Warsaw, 25 November 2015

Mr Hans Hoogervorst
Chairman of the
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Mr. Hoogervorst,

RE: Exposure Draft ED/2015/3 – Conceptual Framework for Financial Reporting

The Polish Accounting Standards Committee (PASC – Komitet Standardów Rachunkowości) is pleased to respond to the request for comments on the *Exposure draft: Conceptual Framework for Financial Reporting' (the 'ED').*

PASC generally supports the IASB's efforts to revise the Conceptual Framework (the 'Framework') and believes the proposals in the Exposure Draft improve the current Framework.

Our answers to the specific questions in the Exposure Draft are included in the Appendix.

Yours sincerely,

Joanna Dadacz
Chairman
Polish Accounting Standards Committee

e-mail: sekretarz.KSR@mf.gov.pl

c/c EFRAG

Appendix

Question 1 – Proposed changes to Chapters 1 and 2
Do you support the proposals: *(a) to give more prominence, within the objective of financial reporting, to the importance of providing information needed to assess management's stewardship of the entity's resources;* *(b) to reintroduce an explicit reference to the notion of prudence (described as caution when making judgements under conditions of uncertainty) and to state that prudence is important in achieving neutrality;* *(c) to state explicitly that a faithful representation represents the substance of an economic phenomenon instead of merely representing its legal form;* *(d) to clarify that measurement uncertainty is one factor that can make financial information less relevant, and that there is a trade-off between the level of measurement uncertainty and other factors that make information relevant; and* *(e) to continue to identify relevance and faithful representation as the two fundamental qualitative characteristics of useful financial information?*

(a) We agree with including stewardship more prominently as part of the objective of financial reporting. We believe that concept of stewardship is important with respect to capital providers' decisions about buying, selling, or holding entity's securities and also important for matters such as assessment of key management.

(b) We agree with including prudence in the Framework, provided it is accompanied by the IASB's definition, which supports neutrality. We note that the understanding among stakeholders of what prudence means differs. The term 'prudence' could be interpreted differently and therefore without the definition, some constituents may view prudence as conservatism. We agree that neither conservatism nor asymmetric prudence, which is described in the Basis for Conclusions, should be a principle in the Framework as neither of these two approaches would provide investors with decision-useful information. We have a suggestion for the guidance explicitly mentioning both judgments and estimates as they are separate concepts in IAS 1.

(c) We agree that substance over form is an element of faithful representation and agree with changes proposed in the ED.

(d) Relevance is defined in paragraph 2.6 as '*[that which] is capable of making a difference in the decision made by users*.' The ED states that measurement uncertainty is one factor that makes information less relevant. However, we believe that high measurement uncertainty may make the information less reliable, rather than less relevant. We believe that, in extreme circumstances, the information might not be relevant because there is no measure that is faithfully representative, but generally uncertainty is not a measure of relevance in its own right.

(e) We agree that relevance and faithful representation are the two fundamental qualitative characteristics of useful financial information.

Appendix

Question 2 – Description and boundary of a reporting entity
Do you agree with: *(a) the proposed description of a reporting entity in paragraphs 3.11–3.12; and* *(b) the discussion of the boundary of a reporting entity in paragraphs 3.13–3.25?*

(a) We believe the Framework should address the concept of reporting entity. We agree with the ED's flexible approach to defining 'reporting entity,' but believe that stakeholders would benefit from more guidance.

The definition of reporting entity in relation to the definition of general purpose financial statements may be confusing. We suggest that the Board explains more clearly the distinction between general and special purpose financial statements and provides additional examples.

We agree that a reporting entity might be a combination of entities for which there is no parent and subsidiary relationship, but believe that the definition should contemplate that more explicitly. Although combined financial statements are expressly permitted in paragraph 3.17, there is limited guidance in this area, which is a significant issue in practice. It is currently unclear what forms a boundary for combined financial statements. Therefore, the current definition may cause that group of unrelated companies are presented together in a single financial statements. We believe that there should be a clear indication of the binding criteria such as common control or common management. Further, we believe the Framework should explain when combined financial statements are general purpose financial statements and when they are special purpose information.

We also note that while combined financial statements are explicitly mentioned there is no mention of carve out financial statements. We suggest the Framework states that carve out financial statements for entities with a sufficient binding element may also be IFRS-compliant.

We agree that consolidated financial statements are 'more likely' to be relevant in many situations. However, we believe the Framework should note that there are other circumstances when separate financial statements are more relevant than consolidated statements, such as for investment entities.

(b) The meaning of 'direct control' and 'direct and indirect control' as a way to determine the boundary of a reporting entity is not clear.

