that legally acquires another venture (so-called reverse acquisition); ● Specific regulations for determining the value of the consideration transferred, including consideration of previously held and non-controlling shares, as well as share-based compensation, contingent compensation. Regulations should also cover issues such as what should be excluded from the value of consideration transferred (e.g. future employee benefits); ● Specific arrangements for determining what constitutes an identifiable asset or liability subject to fair value measurement and which assets or liabilities are measured at a value other than fair value and how to determine such value; ● Arrangements for recognising, allocating and dealing with goodwill or negative goodwill (see also proposal for consolidation standard); ● Other issues that raise doubts in accounting practice with respect to the acquisition method. 2) With respect to the carrying amount method: ● Specific explanation of what is meant by “under common	Act, in particular Chapter 4 business combinations 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 Statement of Position on fair value measurement in business combinations Provisions of the CCC concerning connections, contributions, divisions IFRS 3 IAS 36

		control", which if "joint control" is temporary (with specification of how to apply the acquisition method when the so-called grooming Transaction is involved; ● An explanation of what constitutes a group reorganisation and a transaction with little or no economic substance; ● providing regulation of which predecessor value should be used where more than one set of carrying amounts (e.g. company level or consolidated financial statements) is available; ● Where and how the differences between the consideration transferred and the carrying amount of the net assets acquired should be accounted for, how to proceed where the combination is paid for by issuing shares with different nominal value and issue price, how to proceed where the combination is completed without compensation; ● Other issues that raise questions in accounting practice with respect to the carrying amount method.	

In addition to the proposed new standards listed in the table above, we recommend considering supplementing the list of existing National Accounting Standards with the following items, similar to the scope of information covered by International Accounting Standards and International Financial Reporting Standards:

- Standard for inventories;
- Standard for events after the reporting period;
- Standard for revenues;
- Standard for government grants and disclosure of government assistance;
- Standard for the effects of changes in foreign exchange rates;
- Standard for borrowing cost;
- Standard for related party disclosure;
- Standard for accounting and reporting for retirement benefit plans;
- Standard for separate financial statements;
- Standard for investments in affiliates and joint ventures;
- Standard for interests in joint ventures;
- Standard for reporting in hyperinflationary economies;
- Standard for earnings per share;
- Standard for interim financial reporting;
- Standard for the first-time application of Polish Accounting Standards;

- Standard for share-based payments;
- Standard for insurance contracts;
- Standard for assets held for sale;
- Standard for exploration and assessment of mineral resources;
- Standard for operating segments;
- Standard for joint arrangements;
- Standard for the disclosure of interests in other entities.

