



**Report on the review of financial statements by  
issuers of securities in the context of their  
compliance with IASs/IFRSs**

*The review carried out in 2009*

Polish Financial Supervision Authority  
Issuers Department – Accounting Division  
Warsaw, 2010

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## **Chapter I. Rules of periodic review and objective of the report**

### 1. Overview of the rules of review

The present report is a summary of the review conducted by the Accounting Division of the Issuers Department at the Polish Financial Supervision Authority mainly in respect of the annual consolidated financial statements for the accounting year 2008 by issuers of securities other than investment funds in the context of their compliance with IASs/IFRSs, i.e. International Accounting Standards, International Financial Reporting Standards and the related interpretations published in the form of regulations of the European Commission.

While preparing the present report, the results of interim financial statements review carried out in 2009, prepared for the accounting years 2008 and 2009 were also taken into account.

Considering the objective of this report, we would like to emphasise that the content of the report is merely a summary of the selected information on disclosures required by IASs/IFRSs. Full scope of the required disclosures is provided for in applicable IASs/IFRSs.

Considering the fact that the main element of the full, comprehensive scope of enforcement of the applied financial information standards is the monitoring of compliance of the financial information with the applicable reporting framework (principle 2 of CESR<sup>1</sup> Standard No. 1<sup>2</sup> on Financial Information), Accounting Division of the Issuers Department conducts periodic review of compliance of issuers' financial reporting with applicable reporting regulations. Periodic review covers analysis of the selected financial statements and analysis on request (of issuers' financial statements published in interim information, prospectuses or information memoranda) especially in a situation when another unit of the Polish Financial Supervision Authority requests communication of specific position in the course of already initiated proceedings.

In the context of the conducted proceedings, particular attention is paid to the analysis of opinion about the audited financial statements prepared by the entities authorized to audit financial statements, i.e. to identify cases where a statutory auditor disclaimed of an opinion, expressed an adverse opinion, submitted reservations or supplementary explanations.

In connection with the review of financial statements carried out in respect of their compliance with IASs/IFRSs, the financial statements of 63 issuers were audited, including annual consolidated financial statements of 56 issuers prepared for the accounting year 2008. Total capitalisation of 63

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<sup>1</sup> CESR - The Committee of European Securities Regulators, CESR webpage: [www.cesr.eu](http://www.cesr.eu)

<sup>2</sup> Standard CESR No. 1 on Financial Information. Enforcement of Standards on Financial Information in Europe (Ref.: CESR/03-073, March 2003), available at: [http://www.cesr.eu/index.php?page=document\\_details&id=192](http://www.cesr.eu/index.php?page=document_details&id=192)

issuers, whose financial statements were subject to analysis, accounted for 40.48% of regulated market capitalisation as of 31 December 2008 (Warsaw Stock Exchange and MTS CeTO – now a regulated over-the-counter market carried out by BondSpot S.A.).

#### **Number and capitalisation of issuers whose financial statements were subject to periodic review**

<b>Issuers</b>	<b>Number</b>	<b>Share in regulated market capitalisation as of 31.12.2008</b>	<b>Share in regulated market capitalisation as of 01.12.2009</b>
Companies with capitalisation exceeding PLN 1 billion (EUR 239.8 billion) as of 31.12.2008	18	38.02%	35.18%
Companies with capitalisation below PLN 1 billion (EUR 239.8 billion) as of 31.12.2008	44	2.46%	4.09%***
Companies unlisted on the regulated market as of 31.12.2008	1	-	-
<b>Total</b>	<b>63*</b>	<b>40.48%</b>	<b>39.27%***</b>
of which companies which debuted on WSE in 2008-2009	5	1.15%**	2.03%

\* total number of companies covers, apart from companies with capitalisation exceeding PLN 1 billion and below PLN 1 billion as of 31.12.2008 also a company seeking admission to trading on the regulated market in 2008, which as of 31.12.2008 were not listed on the regulated market.

\*\* total capitalisation as of 31.12.2008 does not cover 1 company which debuted on WSE in 2009

\*\*\* total capitalisation of 61 companies (including 42 companies with capitalisation below PLN 1 billion) as of 01.12.2009 (the number of companies decreased since 2 companies stopped to be listed on the regulated market)

The review covered annual consolidated financial statements of selected issuers representing all sectoral indices of the Warsaw Stock Exchange, as well as indices: WIG20, mWIG40 and sWIG80. Moreover, the annual consolidated financial statements of selected issuers whose securities were listed on CeTO Securities Market were subject to analysis (now a regulated over-the-counter market carried out by BondSpot S.A.).

## 2. Selection of financial statements for review

Since 2005, Accounting Division of Issuers Department has been using the principles of enforcement of standards on financial information specified in CESR Standard No. 1.

Pursuant to principle 1 of CESR Standard No. 1, the purpose of enforcement of standards on financial information is to protect investors and promote market confidence by contributing to the transparency of financial information relevant to the investors' decision making process.

The methods for selecting annual consolidated financial statements for review were based on CESR recommendations provided in CESR Standard No. 1 and in CESR guidelines on the application of selection methods.