Appendix

Question 3 – Definitions of elements
Do you agree with the proposed definitions of elements (excluding issues relating to the distinction between liabilities and equity): *(a) an asset, and the related definition of an economic resource;* *(b) a liability;* *(c) equity;* *(d) income; and* *(e) expenses?*

We repeat of certain of our comments from our comment letter dated January 14, 2014, as we believe they are still valid:

Position of PASC with respect to proposed definitions of assets and liabilities is not unanimous. Most of the members of PASC do agree with proposed definitions of assets and liabilities, thus sharing IASB's opinion that the underlying nature of an asset or liability is the economic resource or obligation, rather than eventual inflow or outflow of economic benefits, and that the asset or liability must be capable of producing inflow or outflow of economic benefits, which do not have to be certain. Some of PASC members believe it is necessary to maintain a reference to, respectively, inflow or outflow of economic benefits in the definitions as well as the notion of probability.

According to some members of PASC, it would be desirable to expand the proposed set of definitions so as to include definition of economic benefit. Definition of the 'economic benefit' would complete the set of definitions provided in the Conceptual Framework.

Some of the PASC members pointed out, that the definitions of 'economic resource' and 'economic benefits' should be formulated in such a way as to exclude recognition of assets embodying economic benefits produced exclusively by the reporting entity (e.g. definitions should exclude recognition of own shares, or shares of mother company, whose only investment is investment in the reporting entity, as assets).

Some of PASC members point out, that a more precise definition of contribution and distribution of equity, as well as clear distinction between these and expense and income would be helpful for practical application of IFRS. Currently, none of the standards contains such distinction, which results in some problems in practice (e.g. recognition of difference to fair value of loans inside the group, treatment of some shareholder benefits as expenditures vs equity reductions). Some of PASC members have pointed out, that a proper definition of equity contribution could support a better conceptual explanation of share based benefits accounting.

Question 4 – Present obligation
Do you agree with the proposed description of a present obligation and the proposed guidance to support that description?

A present obligation is defined as one that the entity has (1) no practical ability to avoid and that (2) it has arisen from past events. In general we agree with the

definition, however, the reference to 'present' is redundant in this context as all 'present' obligations have arisen from past events.

Question 5 – Other guidance on the elements
Do you have any comments on the proposed guidance? *Do you believe that additional guidance is needed? If so, please specify what that guidance should include.*

We have following comments in relation to other parts of the guidance

Transfer of economic resource

We note that paragraph 4.28 provides examples of obligation to transfer economic benefits. We believe that obligation that give a rise to liability may also include an obligation to refrain from activity, for example entity may assume and be compensated for an obligation arising from a non-compete contracts.

No practical ability to avoid

We note that number of current standards uses term 'no realistic alternative' which is associated with the recognition of liabilities and therefore suggest to the board to consider whether that term would not be better than the term proposed in the Framework ('*no practical ability to avoid*').

Probability

As shown in response to Question 3, most members of PASC share IASB's opinion, that definitions of assets and liabilities should not include the information that inflow or outflow of economic benefits is expected, and that the Conceptual Framework should not identify a probability threshold for cases, in which there is an uncertainty as to the existence of an asset or liability, and therefore the reference to probability, currently present in recognition criteria, should be removed. However, some believe that currently existing reference to probability should remain in the recognition criteria.

Unit of account

We appreciate that the unit of account area is a challenging one. Whilst developing a generic model for unit of account determination might be difficult we are of the view that it would be useful for the Framework either to commit to address unit of account question in each of the individual standards or to include a rebuttable presumption about the unit of account and acknowledging that there may be exceptions in individual standards that would elaborated upon. Also the revised Conceptual Framework would benefit from guidance on how to approach a unit of account question i.e. when items should be individually analysed and when portfolio approach might be a correct one.

Paragraph 4.62(c) states that the costs of providing the information for that unit of account must not exceed the benefits. We believe that the Framework should further

clarify that the unit of account determination is an IASB decision, rather than the decision of individual preparers

We also note that guidance indicates that there may be different units of account justified for recognition and measurement, however the guidance does not further elaborate on such circumstances. It might be helpful to provide some further context on why this might be appropriate either through an example or additional explanation.

Question 6 – Recognition criteria
Do you agree with the proposed approach to recognition? Why or why not? If you do not agree, what changes do you suggest and why?

We agree with the proposed approach to recognition of assets and liabilities (and the related income, expense or change in equity). Recognition is triggered when the definition of an element is met, subject to the recognition criteria.