Appendix 5 – Chart presenting the target structure of regulations

Sources of law

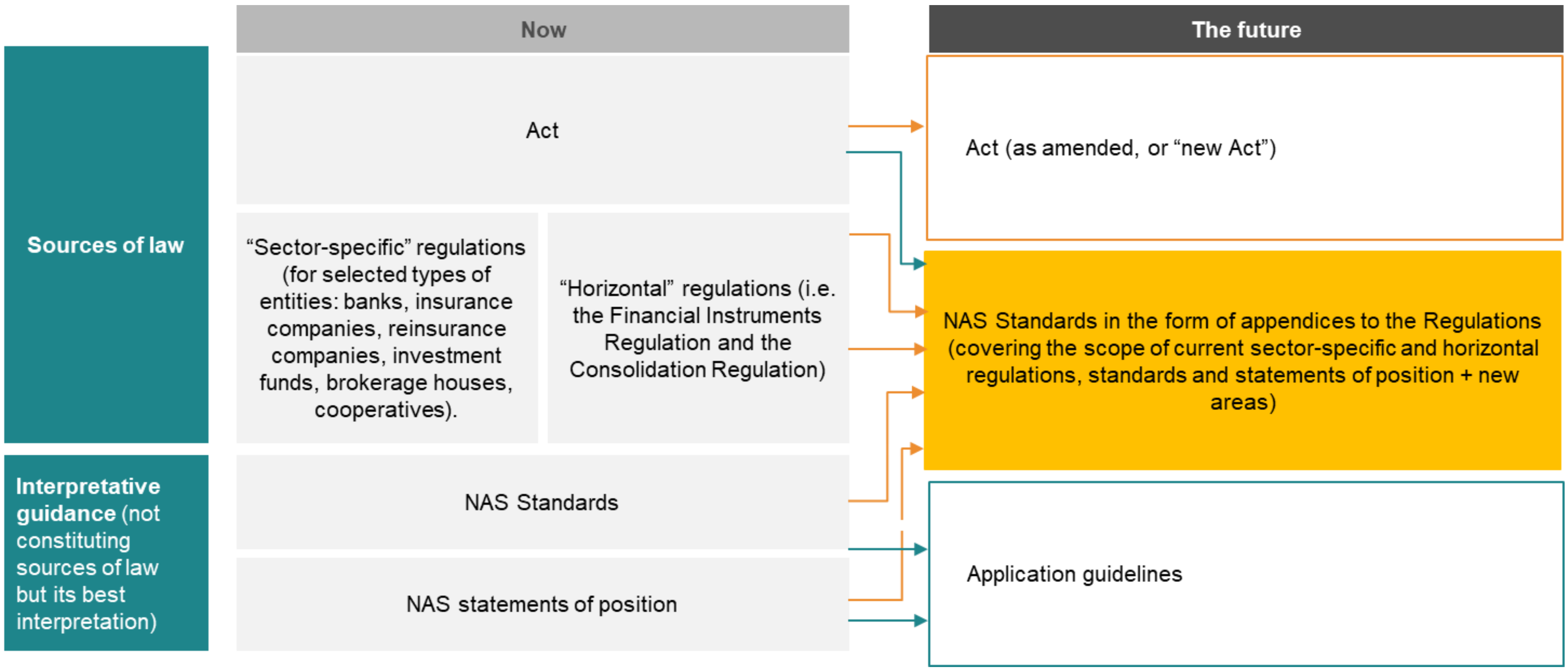
Act

NAS Standards in the form of appendices to the Regulations (covering the scope of current sector-specific and horizontal regulations, standards and statements of position + new areas)

