10 September 2008

Sir David Tweedie
Chairman of the
International Accounting Standards Board
30 Cannon Street

London EC4M 6XH
United Kingdom

RE: Exposure Draft of Financial Instruments with characteristics of equity

Dear Sir David,

The Polish Accounting Standards Committee welcomes the opportunity to comment on the IASB discussion paper on the above topic which we see as being of significant importance.

The classification of a financial instrument as a liability rather than as equity or vice-versa will have a clear impact on how a company's financial position is viewed and also whether measurement changes or related cash flows are recognised through the income statement.

We agree with the criticism and doubts in relation to IAS 32 set out in paragraphs 15-34 inclusive of the discussion paper.

In view of these weaknesses in IAS 32 we support the search for a new IFRS accounting model for the distinction between debt and equity but we believe that any such new model should resolve the existing difficulties and not create further uncertainty. It is our view that the "ownership settlement" model gives

the best basis for distinguishing liabilities from equity but that this model still requires some amendments.

The basic ownership instrument definition should encompass all classes of stock if that stock participates in earnings, losses and residual net assets (i.e. not only the most subordinated class of stock).

Our belief that all perpetual instruments which participate in earnings, losses and residual interests should be classified as equity leads us to conclude that non-participating perpetual instruments such as non-redeemable preference shares with a fixed dividend should be classified as a liability.

Furthermore, we consider that cooperatives and partnership interests although they do not have “standard” equity structures, where they participate in earnings, losses and residual net assets they should be classified as equity.

We have considered the relative scope of the US Financial Accounting Standards Board (FASB) Preliminary Views document on financial instruments with characteristics of equity and compared its scope with that of IAS 32. We note that the FASB document restricts its scope to basic ownership instruments, instruments settled in basic ownership instruments or instruments whose fair value is determined by prices of basic ownership instruments and other instruments that are ownership interests in legal form. IAS 32 applies to all financial instruments except for those specifically excluded from its scope. It will be extremely difficult to effect convergence when the scope of the Preliminary View and IAS 32 is so different.

We would like to see the scope definition in Paragraph 15 of the FASB document amended to remove the words “legal form” which could result in instruments with very close economic characteristics being differently classified. An example might be a perpetual subordinated debt instrument which is very similar to a perpetual preferred share. Neither have a redemption date and both provide a fixed coupon payment. They have similar residual interests in net assets. In accordance with paragraph 15 of the FASB

paper the subordinated debt instrument is not an equity instrument because it is not an ownership interest in legal form. The preferred share is and would therefore be classified as equity. Substance over form dictates that these instruments should be treated in a similar fashion.

We have completed the questionnaire set out in Appendix A to the IASB paper and this is attached

Yours sincerely,
Joanna Dadacz Chairman of Polish Accounting Standards Committee

cc: Stig Enevoldsen, Chairman of EFRAG TEG

Appendix A

B1 Are the three approaches expressed in the FASB Preliminary Views document a suitable starting point for a project to improve and simplify IAS 32? If not, why?

(a) Do you believe that the three approaches would be feasible to implement? If not, what aspects do you believe could be difficult to apply, and why?

(b) Are there alternative approaches to improve and simplify IAS 32 that you would recommend? What are those approaches and what would be the benefit of those alternatives to users of financial statements?

In accordance with our accompanying letter we believe that with certain modifications the ownership settlement approach could form the basis of a new classification model for liabilities and equity.

We believe that the Basic Ownership Approach provides a simplification of the definition of equity but that this results in the classification of equity-like instruments as liabilities.

We consider the REO approach to be overly–complex and would prove challenging for all but the most sophisticated preparers.

B2 Is the scope of the project as set in paragraph 15 of the FASB Preliminary Views document appropriate? If not, why? What other scope would you recommend and why?

Please see our attached letter.

B3 Are the principles behind the basic ownership instrument inappropriate to any type of entities or in any jurisdictions? If so, to which types of entities or in which jurisdictions are they inappropriate, and why?

The trade-off of simplicity for the reflection of economic reality in the basic ownership approach is not balanced and we are concerned that the approach will not result in a consistently sound methodology for determining/classifying equity and liabilities.

An example of a potentially inappropriate classification might be a partnership interest. Partnerships typically have complex profit sharing and distribution arrangements often based upon the level of profits. Some similar interests in such a partnership could possibly be classified differently under the Basic

ownership approach which classifies equity based on the most subordinated class of interest which is not limited or guaranteed.

B4 Are the other principles set out in the FASB Preliminary Views document inappropriate to any types of entities or in any jurisdictions? (Those principles include separation, linkage and substance). If so, to which types of entities or in which jurisdictions are they inappropriate, and why?

We believe these to be appropriate.

B5 Please provide comments on any other matters raised by the discussion paper.