10 April 2009



Sir David Tweedie International Accounting Standards Board 30 Cannon Street London EC 4M 6XH UNITED KINGDOM

Dear Sir David

Re: Preliminary Views on Financial Statement Presentation

The Polish Accounting Standards Committee presents its opinion and some remarks on ideas of Preliminary Views on Financial Statement Presentation.

1. General comments

The project under analysis has a number of unquestionable merits which, to begin with, we would like to point out:

- 1. The presentation of the joint document by the International Accounting Standard Board and the US Financial Accounting Standard Board proves that the convergence of International and US regulations is going forward. This is confirmed by the fact that when stating the objectives of financial statements both boards relied on the decisions made as part of another joint project "An improved Conceptual Framework for Financial Reporting". The Polish Accounting Standards Committee will support all actions aimed at developing generally accepted accounting policies, including a uniform model for the presentation of financial statements.
- 2. The document under analysis shows significant weaknesses in the currently binding regulations, namely discrepancies between harmonization at the level of recognition and measurement of individual items of assets and liabilities and the absence of precise solutions on the format of the disclosures. The multiplicity of the options existing in this area in practice

leads to incomparability of financial statements, making benchmark analysis quite difficult, for example, within a sector of the national economy. Thus, the elimination of this gap should be recognized as a positive achievement. The Polish Accounting Standards Committee considers that the proposals put forward by IASB and FASB are important and timely, and that a discussion on this topic is necessary. The solutions submitted for assessment form an original, logical and consistent model. The application of this model may help to meet better the information needs of users and reduce the costs of obtaining capital.

- 3. We accept the scope of the financial statements indicated in the project according to which the financial statements would comprise statements of: the financial position, comprehensive income, cash flows, changes in equity. Special attention should be paid to the concept of measuring comprehensive income. This will, on the one hand, help provide users with complete information on the profit/loss generated by an entity, and on the other hand, to clearly separate the scope of the two financial statement components. The statement of comprehensive income will present the effects of transactions with entities/persons who are not owners of the entity and the statement of changes in equity the capital effects of transactions with shareholders. While agreeing with the general concept of the contents of the individual statements, we have reservations about forgoing the use of the terms "balance sheet" and "income statement", which have a longstanding tradition and are generally known also to non-professionals. The proposed changes would also make it harder to use older literature.
- 4. We believe it correct to treat the assessment of the company's ability to generate cash flows as the most important objective behind the presentation of financial statements. This objective is to be achieved, among other things, by restricting the procedures for preparing the statement of cash flows to one method only the direct method, and through disaggregating the comprehensive income into the cash and accrual components. We accept that the objective complies with the needs of the main information users. These are the providers of capital current and future owners and entities providing finance that are mainly interested in repayment of the amounts of cash invested.
- 5. We find the idea of cohesiveness at the level of each statement line worth noting, especially in respect of two financial statement components:

statement of comprehensive income and statement of cash flows. This will make it possible to evaluate the quality of the results by comparing the accruals categories with the cash categories generated by the individual sections. Moreover, the concept of cohesiveness enables the separation of the value creation activities for capital providers from the information on the methods of financing these activities.

6. We support the approach adopted for verifying the project. It is true that the decisive factor should be practical tests, i.e. whether the investors find the proposed scope and format of presenting information a significantly better solution to the current one, and whether the preparers are able to meet efficiently all the requirements set out in the project with a reasonable amount of effort and resources.

It is obvious that such an original concept, involving far-reaching changes, should give rise to a number of comments and concerns.

- Undoubtedly, there will be considerable difficulties when dividing assets and liabilities, costs and income and cash flows into the individual sections and categories. In many cases, the solutions contained in the accounting policies of a given entity will decide on the classification adopted. This may significantly limit the comparability of information between companies.
- 2. In the Polish economic environment we should expect to encounter serious problems when dividing corporate income tax among the three sections: continued operations, discontinued operations and equity.
- 3. Many issues remain unsolved in the current proposal. These include: recognizing the effects of basket transactions, presentation of assets and liabilities used for several purposes, or whose use has changed. The final assessment of the project under discussion will also depend on the decisions taken in these controversial areas.
- 4. Consolidated financial statements prepared by adding up separate financial statements and making various eliminations, and separate financial statements based directly on the accounting records are treated in the same way in the explanations. This makes it harder to assess the effects of the proposed project.
- 5. The costs of implementing the proposed model may be considerable and are not only limited to introducing the direct method in preparing the statement of cash flows. For a single entity they would comprise, among others:

expenditure on changing software, developing a new accounting policy, training the staff. In general social terms, they will mainly include education costs: preparing textbooks, reconstructing syllabuses, specialist courses for teachers.

