23 March 2009

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

Dear Sir David

Re: ED 10 Consolidated Financial Statements

The Polish Accounting Standards Committee presents its opinion and some remarks on ideas of control in ED 10 *Consolidated Financial Statements*. We point out, that some of our representatives have their own ideas, which do not exactly correspond to our opinion, presented hereafter.

We do support the convergence project between IFRSs and US GAAP, which is to lead to elaborate high quality global accounting standards to be used consistently over the world.

We see a lot of positive actions, taken by IASB and FASB in achieving the goal of high quality global accounting standards and we appreciate your efforts on this difficult and hard work.

Unfortunately, we see the project of ED 10 *Consolidated Financial Statement* , in which affords are taken to improve concept of control as unfruitful on this stage. In our opinion, matters like: changing the definition of control, changing the term special purpose entities (SPE) onto structured entities (SE), combining IAS 27 with SIC-12 and separating principles for consolidated financial statements and separate financial statements are too less effective to be seen as a progress in developing high quality global accounting standards. In our view, lots of problems would be solved by improving existing IAS 27 and SIC-12 by not so much rebuild structure of these regulations. Simply could be done by added proposed, enhanced Illustrative Examples or introduced Application Guidelines.

We see change in a definition of control as change for change itself. We do not see the real positives of its redefinition, in which word "*govern*" is changed by word

"*direct*", words "*financial and operation activities*" changed by "*operations*" and word "*benefits*" by word "*returns*".

In our view, each business activity taken by an entity is to be profit oriented (in a long time scale – should provide positive cash inflows), for which benefits are crucial. *Conceptual Framework* uses term "benefits" as an element for assets recognition. Of course, benefits can be obtained in a different ways and not always be equate with direct cash inflows. "Returns" prospectively should give a positive result – benefits. If not, there is a doubt, whether in separate financial statement interests in subsidiaries should ever be recognized.

Each entity runs its business by operations and each entity must carry the financial and operational activity. Even not profit oriented special purpose entities (SPE) runs its businesses by financial and operational activity. Does any other activities of an entity are to be recognized in terms of "returns" or "benefits"? Investing? If yes, please add this to the definition or simply in explanations point it out. Of course, we can see an entity as a social object, which realizes social goals, but as far as we know, IFRSs are business oriented and assets or liabilities recognition criteria are combined with financial effects. On this field nothing has been changed, having into consideration para. 22 of ED 10, in which activities are defined as operating and financing.

We do not share your idea of changing word "govern" by word "direct", if in a concept of control the power is not to be exercised as a criteria for its recognition. On the other hand, in a explanations to proposed new definition of control , contained in Basis for Conclusions, you are trying to explain, that the exercise of power is not a recognition criteria for existence of control. But in para. 25 of ED 10, it is for example stated, that possessing "more than half of the voting rights of another entity might not have the power to direct the activities of that other entity". This is inconsistent. We believed, that under previous IAS 2007 (2008) and under new IFRS […] *Consolidated Financial Statements* there is only one control: *de facto* control. To be so in such circumstances, control is to be exercised. In other way we will back to the dual concept of control: *de jure* control and *de facto* control. Of course, there is a problem of exercising control in situations, in which there is no other potential controller, but some of us believes, in such situations not exercising control is really exercising control.

Simply saying, in our view, changed definition of "control" did not introduced any new quality.

We also not support the idea of introducing new category of "structured entities" instead of "special purpose entities", well existing in current regulations, not sharing your opinion about association or connotation of SPE with risk and rewards model. We see this change as simply change in wording.

But we see some, really positive elements of this project, e.g. introduced explanations, concerning the *protective rights*, which we are, in our view, very

valuable and will lead to more consistent application of the concept of control over the world.

We do believe, that finally elaborated Project on Consolidation will serve the public in a better way and will introduce a new quality in financial reporting and will really influence the convergence project .

Yours sincerely,

Joanna Dadacz Chairman of Polish Accounting Standards Committee

cc: Stig Enevoldsen, Chairman of EFRAG TEG