Principle 13 of CESR Standard No. 1 on Financial Information stipulates that (...) preferred models for selecting financial information for enforcement purposes are mixed models whereby a risk based approach is combined with a rotation and/or a sampling approach (...).

## 3. Objective of the report

Preparation of this report on the conducted review and publication of the report on PFSA website is aimed at presenting the results of periodic review to the users of financial statements, as well as to issuers and statutory auditors, including the most recurring deficiencies and discrepancies in respect of disclosures and applying accounting rules (policies) in financial statements, which would be a support for the issuers in achieving high level of compliance with the reporting standards, in particular with IAS/IFRS requirements, in the next financial statements.

Improved quality of the financial statements presented by issuers should also contribute to their comparability, in particular within individual industries, as well as increase investors' confidence in financial reporting and facilitate the assessment of property and financial performance and results of operations of issuers and their capital groups.

Having in mind the objective, which is increasing the quality of financial statements presented by issuers, we also recommend to familiarize with CESR report on applying requirements within the scope of disclosures for financial instruments, entitled "*Application of Disclosure Requirements Related to Financial Instruments in the 2008 Financial Statements*" (Ref.: CESR/09-821, October 2009), placed on CESR website ([www.cesr.eu](http://www.cesr.eu) – bookmark: Operational Groups / CESR-Fin).

Moreover, on CESR website ([www.cesr.eu](http://www.cesr.eu) - bookmark: Operational Groups / CESR-Fin/ EECS) there were published, *inter alia*, extracts from EECS base (*European Enforcers Coordination Sessions*),

containing the decisions of enforcers of the European Economic Area in connection with the enforcement of IASs/IFRSs (seven decision packages).

## **Chapter II. Areas of non-compliances with IASs/IFRSs - on the basis of the review of financial statements for the accounting year 2008**

### 1. Results of the review

The issues which are presented in the present report were selected from the vast scope of IAS/IFRS-related issues to be presented as a result of the issuers' financial statements review carried out for the accounting year 2008. They include both the most recurring non-compliances with IASs/IFRSs and deficiencies relating to disclosures and the ones that, in the opinion of the authors, are worth noticing in this report.

Non-compliances with IASs/IFRSs and deficiencies in disclosures were also presented when a particular IAS/IFRS regulation was applied only partially (certain requirements pointed out in a particular regulation were not fulfilled). Disclosures which are not presented clearly and transparently were also highlighted or cases when useful information was not presented in a sufficient scope (in order for the information included in the financial statements to be reliable, it has to be complete – cf. point 24-26 *IASB Framework for the Preparation and Presentation of Financial Statements*<sup>3</sup> concerning the quality of financial statements).

The results of the review showed that specific non-compliances and deficiencies relating to disclosures occurred both in the case of consolidated financial statements of lower-capitalised companies and in the case of higher-capitalised companies selected for the review which are admitted to trading on regulated market.

It should be noted at the same time that in the case of consolidated financial statements of companies with high capitalization, specific disclosures required by IASs/IFRSs were made comparatively more often than in the case of lower-capitalised companies, but not always in a complete manner.

As a result of the conducted review, the authors of the report are obliged to recommend to companies, both with higher and lower capitalization, the necessity to improve the quality of disclosures relating to financial instruments.

Individual areas of non-compliance with IASs/IFRSs are presented in point 2 of the present chapter in a sequence which takes into account both the importance, according to PFSA, of the appropriate fulfilment of IAS/IFRS requirements in areas pointed out to the users of financial statements, and the level of quality of disclosures, as well as the number of occurring non-compliances with IASs/IFRSs.

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<sup>3</sup> *IASB Framework for the Preparation and Presentation of Financial Statements* – approved by IASB, not subject to adoption in the form of Commission Regulation to be applied within the EU

The list presented below could fail to cover all non-compliances with IASs/IFRSs, deficiencies in disclosures or incomplete disclosures, which appeared in the financial statements prepared by issuers for the accounting year 2008.

IAS/IFRS regulations, which were cited when discussing individual areas of non-compliances with IASs/IFRSs, are presented in a form relating to the financial statements prepared for the accounting year 2008.

Non-compliances with IASs/IFRSs, deficiencies in disclosures or incomplete disclosures are presented in a more detailed manner than in the *Report on the review of annual consolidated financial statements for the accounting year 2007 by issuers*<sup>4</sup> - in order to better illustrate the issues which require improvement in the next financial statements.

We point out that a part of presented non-compliances with IASs/IFRSs, deficiencies in disclosures or incomplete disclosures related only to single cases. On the other hand, cases relating to disclosures made by the issuers in a manner not clear or transparent enough, or in a manner which raised doubts concerning the completeness of disclosed information were comparatively numerous.

Nevertheless, due to the fact that the present report was prepared mainly for educational purposes, the list below covers as many IAS/IFRS requirements as possible, which, as a result of the review of financial statements, were considered not fulfilled and which fulfilment or complete fulfilment raised doubts.