Whilst we agree that the cost-benefit aspect should be considered (and believe it is already considered as a general principle in paragraphs 2.38-2.42), we are concerned that the existence of the cost-benefit as one of the criteria to recognize an element may lead to the situations where preparers fail to recognize assets or liabilities purely on the basis of their judgement about such criteria. This could be even if specific standard may otherwise indicate that such asset shall be recognized (for example separation of intangible assets from goodwill upon use of the acquisition method may be perceived by certain users as costly and not providing sufficient benefit to overweight such cost). We therefore suggests that the Framework indicates that the decision on the cost benefit is a decision of the standard setter, when setting up requirements of the relevant standard, rather than the decision of the preparer (the prepared shall rather consider materiality) or cost-benefit analysis is removed from the criteria.

Question 7 – Derecognition
Do you agree with the proposed discussion of derecognition? Why or why not? If you do not agree, what changes do you suggest and why?

We agree with the Board proposed discussion of derecognition.

Question 8 – Measurement bases
Has the IASB: *(a) correctly identified the measurement bases that should be described in the Conceptual Framework? If not, which measurement bases would you include and why?* *(b) properly described the information provided by each of the measurement bases, and their advantages and disadvantages? If not, how would you describe the information provided by each measurement basis, and its advantages and disadvantages?*

PASC generally agrees with the description of measurement bases described in the Conceptual Framework as well as with the description of advantages and disadvantages of each base.

Appendix

Certain members of PASC noted that they have a difficulty to allocate 'deferred tax' under any of the measurement bases provided by the Framework. It does not seem to be an asset or liability measured under current basis (it does not reflect time value of money, it ignores probability for crystallization for liabilities). Similarly, stating that deferred tax balances are measured under historical cost concept appears difficult, as often deferred tax reflect the difference between the current measurement used for accounting and the historical measurement used for the tax. They also note the fact that the deferred tax position is remeasured when the tax rate changes, hence it cannot be considered as a historical measure. Those members of PASC believe that the Board should reconsider fundamentally the principles behind the deferred tax accounting in light of the changes to Framework or include adequate modification of the Framework as to explain conceptually the measurement basis for deferred taxes.

Question 9 – Factors to consider when selecting a measurement basis
Has the IASB correctly identified the factors to consider when selecting a measurement basis? If not, what factors would you consider and why?

We agree with the factors to consider in selecting a measurement basis, which are based on the qualitative characteristics, including the fact that business activities impact the measurement basis.

Question 10 – More than one relevant measurement basis
Do you agree with the approach discussed in paragraphs 6.74–6.77 and BC6.68? Why or why not?

We agree with the Board's approach that typically one measurement base is sufficient. We also agree that there may be circumstances where current basis used for recognition of an asset or liability coupled with the splitting two measurement components in the statements of performance provides more relevant information (for example for pension liabilities) We also agree that disclosure of the alternative measurement bases may provide useful information in certain circumstances.

Question 11 – Objective and scope of financial statements and communication
Do you have any comments on the discussion of the objective and scope of financial statements, and on the use of presentation and disclosure as communication tools?

We agree that the objective of general purpose financial reporting is to provide financial information about the reporting entity to aid investors' and creditors' decision-making. We further agree that investors and creditors are the 'primary users' of general purpose financial reports, which are not primarily directed at other interested parties, such as regulators and other members of the public.

We agree with the guidance in the objective and scope of financial statements and with the use of presentation and disclosure as communication tools. Specifically, we agree that:

Appendix

- Forward-looking information about likely or possible future transactions is only included in the financial statements if it relates to assets, liabilities, or equity that existed at the end of or during the period, and other types of forward-looking information may be included outside the financial statements, for example, in management commentary.
- Subsequent events information is included if necessary to meet the objective of the financial statements.
- Comparative information is relevant.
- Effective and efficient communication includes using presentation and disclosure objectives and principles instead of mechanical rules.
- Cost constraints are important in deciding on presentation and disclosure matters. However, the Framework should be clear that it is IASB assessment of the cost of disclosure relative to the benefit of transparency rather than the assessment made by preparers. Rather, preparers consider materiality.