2. Answers to specific questions

1) Would the objectives of financial statement presentation proposed in paragraphs 2.5–2.13 improve the usefulness of the information provided in an entity's financial statements and help users make better decisions in their capacity as capital providers? Why or why not? Should the boards consider any other objectives of financial statement presentation in addition to or instead of the objectives proposed in this discussion paper? If so, please describe and explain.

YES. The proposed format of the financial statements would improve their **Preliminary Views on Financial Statement Presentation** believe that the opinions of the investors using the proposed solutions in practice should be the final factor deciding on the usefulness of the proposals.

Moreover, obtaining full cohesiveness between the individual financial statements by arranging the individual items in the same order using the same level of disaggregration may be difficult and costly. Various approaches adopted by entities to classify information may also result in weakening the comparability of data.

2) Would the separation of business activities from financing activities provide information that is more decision-useful than that provided in the financial statement formats used today (see paragraph 2.19)? Why or why not? The separation of the two areas of an entity's activities enables identifying assets and liabilities, income and expenses and cash flows which create additional value for capital providers as well as categories which give information on the method of financing the entity's activities. The problem will be identifying the criteria based on which an entity should differentiate the assets and liabilities relating to operating activities from those used in financing activities. Subjective choices could hamper the comparability effect both in time and in space. This may apply mainly to the banking sector.

- 3) Should equity be presented as a section separate from the financing section or should it be included as a category in the financing section (see paragraphs 2.19(b), 2.36 and 2.52–2.55)? Why or why not? YES. Equity is a basic economic category which should be directly recognizable in the financial statements. Information on changes in equity are particularly useful to the user who evaluates, among other things, an entity's financial stability.
- 4) In the proposed presentation model, an entity would present its discontinued operations in a separate section (see paragraphs 2.20, 2.37 and 2.71–2.73). Does this presentation provide decision-useful information? Instead of presenting this information in a separate section, should an entity present information about its discontinued operations in the relevant categories (operating, investing, financing assets and financing liabilities)? Why or why not?

Making discontinued operations a separate section on the one hand reduces the amount of work required to prepare the financial statements, and on the other hand, it helps users identify the effects of eliminating certain areas of an entity's activities. This approach is consistent with the main objective of financial reporting which is: the evaluation of the amount, the time horizon and certainty of cash flows. The key issue here, however, remains that of providing a precise definition of discontinued operations in both objective and subjective terms. The definition should indicate whether it comprises processes that are already completely eliminated or those in the process of elimination.

- 5) The proposed presentation model relies on a management approach to classification of assets and liabilities and the related changes in those items in the sections and categories in order to reflect the way an item is used within the entity or its reportable segment (see paragraphs 2.27, 2.34 and 2.39–2.41).
 - a) Would a management approach provide the most useful view of an entity to users of its financial statements?
 - b) Would the potential for reduced comparability of financial statements resulting from a management approach to classification outweigh the benefits of that approach? Why or why not?

The classification criteria for the individual items of assets, liabilities and for income and expenses and cash flows into the individual sections and categories are unquestionably the weakest point of the proposed model. Although leaving considerable freedom of choice in this area provides the possibility of fully reflecting the specific nature of a given entity's activities, it also poses a threat of manipulation and limited comparability. **The project should be made more precise in this area** – only then will the users be able to achieve all the benefits of the management approach.

6) Paragraph 2.27 proposes that both assets and liabilities should be presented in the business section and in the financing section of the statement of financial position. Would this change in presentation coupled with the separation of business and financing activities in the statements of comprehensive income and cash flows make it easier for users to calculate some key financial ratios for an entity's business activities or its financing activities? Why or why not?

One of the main advantages of the proposals under review is that they provide a cohesive presentation of information on business activities (operating and investment) and on financing activities in all the three statements: statement of financial position, statement of comprehensive income and statement of cash flows. This approach is appropriate from the point of view of investors who are considered to be the main financial statement users in this project. However, some members of the Committee are of the opinion that the structure and the level of disaggregation of information should also take into account the needs of other information users. This opinion follows from the fact that IFRSs are applied generally around the world, and, the concepts contained therein are also reflected in national standards and those are designed for entities that are not public interest entities.

7) Paragraphs 2.27, 2.76 and 2.77 discuss classification of assets and liabilities by entities that have more than one reportable segment for segment reporting purposes. Should those entities classify assets and liabilities (and related changes) at the reportable segment level as proposed instead of at the entity level? Please explain.

Entities should present this information at the entity level. The tabular parts of the financial statements should not be too detailed, otherwise they lose their quality and understandability. Moreover, very detailed disaggregation does not add to the usefulness of information.