## 2. A list of areas of non-compliances with IASs/IFRSs

### 2.1. Non-compliances and deficiencies in disclosures in respect of financial instruments

- Deficiency in disclosures, required in accordance with paragraph 10 of IFRS 7 “*Financial instruments: disclosures*”, if the entity has designated a financial liability as at fair value through profit or loss in accordance with paragraph 9 of IAS 39 (deficiencies in disclosures relate mainly to the amount of change, during the period and cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, while the difference between the financial liability’s carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation was not always presented in a clear, transparent manner);
- Deficiency in disclosure, in a full scope, of information required in accordance with paragraph 14-15 of IFRS 7, relating to collaterals concerning financial instruments (deficiency in disclosures in a

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<sup>4</sup> [http://www.knf.gov.pl/Images/Report\\_en\\_IAS\\_2007\\_publication\\_tcm75-10213.pdf](http://www.knf.gov.pl/Images/Report_en_IAS_2007_publication_tcm75-10213.pdf)

full scope relates mainly to the terms and conditions both of the pledge and connected with use of the collateral);

- Failure to disclose information concerning the impact of the financial instruments on profit or loss in a clear and transparent manner (cf. paragraph 20 of IFRS 7);
- Failure to disclose in a clear and transparent manner, for each class<sup>5</sup> of financial assets and financial liabilities, information about the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount (cf. paragraph 25 of IFRS 7);
- Deficiency in disclosures connected with the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities (cf. paragraph 27 (a) of IFRS 7);
- Deficiency in qualitative disclosures, required in accordance with paragraph 33 of IFRS 7, for each type of risk arising from financial instruments (deficiency in disclosures relates mainly to policies and processes for managing the risk, the methods used to measure the risk, as well as any changes from the previous period);
- Deficiency in disclosures of the amount, by class of financial instrument, that best represents its maximum exposure to credit risk at the reporting date (cf. paragraph 36 (a) of IFRS 7);
- Deficiency in disclosures of information, by class of financial instrument, about the credit quality of financial assets that are neither past due nor impaired (cf. paragraph 36 (c) of IFRS 7);
- Failure to disclose, by class of financial asset, an analysis of financial assets that are individually determined to be impaired as at the reporting date, including the factors the entity considered in determining that they are impaired (paragraph 37 (b) of IFRS 7);
- Failure to disclose a maturity analysis for financial liabilities that shows the remaining contractual maturities and deficiency in a description of how it manages the liquidity risk (deficiency in disclosures relates mainly to current financial liabilities, cf. paragraph 39 of IFRS 7 and point B11 of Annex B to IFRS 7<sup>6</sup>);
- Failure to disclose a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date, showing how profit or loss and equity have been affected by changes in the relevant risk variable that were reasonably possible at that date (cf. paragraph 40 (a) of IFRS 7);
- Failure to disclose the methods and assumptions used in preparing the sensitivity analysis (cf. paragraph 40 (b) of IFRS 7);

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<sup>5</sup> in the Polish version of the standard it should be translated as “klasy”

<sup>6</sup> which forms an integral part of this standard

- Deficiency in information about possible incorporation by cross-reference from the financial statement to another financial statement information, of which disclosure is required under paragraphs 31-42 of IFRS 7 (cf. point B6 of Annex B to IFRS 7).

## 2.2. Non-compliances and deficiencies in disclosures in respect of business combinations

- Failure to disclose, with respect to each business combination that was effected during the period, the acquisition date (cf. paragraph 67 (b) of IFRS 3 „*Business combinations*”);
- Failure to disclose, with respect to each business combination that was effected during the period, the cost of the combination and a description of the components of that cost, including any costs directly attributable to the combination (deficiency in disclosure relates mainly to information about the fair value of the equity instruments issued as part of the cost and about the basis for determining that fair value, cf. paragraph 67 (d) of IFRS 3);
- Deficiency in disclosures, with respect to each business combination that was effected during the period, of the amounts recognised at the acquisition date (*recognised at fair value – cf. paragraph 36 of IFRS 3*) for each class of the acquiree`s assets, liabilities and contingent liabilities (cf. paragraph 67 (f) of IFRS 3);
- Deficiency in disclosures, with respect to each business combination that was effected during the period, of the carrying amounts of each class of the acquiree`s assets, liabilities and contingent liabilities, determined in accordance with IFRSs, immediately before the combination, or if such disclosure was impracticable deficiency in disclosing that fact, together with an explanation of why this was the case (cf. paragraph 67 (f) of IFRS 3);
- Deficiency in description, relating to each business combination that was effected during the period, of the factors that contributed to a cost that results in the recognition of goodwill – deficiency in description of each intangible asset that was not recognised separately from goodwill, and deficiency in an explanation of why the intangible asset`s fair value could not be measured reliably (paragraph 67 (h) of IFRS 3);
- Deficiency in disclosure, with respect to each business combination that was effected during the period, of the amount of the acquiree`s profit or loss since the acquisition date included in the acquirer`s profit or loss for the period, or deficiency in information that the disclosure was impracticable, and if such disclosure was impracticable deficiency in disclosing that fact, together with an explanation of why this was the case (paragraph 67 (i) of IFRS 3);
- With respect to business combinations effected during the period that are individually immaterial, deficiency in disclosures, required in compliance with paragraph 67 of IFRS 3, in the aggregate amount (cf. paragraph 68 of IFRS 3);