Question 12 – Description of the statement of profit or loss
Do you support the proposed description of the statement of profit or loss? Why or why not? *If you think that the Conceptual Framework should provide a definition of profit or loss, please explain why it is necessary and provide your suggestion for that definition.*

PASC believes, that it should be obligatory to present profit/loss as a separate financial statement or as subtotal of OCI and agrees that it constitutes primary source of financial performance of the entity. Following arguments support that position:

1. 'Attachment' of users of financial statements to this measure of enterprise's performance. For many investors, profit/loss is a starting point for calculation of other values (e.g. EBITDA) or ratios (e.g. profitability). Financial result may also constitute a basis for evaluation of the entity's ability to pay dividends (it is well established in legal framework), or be helpful for assessing the management's performance of duties.
2. Maintaining comparability of information over time. Profit/loss are useful in evaluating development trends of an enterprise. Based on performance in those categories in the past, conclusions can be drawn as to possible economic benefits to be achieved in the future.

Net profit is commonly used to compare enterprises within the same industry, or between industries, as a measure of return on invested capital. PASC does not suggest that there should be a specific definition of profit and loss, rather the Framework should describe the purpose of presenting it (measure of performance that is capable of being compared between entities and between periods).

Few PASC members suggested that the Board should eliminate the optionality between presenting one combined statement of performance or two separate statements (profit and loss statement and statement of other comprehensive income).

Appendix

Question 13 – Reporting items of income or expenses in other comprehensive income
Do you agree with the proposals on the use of other comprehensive income? Do you think that they provide useful guidance to the IASB for future decisions about the use of other comprehensive income? Why or why not? *If you disagree, what alternative do you suggest and why?*

PASC agree that certain remeasurements that might give rise to income or expenses are more appropriately included in OCI than in profit and loss and agree with the guidance provided by IASB in paragraph 7.24.

Question 14 – Recycling
Do you agree that the Conceptual Framework should include the rebuttable presumption described above? Why or why not? *If you disagree, what do you propose instead and why?*

Majority of PASC members believe that investors place the importance on profit or loss, or components thereof and therefore are in favour of all items of income and expenses being recycled when the reason for initial exclusion from net income no longer applies. They acknowledge that determining the recycling moment is complex in some circumstances. However, this is not a reason not to recycle. Practical solutions can be achieved at the standards level for recycling specific items when it is relevant to the performance of the entity, such as items with different measurement bases in the balance sheet and income statement. If the IASB determines that some items should be permanently excluded from profit or loss for practical reasons, such as cost-benefit, those circumstances should be identified and explained as exceptions to the Framework.

In the opinion of some of the PASC members, recycling makes it more difficult to understand the financial statements and performance, as the same item is recognized three times – once in OCI, then again when de-recognized from OCI and third time when recognized in Statement of Profit or Loss. They note that recycling is open to accounting arbitrage (e.g. sale-repurchase of selective AFS securities to effect net profit only without effecting the net assets). They also note that the IASB was not able to develop a common clear position with respect to criteria for items to be recognized in OCI vs directly in Statement of Profit or Loss. If items are not recycled, the issues discussed above will disappear or become less important, while more importance will be given to total comprehensive income as a final measure of the entity performance during the period.

Question 15 – Effects of the proposed changes to the Conceptual Framework
Do you agree with the analysis in paragraphs BCE.1–BCE.31? Should the IASB consider any other effects of the proposals in the Exposure Draft?

We agree with the description of effects provided and have no further comments.

Question 16 – Business activities
Do you agree with the proposed approach to business activities? Why or why not?

Appendix

We think that the business model concept should be used when developing or revising particular Standards. We believe it could be also useful as part of a broader discussion of the performance reporting model. Nevertheless we acknowledge the difficulties associated with the concept and different meanings associated with it e.g. whether and how the intentions that the management might have with respect to its business impact the reporting. There is a risk that depending on how the concept of the business model is used in reporting it might hinder comparability of reporting. However, although the ED discusses generally how business activities affect unit of account, selection of measurement basis, and presentation and disclosure, it seems to downplay the impact of business activities and purposely does not use the term 'business model'. However, recent standards like IFRS 9 are based on business model and use that term. We recommend to use the consistent concept and methodology in the Framework and throughout standards to the extent possible.

Question 17 – Long-term investment
Do you agree with the IASB's conclusions on long-term investment? Why or why not?

We agree that the Framework contains sufficient and appropriate discussion of the objective of general purpose financial reporting to address appropriately the needs of long-term investors.

Question 18 – Other comments
Do you have comments on any other aspect of the Exposure Draft? Please indicate the specific paragraphs or group of paragraphs to which your comments relate (if applicable). *As previously noted, the IASB is not requesting comments on all parts of Chapters 1 and 2, on how to distinguish liabilities from equity claims (see Chapter 4) or on Chapter 8.*

There is no discussion in the Framework on the statement of cash flows and its importance for the investors' decision making process. This seems unusual even if the Board has decided not to identify cash flows as an element or to define primary financial statements.