3 October 2008

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

London EC4M 6XH
United Kingdom

RE: Exposure Draft of an improved Conceptual Framework for Financial Reporting, prepared jointly by IASB and FASB.

Dear Sir David,

The Polish Accounting Standard Committee presents its position on the Exposure Draft of an improved Conceptual Framework for Financial Reporting, prepared jointly by IASB and FASB.

We think that because of a new approach to the Conceptual Framework, regarding both its merits and layout, it is essential to present the basic features of the comprehensively created Conceptual Framework in a single, introductory document. The improved Conceptual Framework is going to be contained in 8 documents, 4 of which covered by phases A-D could be currently identified by the recipients (including the Polish Accounting Standard Committee). However the remaining elements for the time being remain unknown. The elements of the Conceptual Framework which remain unknown to the recipients (especially those under phases: E – *Boundaries of financial reporting, and Presentation and Disclosure* and H – *Remaining Issues)* do not allow to take an ultimate stand on matters exposed to comments under phase A (Chapter 1 and Chapter 2 of the document), as well as on the assumptions of phase D – *Reporting Entity Concept* subjected to the discussion.

Nevertheless, we are presenting our opinion on matters included in phase A of the Exposure Draft of an improved Conceptual Framework for Financial Reporting in Chapter 1 and Chapter 2.

As the new Conceptual Framework refers to the financial reporting, and not to financial statements, which is a different approach then the current one, we find it expedient to explain the difference and to indicate the relation between those two domains of accounting from the IFRS perspective (the best suitable place would be the introductory document suggested by us above).

We also think that the new term - *general purpose financial reporting*, which appears in the Conceptual Framework (already included in the IASCF constitution) needs to be defined or at least explained, by indicating the relationship between the financial reporting which is the subject of the Framework, and other financial reports or statements. According to paragraph OB4 this issue is to be clarified but only at the later stage (phase F).

Moreover, in paragraph OB2 it is assumed that the purpose of the financial reporting is to provide financial information. Yet, financial reports should also provide non-financial information if they are to be recognized as useful and their objective to be met. Therefore we suggest adding in paragraph OB2, that it also refers to non-financial information, especially that the subsequent parts of the Framework mention the quality features of both financial and non-financial information.

Chapter 1 ***The objective of financial reporting***

Chapter 1 describes the objective of financial reporting, the primary user group to which financial reporting is directed, the types of decisions made by that group and the financial information useful to that group in making those decisions.

1. The boards decided that an entity's financial reporting should be prepared from the perspective of the entity (entity perspective) rather than the perspective of its owners or a particular class of owners (proprietary perspective). (See paragraphs OB5–OB8 and paragraphs BC1.11–BC1.17.) Do you agree with the boards' conclusion and the basis for it? If not, why?

   We agree with the final conclusion of the Board, that the financial reports should be prepared from the perspective of the entity and not the perspective of its owners or a particular class of owners. This principle, based on the theoretical concept of

economic entity must stay in line with the solutions developed in phase D - *Reporting entity concept*. Nevertheless it raises our doubts whether this concept would be possible to implement in all cases of entities that prepare financial statements. It is rather not possible to fully apply it for civil partnerships or physical persons conducting economic activities.

2. The boards decided to identify present and potential capital providers as the primary user group for general purpose financial reporting. (See paragraphs OB5–OB8 and paragraphs BC1.18–BC1.24.) Do you agree with the boards' conclusion and the basis for it? If not, why?

   We agree with the Board's conclusion to acknowledge „capital providers" as the primary user group of general purpose financial reports. Should the concept of economic entity be the basis for the solutions proposed in the Framework, the indication of this group in the proposed composition (equity investors, lenders and other creditors) is rational. Nevertheless, when we take into account the stewardship function of financial reports and accounting, the past capital providers should also be included in this group, as financial reports for a given reporting period often constitute a basis for the evaluation of the management for executing its stewardship also towards this group of investors.

3. The boards decided that the objective should be broad enough to encompass all the decisions that equity investors, lenders and other creditors make in their capacity as capital providers, including resource allocation decisions as well as decisions made to protect and enhance their investments. (See paragraphs OB9–OB12 and paragraphs BC1.24– BC1.30.) Do you agree with that objective and the boards' basis for it? If not, why? Please provide any alternative objective that you think the boards should consider.