- If the initial accounting for a business combination that was effected during the period was determined only provisionally, deficiency in disclosure of that fact together with an explanation of why this was the case (cf. paragraph 69 of IFRS 3);
- Deficiency in disclosure of the revenue and the profit or loss of the combined entity for the period as though the acquisition date for all business combinations effected during the period had been the beginning of the period, or if disclosure of this information was impracticable deficiency in disclosing that fact, together with an explanation of why this was the case (cf. paragraph 70 of IFRS 3);
- Failure to disclose the information, required under paragraph 67 of IFRS 3, with relation to each business combination effected after the balance sheet date but before the financial statements are authorised for issue, or if disclosure of any of that information was impracticable deficiency in disclosing that fact, together with an explanation of why this was the case (cf. paragraph 71 of IFRS 3);
- Deficiency in disclosure of information enabling users of financial statements to evaluate the financial effects of gains, losses, error corrections and other adjustments recognised in the current period that relate to business combinations that were effected in the current or in previous periods (e.g. in the case of the initial accounting for a business combination determined only provisionally at the end of the immediately preceding period, deficiency in information about the amounts and deficiency in explanations of the adjustments to the provisional values recognised during the current period, cf. paragraph 72-73 of IFRS 3);
- Incorrect, in the context of IFRS 3, recognition of excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination as a "negative goodwill" (cf. paragraph 56 of IFRS 3);
- Deficiency in description of the applied method of accounting for business combination with relation to a business combination involving entities or businesses under common control (cf. paragraph 3b and paragraph 10-13 of IFRS 3, paragraph 10-12 of IAS 8 "*Accounting policies, changes in accounting estimates and errors*" and paragraph 15c of IAS 1 "*Presentation of financial statements*").

### 2.3. Non-compliances and deficiencies in disclosures in respect of presentation of financial statements

- In the statement to the effect that financial statements comply with IFRSs, required in accordance with paragraph 14 of IAS 1 "*Presentation of financial statements*", deficiency in referring, in a manner which is clear and does not raise doubts, to IASs/IFRSs as defined in Article 2 (3) of the

Accounting Act<sup>7</sup> and paragraph 2 (1) (12) of the Regulation on disclosure obligations<sup>8</sup> (i.e. International Accounting Standards, International Financial Reporting Standards and the related interpretations published in the form of regulations of the European Commission), or to IFRS, which were endorsed by the EU (the clause recommended by the European Commission);

- Deficiency in disclosing comparative information in respect of the previous period for certain amounts reported in the financial statements (cf. paragraph 36 of IAS 1);
- Failure to display prominently information (or deficiency in repeating) in the financial statements, when it is necessary for a proper understanding of the information presented (especially information concerning the balance sheet date or the period covered by the financial statements, as well as information concerning the currency and the level of rounding used in presenting amounts in the financial statements, cf. paragraph 46-48 of IAS 1);
- Failure to include in the balance sheet the items concerning assets classified as held for sale and assets included in disposal groups classified as held for sale as well as liabilities included in disposal groups classified as held for sale, required in accordance with paragraph 68A of IAS 1 and paragraph 38 of IFRS 5 "*Non-current assets held for sale and discontinued operations*";
- Using other terminology than approved in compliance with IASs/IFRSs (*inter alia*, terminology resulting from the provisions of the Accounting Act, e.g. an issuer shall use: the term of "intangible assets" and not "intangible and legal assets");
- Deficiency in disclosures of information required in accordance with paragraph 76a of IAS 1, for each class of share capital;
- Deficiency in description of the nature and purpose of each reserve within equity (paragraph 76b of IAS 1);
- Failure to include in the face of the income statement the items concerning discontinued operations, required in compliance with paragraph 81 (e) of IAS 1 and paragraph 33 of IFRS 5;
- Failure to include the reference to any related information in the notes in certain items on the balance sheet, income statement, statement of changes in equity and cash flow statement, (cf. paragraph 104 of IAS 1);
- Deficiency in disclosures of the measurement basis/bases (for example, historical cost, fair value) used in the financial statements (in the case when more than one measurement basis is used in the financial statements, deficiency in providing an indication of the categories of assets or liabilities to which each measurement basis is applied, cf. paragraph 108-109 of IAS 1);

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<sup>7</sup> The Accounting Act of 29 September 1994 (Dz. U. of 2009 No 152, item 1223, as amended)

<sup>8</sup> The Regulation of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the conditions for regarding information required by the law of a non-member state as equivalent (Dz. U. No 33, item 259, as amended)

- Deficiency in description of certain accounting policies, in the summary of significant accounting policies applied by the entity (*inter alia*, deficiency in disclosures of accounting policies selected from alternatives allowed in standards and interpretations, cf. paragraph 108-112 of IAS 1);
- Deficiency in description of the management`s judgements in the summary of accounting policies (paragraph 113-115 of IAS 1);
- Failure to present (or presenting in a not clear and transparent manner) sources of estimation uncertainty (cf. paragraph 116-124 of IAS 1);
- Deficiency in disclosures of information that enables users of the financial statements to evaluate the entity`s objectives, policies and processes for managing capital (presentation of information concerning management of capital in a general way, mainly deficiency in disclosures concerning the way of meeting the objectives for managing capital, cf. paragraph 124A-124C of IAS 1);
- In the case of interim financial statements for the periods of 2009, deficiency in presenting the item of other comprehensive income and the item “total comprehensive income” in the condensed financial statements, required in accordance with the amendments to IAS 34 *“Interim financial reporting”*, introduced by the Commission Regulation (EC) No 1274/2008 of 17 December 2008.