8) The proposed presentation model introduces sections and categories in the statements of financial position, comprehensive income and cash flows. As discussed in paragraph 1.21(c), the boards will need to consider making consequential amendments to existing segment disclosure requirements as a result of the proposed classification scheme. For example, the boards may need to clarify which assets should be disclosed by segment: only total assets as required today or assets for each section or category within a section. What, if any, changes in segment disclosures should the boards consider to make segment information more useful in light of the proposed presentation model? Please explain.

Amendments should be introduced in IFRS 8 to include the financial reporting model under discussion in this standard. In order to maintain cohesiveness of presentation, reports by segment should take into account classification into the individual sections and categories.

- 9) Are the business section and the operating and investing categories within that section defined appropriately (see paragraphs 2.31–2.33 and 2.63–2.67)? Why or why not?
 - No. Especially the business section. The definitions adopted are very general and it will be difficult to decide on their basis whether, for example, a given asset should belong to the business section or the financing section.
- 10) Are the financing section and the financing assets and financing liabilities categories within that section defined appropriately (see paragraphs 2.34 and 2.56–2.62)? Should the financing section be restricted to *financial assets* and *financial liabilities* as defined in IFRSs and US GAAP as proposed? Why or why not?

The definition of liabilities in the financing section as items which can be replaced by other sources of financing is logical. For example, when making a decision to purchase certain assets, an entity may freely consider financing them with a lease or a loan. Such an alternative is out of the question in the

case of operating liabilities as it is not possible to replace a trade payable or a liability to an employee with another form of financing.

Here we support the opinion of EFRAG that not allowing the inclusion of non-financial assets and liabilities in the financing section would be contradictory to the proposed management approach.

- 11) Paragraph 3.2 proposes that an entity should present a classified statement of financial position (short-term and long-term subcategories for assets and liabilities) except when a presentation of assets and liabilities in order of liquidity provides information that is more relevant.
 - (a) What types of entities would you expect not to present a classified statement of financial position? Why?
 - (b) Should there be more guidance for distinguishing which entities should present a statement of financial position in order of liquidity? If so, what additional guidance is needed?

We believe that the proposed change in the classification criteria of assets and liabilities would not change much in practice, but would only make the implementation of the analyzed model more difficult and complicated. On the other hand, leaving freedom of choice in this area may unnecessarily distort the comparability of financial statements. We propose leaving the existing solutions, possibly with additional disclosures in the notes to the financial statements.

- 12) Paragraph 3.14 proposes that cash equivalents should be presented and classified in a manner similar to other short-term investments, not as part of cash. Do you agree? Why or why not?
 - We support the proposal of IASB and FASB that cash equivalents should be presented separately from cash. Such a solution is currently contained in the Polish accounting regulations.
- 13) Paragraph 3.19 proposes that an entity should present its similar assets and liabilities that are measured on different bases on separate lines in the statement of financial position. Would this disaggregation provide information that is more decision-useful than a presentation that permits

line items to include similar assets and liabilities measured on different bases? Why or why not?

We support the propositions of IASB and FASB. We believe that separate presentation of assets and liabilities measured on different bases (fair value or cost, historical cost) has important information value - it helps better forecast future cash flows. However, it should not lead to over-detailed disclosures.

14) Should an entity present comprehensive income and its components in a single statement of comprehensive income as proposed (see paragraphs 3.24–3.33)? Why or why not? If not, how should they be presented?

As already emphasised in the introductory comments, the proposed solution is one of the key advantages of the proposed model. The concept of comprehensive income remains consistent with the definitions of costs and income adopted in the conceptual framework of financial statement preparation and presentation, and moreover, it brings the reported results closer to the appropriate economic categories.

15) Paragraph 3.25 proposes that an entity should indicate the category to which items of other comprehensive income relate (except some foreign currency translation adjustments) (see paragraphs 3.37–3.41). Would that information be decision-useful? Why or why not?

We support the proposition of IASB. In our opinion, for the financial statements to comply with the cohesiveness principle proposed in the document and for the information contained therein to be useful - it is necessary to indicate the categories to which items of other comprehensive income relate (operating, investment or financing).

16) Paragraphs 3.42–3.48 propose that an entity should further disaggregate within each section and category in the statement of comprehensive income its revenues, expenses, gains and losses by their function, by their nature, or both if doing so will enhance the usefulness of the information in predicting the entity's future cash flows. Would this level of disaggregation provide information that is decision-useful to users in their capacity as capital providers? Why or why not?

We agree with the opinion of EFRAG that an entity should have the power to decide whether the classification of costs by their nature should be presented in the financial statements or in the notes to these financial statements. We also share the concern that overdetailed financial statements would be less transparent and clear, and moreover, may have a negative effect on an entity's ability to maintain a competitive position on the market.

17) Paragraph 3.55 proposes that an entity should allocate and present income taxes within the statement of comprehensive income in accordance with existing requirements (see paragraphs 3.56–3.62). To which sections and categories, if any, should an entity allocate income taxes in order to provide information that is decision-useful to users? Please explain.