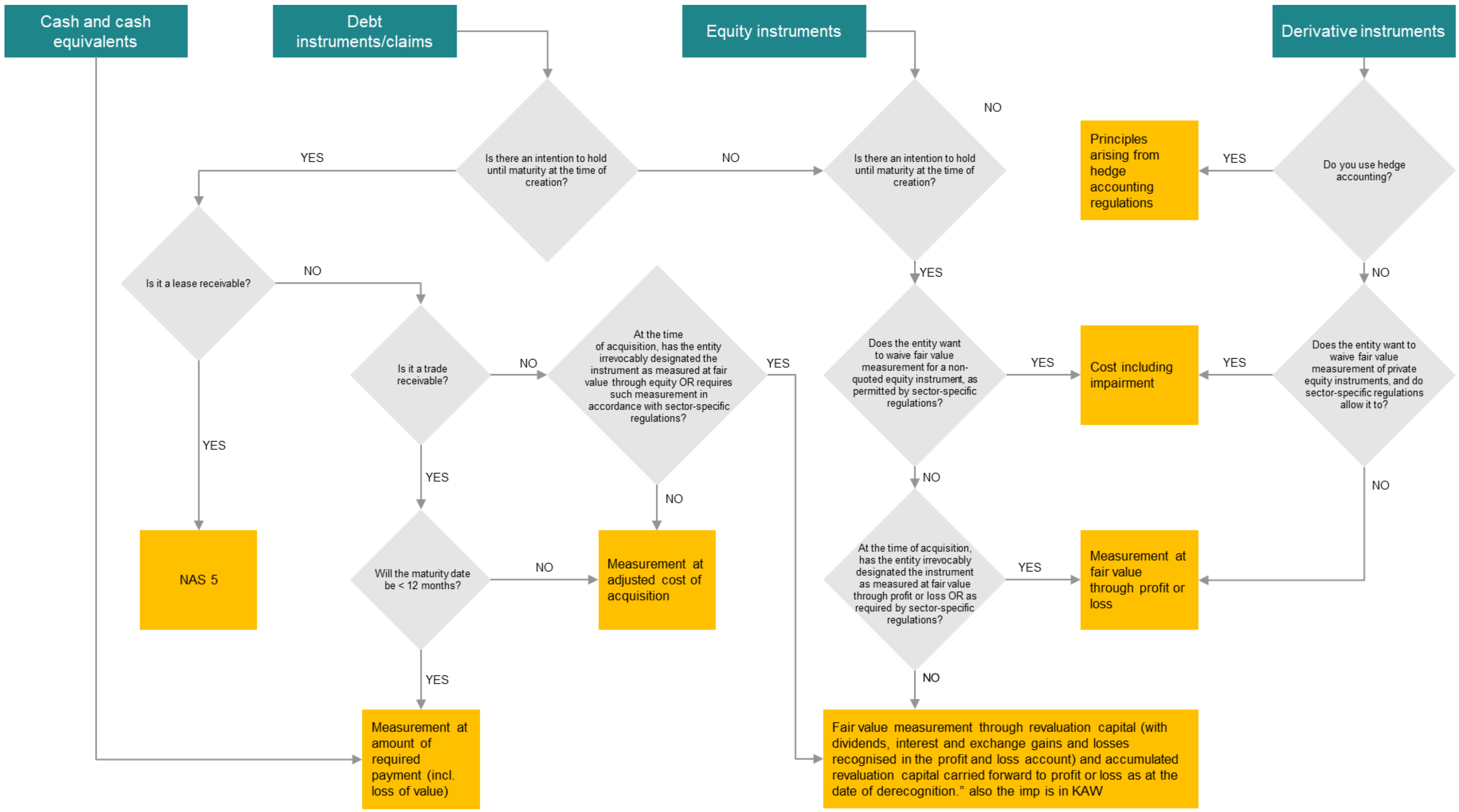
Application guidelines

Application guidelines (not constituting a source of law)

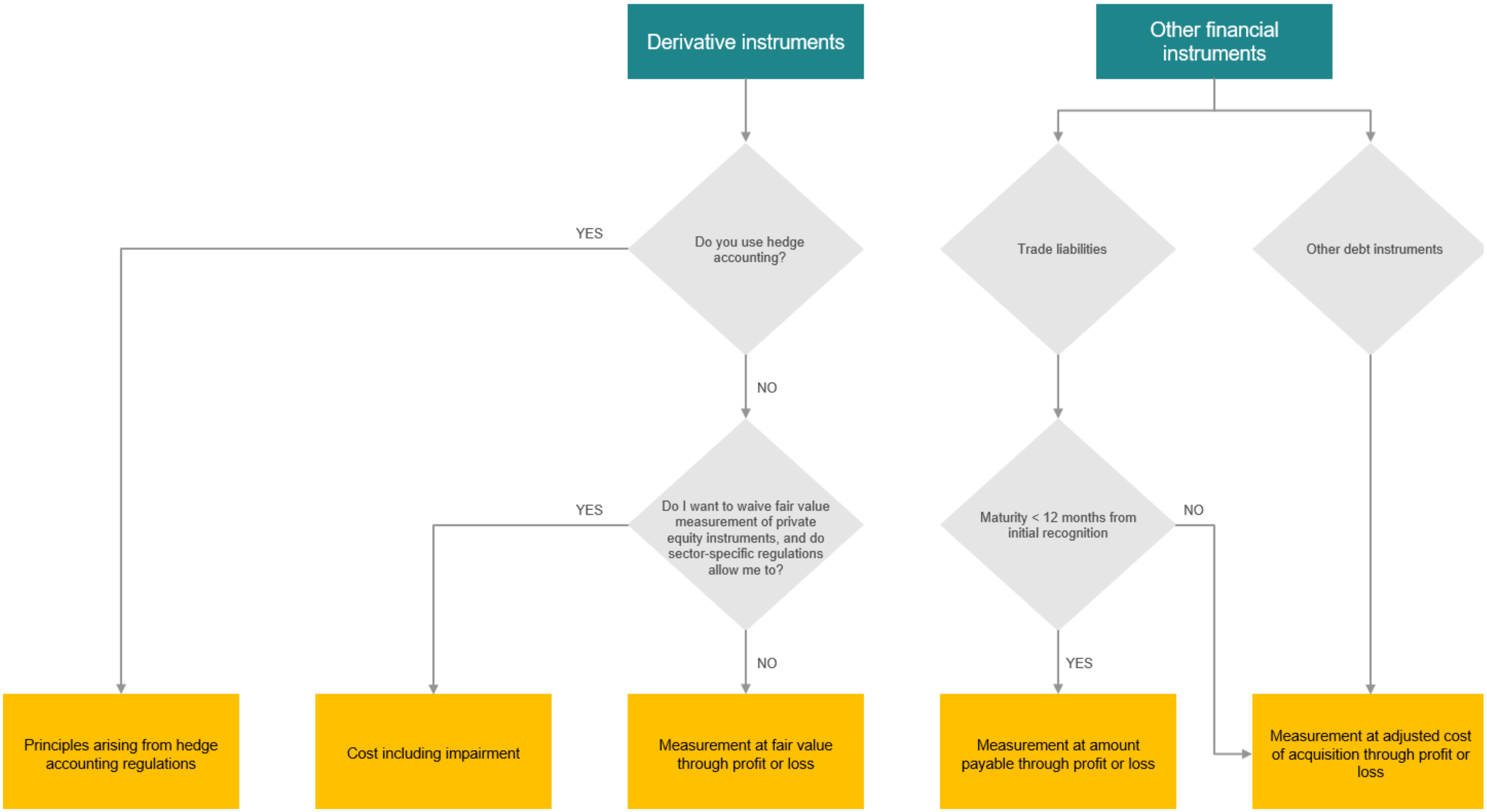
Appendix 6 – Chart presenting the current structure of regulations and proposed target shape