#### 2.4. Non-compliances and deficiencies in respect of IAS/IFRS disclosure requirements concerning cash flow statements

- Failure to separately disclose cash flows related to the acquisition of equity or debt instruments of other entities (cf. paragraph 16c of IAS 7 *“Cash-flow statements”*);
- Failure to separately disclose cash flows arising from interests and dividends received and paid (cf. paragraph 31 of IAS 7);
- Failure to separately disclose cash flows arising from taxes on income (cf. paragraph 35 of IAS 7);
- Failure to separately disclose aggregate cash flows arising both from acquisition and disposals of subsidiaries (cf. paragraph 39 of IAS 7);
- Failure to disclose, in aggregate, in respect of the acquisition/disposal of subsidiaries/other business units the total purchase or disposal consideration (cf. paragraph 40 (a) of IAS 7);
- Failure to disclose, in aggregate, in respect of the acquisition/disposal of subsidiaries/other companies, the portion of the purchase or disposal consideration discharged by means of cash and cash equivalents (cf. paragraph 40 (b) of IAS 7);
- Failure to disclose, in aggregate, in respect of the acquisition/disposal of subsidiaries/other companies, the amount of cash and cash equivalents in the subsidiary or business unit acquired or disposed of (cf. paragraph 40 (c) of IAS 7);

- Failure to disclose, in aggregate, in respect of the acquisition/disposal of subsidiaries/other companies, the amount of the assets and liabilities other than cash or cash equivalents in the subsidiary or business unit acquired or disposed of, summarised by each major category (cf. paragraph 40 (d) of IAS 7);
- Failure to disclose the policy adopted in determining the composition of cash and cash equivalents (cf. paragraph 46 of IAS 7).

#### 2.5. Non-compliances and deficiencies in respect of IAS/IFRS disclosure requirements concerning consolidation

- Presentation of minority interests in the consolidated balance sheet non-compliant with IASs/IFRSs (failure to present minority interests in the consolidated balance sheet within equity, separately from the parent shareholders` equity, cf. paragraph 33 of IAS 27 "*Consolidated and separate financial statements*");
- Disclosure of minority interests in the profit or loss non-compliant with IASs/IFRSs (failure to attribute the profit or loss of the group to the parent shareholders and minority interests, treating the profit/loss attributable to minority interests as income/cost, cf. paragraph 33-34 of IAS 27 and paragraph 82 of IAS 1);
- Failure to disclose separately, in a statement of changes in equity, total income and expense for the period, attributable to equity holders of the parent and to minority interest (cf. paragraph 96c of IAS 1);
- Failure to disclose the nature of the relationship between the parent and a subsidiary when the parent owns, directly or indirectly through subsidiaries, no more than half of the voting power (cf. paragraph 40 (c) of IAS 27);
- In the case of entities, of which the issuer owns half or less of the voting power, failure to demonstrate that such ownership constitutes control in accordance with additional conditions for existing control, specified in paragraph 13 of IAS 27;
- Failure to disclose the reasons why the ownership, directly or indirectly through subsidiaries, of more than half of the voting or potential voting power of an investee does not constitute control (paragraph 40 (d) of IAS 27);
- Failure to patently demonstrate that the ownership, directly or indirectly through subsidiaries, of more that half of the voting power of an entity does not constitute control over that entity (cf. paragraph 13 of IAS 27);

- Failure to disclose or IAS/IFRS-non-compliant disclosure of the basis for excluding subsidiaries from consolidation (by excluding a subsidiary from consolidation as immaterial, the issuers did not always present the justification compliant with the notion of materiality presented in IASs/IFRSs).

#### 2.6. Non-compliances and deficiencies in respect of related party disclosures

- Lack of disclosures concerning the relationships between parents and subsidiaries (which should be disclosed irrespective of whether there have been transactions between those related parties, cf. paragraph 12 and 13 of IAS 24 “*Related party disclosures*”);
- Lack of disclosures concerning certain categories of key management personnel compensation, indicated in paragraph 16 of IAS 24;
- Lack of disclosures concerning key management personnel compensation, divided into compensation categories, indicated in paragraph 16 of IAS 24;
- Lack of information concerning transactions and outstanding balances necessary for an understanding of the potential effect of the related party relationship on the financial statements, the disclosure of which is required at a minimum in the scope specified in paragraph 17 of IAS 24;
- Deficiency in disclosures required by paragraph 17 of IAS 24, separately for each category of related parties, specified in paragraph 18 of this standard.