   We accept the Board's conclusion to acknowledge the broad objective of the financial reporting. However, we would like to pay attention to the fact that although the aims of the general purpose financial reports may be seen as the same by their users (capital providers), within this group the expectations may be different when it comes to financial information presented in the financial reports, especially on the level of the basis of the valuation applied. Perhaps this problem will be handled at the later stage of the work on the Framework. If so, it would be useful to indicate this fact in this part of the Framework.

Chapter 2 ***Qualitative characteristics and constraints of decision-useful financial reporting information***

Chapter 2 describes the qualitative characteristics that make financial information useful. The qualitative characteristics are complementary concepts but can be distinguished as fundamental and enhancing based on how they affect the usefulness of information. Providing financial reporting information is also subject to two pervasive constraints - materiality and cost. Are the distinctions - fundamental and enhancing qualitative characteristics and pervasive constraints of financial reporting—helpful in understanding how the qualitative characteristics interact and how they are applied in obtaining useful financial reporting information? If not, why?

We agree with the Board's conclusion that the acknowledgement of the usefulness of financial reports as the basic element of the objective of the financial reporting (OB2 and OB9) requires the indication of qualitative characteristics of information, which it should have (QC1). The presented hierarchy of the importance of those qualitative characteristics, with the distinction on fundamental ones and enhancing ones, as well as the pervasive constraints, are accepted by us and we find them useful. However we suggest not to present the possibility of their distinction in the third sentence of paragraph QC1 (*They can be distinguished …*), as it would be of an academic character rather than the applicable one, but to use a statement such as: *"For the purpose of this Conceptual Framework they are distinguished …"*. We also suggest including in this statement the third class of qualitative characteristics, i.e. the pervasive constraints referred to above.

1. Do you agree that:

   (a) *relevance* and *faithful representation* are fundamental qualitative characteristics? (See paragraphs QC2 - QC15 and BC2.3–BC2.24.) If not, why?

   We agree with the Board's conclusion to acknowledge *relevance* and *faithful representation* as the fundamental qualitative characteristics of financial and non-financial information, provided by financial reporting.

   (b) *comparability*, *verifiability*, *timeliness* and *understandability* are enhancing qualitative characteristics? (See paragraphs QC17 - QC35 and BC2.25 - BC2.35.) If not, why?

   We agree with the Board's conclusion to acknowledge *comparability*, *verifiability*, *timeliness* and *understandability* as enhancing qualitative characteristics of financial and non-financial information, provided by financial reporting.

   (c) *materiality* and *cost* are pervasive constraints? (See QC29 - QC32 and BC2.60 - 2.66.) If not, why? Is the importance of the pervasive constraints relative to the qualitative characteristics appropriately represented in Chapter 2?

We agree with the Board's conclusion to acknowledge *materiality* and *cost* as *pervasive constraints* of financial and non-financial information, provided by financial reporting.

2. The boards have identified two fundamental qualitative characteristics - *relevance* and *faithful representation*:

   (a) Financial reporting information that has *predictive value* or *confirmatory value* is relevant.

   (b) Financial reporting information that is *complete*, *free from material error* and *neutral* is said to be a faithful representation of an economic phenomenon.

      (i) Are the fundamental qualitative characteristics appropriately identified and sufficiently defined for them to be consistently understood? If not, why?

      We believe that the fundamental qualitative characteristics are appropriately identified and sufficiently defined for them to be consistently understood. But, having in mind, that most national standards and companies' statements used to refer to true and fair view concept (or fundamental assumption) and having in mind, that this matter has been explained in current *Conceptual Framework*, we do not see the reason, why this is now omitted? Due to American point of view? We think, this is too little to give it up.

      (ii) Are the components of the fundamental qualitative characteristics appropriately identified and sufficiently defined for them to be consistently understood? If not, why?

      We believe that the components of the fundamental qualitative characteristics are appropriately identified and sufficiently defined for them to be consistently understood.

3. Are the enhancing qualitative characteristics (*comparability*, *verifiability*, *timeliness* and *understandability*) appropriately identified and sufficiently defined for them to be consistently understood and useful? If not, why?

   We believe that the enhancing qualitative characteristics (*comparability*, *verifiability*, *timeliness* and *understandability*) are appropriately identified and sufficiently defined for them to be consistently understood and useful.

4. Are the pervasive constraints (*materiality* and *cost*) appropriately identified and sufficiently defined for them to be consistently understood and useful? If not, why?

   We believe that the pervasive constraints (*materiality* and *cost*) are appropriately identified and sufficiently defined for them to be consistently understood and useful.

Yours sincerely,

Joanna Dadacz Chairman of Polish Accounting Standards Committee

cc: Stig Enevoldsen, Chairman of EFRAG TEG