Appendix 7 – Financial Instruments – Financial Assets – Decision chart



Appendix 8 – Financial Instruments – Financial Liabilities – Decision Chart



Appendix 9 – Illustration of the effects of recommendation 3.18.18

Item titles	**Polish Accounting Principles ("PAP")/IFRS**	**Does it affect distributable amounts?**
All amounts making up net result	PAP/IFRS	YES
Adjustments resulting from the application of standards for the first time	PAP/IFRS	YES, unless: - as a result of the conversion, capital balances arise which in the future will be carried forward to profit or loss (e.g. exchange gains and losses resulting from the conversion of foreign branch balances); - or relate to transactions with owners
Adjustments due to changes in accounting principles or correction of errors in previous financial years	PAP/IFRS	YES, unless capital balances arise as a result of changes in accounting policies/correction of errors, which in the future will be carried forward to profit or loss
Actuarial gains from defined benefit plans	IFRS	YES
Amounts recognised in equity due to hedge accounting	PAP	NO
Amounts recognised in other comprehensive income from hedge accounting	IFRS	NO
Capital from revaluation of fixed assets	PAP/IFRS	NO (until fixed assets are depreciated or disposed of)
Revaluation reserve of fixed assets reclassified to investment property measured at fair value	IFRS	NO (until fixed assets are depreciated or disposed of)

Item titles	Polish Accounting Principles ("PAP")/IFRS	Does it affect distributable amounts?
Difference from business combination accounted for using the pooling-of-interest method	PAP	NO (resulting from transactions with owners, it should be noted that retained earnings and net profits as well as other items of reserve and reserve capital of the merging companies are added to each other)
Difference from business combination accounted for using methods based on the so-called predecessor value	IFRS	NO (resulting from transactions with owners)
Credit balance for equity-settled share-based payment transactions	IFRS 2 (equity-settled share-based payment transactions)	NO
Measurement of instruments available for sale	PAP	NO
Measurement of financial instruments classified under the contractual cash flow and sales business model – and measured at fair value through other comprehensive income	IFRS 9	NO
Amounts relating to the effects of applying the equity method recognised in other comprehensive income or directly in equity	IAS 28	(i) NO – If the effects of applying this method are recognised in other comprehensive income and will be reclassified to profit or loss (ii) YES – If the effects of applying this method are recognised in other comprehensive income and will not be reclassified to profit or loss
Differences arising from the initial recognition of certain financial instruments (e.g. interest free loans granted/received to/from group entities for which the	IFRS 9 (the difference at initial recognition is recognised according to the nature of the transaction and therefore, in the case of transactions	NO

Item titles	Polish Accounting Principles ("PAP")/IFRS	Does it affect distributable amounts?
difference between the value of cash received/transferred and their measurement at the moment of recognition was applied to equity)	with related parties, it may be recognised in equity)	
Deferred tax recognised in equity and relating to items recognised directly in equity	PAP/IFRS	According to the rules specified for these items – i.e. except for items covered by the above rules a) – D)
Profit/loss on redemption of minority shareholders	IFRS 10	Note that such a loss arises only in the consolidated financial statements and is not likely to occur in the standalone financial statements; in the separate statements, transactions with minority owners are recognised in the balance sheet (at acquisition) and profit and loss account (at sale) and therefore do not affect the capital
Amounts arising from raising cash from an issued financial instrument that is legally a debt instrument but has been classified as an equity instrument under accounting regulations (e.g. capital injection or loan for which the lender cannot claim repayment or interest)	IAS 32	NO (as defined under item (a))
Portion of profit which, based on the provisions of the Code of commercial Partnerships and companies, is subject to obligatory transfer to supplementary capital	PAP/IFRS	NO
Adjustment to capital for hyperinflation	IAS 29	NO (as an interpretation of condition under item (c))

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