#### 2.7. Non-compliances and deficiencies in respect of IAS/IFRS disclosure requirements concerning investments in associates

- Failure to disclose the fair value of the investments in associates for which there are published price quotations (cf. paragraph 37 (a) of IAS 28 “*Investments in associates*”);
- Failure to disclose summarized financial information of associates, including the aggregated amounts of assets, liabilities, revenues and profit or loss (cf. paragraph 37 (b) of IAS 28);
- Failure to disclose the reasons why the presumption that an investor does not have significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, less than 20% of the voting or potential voting power of the investee but concludes that it has significant influence (cf. paragraph 37 (c) of IAS 28);
- Failure to disclose reasons why the presumption that an investor has significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, 20% or more of the voting or potential voting power of the investee but concludes that it does not have significant influence (cf. paragraph 37 (d) of IAS 28);
- Failure to disclose that an associate is not accounted for using equity method in accordance with paragraph 13 of IAS 28 (cf. paragraph 37 (h) of IAS 28);

- Failure to disclose summarized financial information of associates, either individually or in groups, that are not accounted for using the equity method, including the amounts of total assets, total liabilities, revenues and profit or loss (cf. paragraph 37 (i) of IAS 28);
- Failure to separately disclose the investor's share of the profit or loss of associates accounted for using the equity method (cf. paragraph 38 of IAS 28);
- Failure to separately disclose the carrying amount of investments in associates accounted for using the equity method (cf. paragraph 38 of IAS 28).

#### 2.8. Non-compliances and deficiencies in respect of basic and diluted earnings per share

- Failure to present on the face of the income statement basic and diluted earnings per share (cf. paragraph 66 of IAS 33 "*Earnings per share*");
- Deficiency in disclosures required by paragraph 70 (a) and (b) of IAS 33, concerning the amounts and numbers used in calculating basic and diluted earnings per share;
- Calculation of basic and diluted earnings per share in the manner that is non-compliant with IAS 33 (i.e. by using net profit or loss instead of profit or loss attributable to ordinary equity holders of the parent entity, cf. paragraph 9 and paragraph 30 of IAS 33).

#### 2.9. Non-compliances and deficiencies in respect of segment reporting, in accordance with IAS 14

- Failure to apply IAS 14 "*Segment reporting*" by an entity (with no indication of reasons for failure to apply IAS 14);
- Failure to separately account for segment revenue from sales to external customers and segment revenue from transactions with other segments (cf. paragraph 51 of IAS 14);
- Failure to disclose information in respect of the total carrying amount of segment assets for each reportable segment (cf. paragraph 55 of IAS 14);
- Failure to disclose information on segment liabilities for each reportable segment (cf. paragraph 56 of IAS 14);
- Failure to disclose, for each reportable segment, the total cost incurred during the period to acquire segment assets (property, plant, equipment, and intangible assets) that are expected to be used during more than one period (cf. paragraph 57 of IAS 14);
- Failure to disclose, for each reportable segment, the total amount of expense included in segment result for depreciation and amortisation of segment assets for the period (cf. paragraph 58 of IAS 14);

- In the case of entities presenting information concerning segments (in accordance with IAS 14), the lack of disclosures, for each reportable segment, concerning the amount of impairment losses recognised in profit and loss and directly in equity during the period (cf. paragraph 129 (a) of IAS 36 "*Impairment of assets*").

#### 2.10. Other non-compliances and disclosure deficiencies

- Deficiencies in disclosures in respect of the accounting policies adopted in measuring inventories, including the cost formula used (cf. paragraph 36 (a) of IAS 2 "*Inventories*");
- Deficiencies in disclosures in respect of the amount of inventories recognized as an expense during the period (cf. paragraph 36 (d) of IAS 2);
- Deficiency in disclosing information concerning new standards or interpretations (cf. paragraph 30-31 of IAS 8 "*Accounting policies, changes in accounting estimates and errors*");
- Failure to disclose the date when the financial statements were authorised for issue and who gave that authorisation (cf. paragraph 17 of IAS 10 "*Events after the balance sheet date*");
- Failure to disclose, for each class of property, plant and equipment, the measurement bases used for determining the gross carrying amount, the depreciation methods used and the useful lives or the depreciation dates used<sup>9</sup> (cf. paragraph 73 (a) - (c) of IAS 16 "*Property, plant and equipment*");
- Failure to disclose information about the accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions involving the rendering of services (cf. paragraph 35 (a) of IAS 18 "*Revenue*");
- Failure to disclose exchange rates used to translate foreign currency monetary and non-monetary items (cf. paragraph 23 of IAS 21 "*The effects of changes in foreign exchange rates*");
- In the case of interim financial reports, failure to comply with the requirement specified in paragraph 10 of IAS 34 "*Interim financial reporting*", concerning the inclusion of, at a minimum, each of the headings and subtotals that were included in entity's most recent annual financial statements, in the condensed financial statements;
- Failure to disclose information required in accordance with paragraph 130 of IAS 36, for each material impairment loss recognized or reversed during the period for an individual asset, including goodwill, or a cash-generating unit;
- Deficiency of information required in accordance with paragraph 118 of IAS 38 "*Intangible assets*", which should be disclosed for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets.