We support the opinion of EFRAG in this point. Allocation of income taxes to the individual sections and categories is consistent with the project's assumptions. Income tax should be allocated to operating, investing and financing activities, and separately to discontinued operations. The reasons for such an approach lie in the effort to reflect the actual effectiveness of the individual areas of an entity's activities – thus, it is an argument of particular importance from the point of view of the income statement. Thanks to the presentation of information on income taxes by individual types of activities, financial statement users may obtain information on the effectiveness of these areas before and after tax. However, we doubts whether the allocation referred to above can be based on reliable premises. Moreover, we are concerned that it will become another factor that would complicate the proposed format of the financial statements. Therefore, in our opinion, the future standard should contain an algorithm for dividing income tax between the said sections and categories.

- 18) Paragraph 3.63 proposes that an entity should present foreign currency transaction gains and losses, including the components of any net gain or loss arising on remeasurement into its functional currency, in the same section and category as the assets and liabilities that gave rise to the gains or losses.
 - (a) Would this provide decision-useful information to users in their capacity as capital providers? Please explain why or why not and discuss any alternative methods of presenting this information.

(b) What costs should the boards consider related to presenting the components of net foreign currency transaction gains or losses for presentation in different sections and categories?

We support the proposal of IASB. We believe that linking gains and losses on transactions in foreign currencies with the assets and liabilities to which they relate would have important information value and be consistent with the project's assumptions.

- 19) Paragraph 3.75 proposes that an entity should use a direct method of presenting cash flows in the statement of cash flows.
 - (a) Would a direct method of presenting operating cash flows provide information that is decision-useful?
 - (b) Is a direct method more consistent with the proposed cohesiveness and disaggregation objectives (see paragraphs 3.75–3.80) than an indirect method? Why or why not?
 - (c) Would the information currently provided using an indirect method to present operating cash flows be provided in the proposed reconciliation schedule (see paragraphs 4.19 and 4.45)?

Why or why not?

The direct method complies with the proposed objectives of cohesiveness and disaggregation. Moreover, through references to the statement of comprehensive income, it helps evaluate the quality of results.

20) What costs should the boards consider related to using a direct method to present operating cash flows (see paragraphs 3.81–3.83)? Please distinguish between one-off or one-time implementation costs and ongoing application costs. How might those costs be reduced without reducing the benefits of presenting operating cash receipts and payments?

One-off costs incurred on the entity level are mainly related to changing software and company charts of accounts (developing an appropriate subledger system). Ongoing costs would mainly result from the increased amount of work required to keep the records.

21) On the basis of the discussion in paragraphs 3.88–3.95, should the effects of basket transactions be allocated to the related sections and categories in the statement of comprehensive income and the statement of cash flows to achieve cohesiveness? If not, in which section or category should those effects be presented?

In our opinion, the effects of basket transactions should be presented in the category to which the effects of such transactions can mainly be attributed. It is a simpler and cheaper solution than the arbitrary allocation – implementation of the proposed model will already be difficult, without this additional complication. Bearing in mind the sporadic nature of such transactions, the proposed solution will not significantly distort the cohesiveness principle.

22) Should an entity that presents assets and liabilities in order of liquidity in its statement of financial position disclose information about the maturities of its short-term contractual assets and liabilities in the notes to financial statements as proposed in paragraph 4.7? Should all entities present this information? Why or why not?

We support the opinion of EFRAG on this point - the disclosure requirement referred to above seems important, especially in relation to banks and insurance companies.

- 23) Paragraph 4.19 proposes that an entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into four components:
 - (a) Would the proposed reconciliation schedule increase users' understanding of the amount, timing and uncertainty of an entity's future cash flows? Why or why not? Please include a discussion of the costs and benefits of providing the reconciliation schedule.
 - (b) Should changes in assets and liabilities be disaggregated into the components described in paragraph 4.19? Please explain your rationale for any component you would either add or omit.

(c) Is the guidance provided in paragraphs 4.31, 4.41 and 4.44–4.46 clear and sufficient to prepare the reconciliation schedule? If not, please explain

how the guidance should be modified.

Disaggregation of comprehensive income into components has significant

information merits - it helps disclose financial results with various

probabilities of realization, especially gains/losses on remeasurement.

Separating out the accruals component of comprehensive income is of

considerable importance in connection with forecasting future cash flows

within the range of the full life cycle of an entity. However, we have doubts as

to whether the value of the information thus obtained will exceed the

expenditure incurred on obtaining it, which could be considerable in this

case. It seems that a final answer may be provided by practical tests.

Yours sincerely,

Joanna Dadacz Chairman of Polish Accounting Standards Committee

cc:

Stig Enevoldsen, Chairman of EFRAG TEG

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