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<sup>9</sup> In the Polish version of the standard „the useful lives or the depreciation rates used” should be translated as „okresów użytkowania lub zastosowanych stawek amortyzacyjnych”.

### 3. Qualification and emphasis of matter paragraphs in the independent auditors` reports

In order to draw issuers` particular attention to the need to achieve compliance with IASs/IFRSs in given areas, the issues with regard to which qualification paragraphs were included in independent auditors` opinions on the audited financial statements for the financial year 2008, prepared in accordance with IASs/IFRSs, have been presented below. Issues with regard to which the aforementioned qualification paragraphs had been formulated have been arranged to facilitate the search for a given topical area.

In our view, it is appropriate for an independent auditor to take into account the completeness of disclosures, required in accordance with regulations in force, when issuing an opinion about an audited financial statement.

#### 3.1. Qualification paragraphs

Qualification paragraphs in independent auditors` opinions regarded the following aspects:

##### 3.1.1. Issues concerning financial instruments

- Doubts regarding the credibility of the measurement of an embedded derivative and the recognition of the related financial assets;
- Failure to make a measurement of embedded financial instruments included in annexed lending agreements;
- Inability to determine the possibility to utilize financial assets concerning the equity securities and shares and receivables (being the subject of litigation, collection and negotiation) and the term of this process by an auditor;
- Removal of equity instrument from the balance sheet inconsistent with IAS 32 "*Financial instruments: presentation*" and IAS 39 "*Financial instruments: recognition and measurement*";
- Separation of a subsidiary derivative arising from a contract the execution of which has not started, which increased the entity profit (uncertainty concerning the credibility of cash flows related to this agreement and assumed by an entity);
- Designation, inconsistently with IAS 39 "*Financial instruments: recognition and measurement*", proportions of derivative transactions concluded as a hedge within the meaning of hedge accounting.

##### 3.1.2. Issues concerning consolidation and business combinations

- Failure to consolidate a subsidiary/subsidiaries;

- Placement of assets being a brand name created internally by a subsidiary in a consolidation package of this subsidiary;
- Lack of derecognitions in a consolidated statement of changes in equity and statement of cash flows arising from transactions between related entities;
- Disclosure in subsidiary assets of an item being an unexplained non-compliance between total assets and liabilities in the financial statements;
- Auditor's failure to audit financial statements of subsidiaries;
- Inability to confirm the validity of assets, liabilities and reserves, as well as income and costs of a subsidiary by an auditor (an entity authorized to audit financial statements of a subsidiary issued a position due to the inability to audit those financial statements);
- Failure to provide an independent auditor's opinion concerning the audited profit and loss accounts of subsidiaries, due to which the entity authorized to audit financial statements of a parent company is unable to present a statement regarding potential corrections in a consolidated profit and loss account and consolidated statement of cash flows;
- Inability to estimate the influence of a potential change of subsidiary's financial data (unconfirmed reliability of these data as of the balance sheet date);
- Inability to exclude, due to the lack of audited financial statements of a non-consolidated subsidiary and failure to test these financial assets for impairment, whether there has been an impairment of subsidiary's shares, and inability to confirm whether financial data of a subsidiary justify the entity's decision to refrain from preparing consolidated financial statements;
- Lack of ultimate accounting for an acquisition of a subsidiary as of the balance sheet date;
- Failure to allocate the loss of minority exceeding the minority interest to majority interest by a parent company;
- The lack of ultimate accounting for an acquisition of a subsidiary due to the failure to measure its tangible assets at fair value;
- Repricing (for the purpose of IAS/IFRS application) of a fair value of tangible assets of a subsidiary, at the acquisition date of the subsidiary by the parent company;
- Auditor's inability to determine the carrying amount of subsidiaries' assets, which may be impaired due to market situation;
- Auditor's inability to assess, in the case of subsidiaries without own sources of material cash inflows, their probability of obtaining loan refinancing or acquiring the financing from other sources, as well as auditor's inability to assess in what way the lack of financing will influence the

measurement of assets which constitute loan collaterals and on the consolidated financial statements as a whole;

- Subsidiary's low liquidity ratio and its preparation of an application for composition agreement proceedings with creditors;
- Failure to separate the value of acquired licence as part of subsidiary or joint control entity acquisition settlement, as well as failure to recognize an income tax reserve concerning this licence.

### 3.1.3. Issues concerning recognition and measurement

- Subsidiary's failure to write down receivables;
- Inability to assess the value of shares in an associate, due to qualified opinion on the audited financial statements of an associate and the use of different accounting policies by an associate;
- Failure to specify fair value of plant, reported as assets held for sale;
- Failure to reevaluate fair value of investment real property;
- Possibility that an actual level of collected receivables and loans will be different in the future from the level estimated as of the balance sheet date of 31.12.2008;
- Inflation of the value of finished goods as a result of the measurement of finished goods by a subsidiary according to planned manufacturing costs;
- Inability to assess market value and the amount of write-downs of tangible assets under construction;
- Failure to measure market value of tangible assets by an independent expert commissioned by an entity, due to the assumption of non-going concern;
- Inability to take a position by an auditor regarding the necessity to make a revaluation write-down of goodwill, e.g. due to the fact, that verification of a test for impairment of this asset points to the possibility of its carrying amount being inflated;
- Uncertainty concerning the potential need to make a revaluation write-down of the part of inventory;
- Failure to perform an impairment test for carrying value of goodwill;
- Inflated measurement of subsidiary's shares listed for trading at New Connect;
- Auditor's inability to determine the achievable value of receivables arising from aval, due to the incomplete collateral for credit default collection procedure;

- Auditor's inability to determine the correctness of recognizing the impairment of capital expenditure as a correction of a prior period error, due to the performance of an audit of financial statements for the year 2007 by another entity;
- Amortisation of intangible assets with an indefinite useful life and failure to test those assets for impairment;
- Failure to perform a write-down of receivables arising in 2007, which had been default until the date of the issue of opinion;
- Auditor's inability to determine whether the write-down of receivables had been determined in the appropriate amount;
- Inappropriate determination of investment property value as a result of increasing this value by a paid abandonment of the right to repurchase the property;
- Inability to refer to the credibility of the assessment of the total amount of environmental provisions created by an entity;
- Auditor's inability to determine whether the amount of tangible assets of a subsidiary had been determined at an appropriate level;
- Inability to determine whether the amount of tangible assets of a subsidiary were properly determined as of the balance sheet date of 31.12.2008, due to the lack of certainty whether the assumptions of the entity's management board will be executed in the future;
- Failure to verify the periods of economic usefulness of tangible assets by a subsidiary;
- Inappropriate settlement of the right to repurchase property;
- Lack of ability to accurately estimate the results of litigation in process (the amount of provisions has been evaluated on the basis of the analysis of evidence delivered by the Company);
- Recognition of restructuring costs in subsidiary's assets, which in the opinion of an auditor should be chargeable to the profit of a subsidiary for the year 2008 ;
- Recognition of assets arising from income tax, the execution of which is uncertain;
- Recognition of collateral for loss due to an incomplete CIRS transaction as receivables and not as contingent assets;
- Recognition of the right for a perpetual usufruct "free of charge" in a balance sheet;
- Lack of certainty whether the assets arising from deferred income tax will be settled in the future;
- Demonstration of an amount of lines of credit unused as of the balance sheet date in a balance sheet, under the item cash and short-term liabilities arising from credits and loans.

- Recognition of revenues from the sale of housing units on the basis of the project implementation stage and not at the transfer of all benefits and risks arising from the ownership;
- Failure to apply regulations of IAS 31 “*Interests in joint ventures*” at recognizing revenues arising from consortium agreements;
- Auditor’s inability to take a position on the part of recognized entity’s revenues arising from construction contracts, the final execution of which has not been confirmed by agreements or court judgements;
- Incorrect recognition of costs of 2008 as part of accrued expense;
- Failure to estimate the probability of the need to return part of advance money and the amount of advance money returnable in future (and thus, a potential revenue inflation);
- Departure from IAS 21 “*The effects of changes in the foreign exchange rates*” – that is, qualification of exchange differences from measurement to accrued expenses and not to financial costs of the current period;
- Recognition of paid perpetual usufruct as tangible assets item and failure to recognise it as a long-term prepayment;
- Recognition of the amount arising from the revaluation of land value, incorrectly qualified as investment property , in supplementary capital and not in revaluation reserve;
- Incorrect demonstration of operating income in relation to the reference of "negative goodwill" to operating income;
- Reference of the value of the loan granted to previous years’ result and write-downs to receivables of subsidiaries not consolidated in 2008;
- Outstanding issue of shares for employees, in accordance with IFRS 2 “*Share based payments*” (and thus the inflation of profit or loss);
- Lack of measurement of incentive scheme costs as of the balance sheet date (IFRS 2);
- Failure to update the measurement of the value of employee shares scheme, and hence, to update employee benefits costs (IFRS 2).

#### 3.1.4. Issues on uncertainties concerning going concern and company`s financial performance

- Uncertainty concerning company’s going concern due to low liquidity and high losses incurred;
- Uncertainty regarding the scope and grounds for company’s going concern as a result of the failure to execute the plans regarding future activity, assumed in the previous years, being an entity’s strategic objective;

- Uncertainty regarding the influence of future activity on the financial performance of a company which disposed its enterprise;
- Auditor's inability to evaluate the risk related to the company's need to settle all liabilities (due to the failure to timely settle all liabilities by the entity and its low current liquidity);
- Uncertainty as to whether the management board's actions, aimed at acquiring financing sources and restructuring operating costs, will be successful.

#### 3.1.5. Other issues of concern

- Division of the net result for the year 2007, containing the value to which the qualification referred, in 2008 by shareholders;
- Failure to disclose information about the need to cover subsidiaries' initial capital by a parent entity;
- Declaration of subsidiary's bankruptcy after the balance sheet date;
- Failure to complete the results of tangible assets stocktaking;
- Failure to observe the physical counting of inventory by an auditor, and thus the auditor's inability to foresee the quantity of merchandise as of the balance sheet date of 31.12.2008.

#### 3.2. Emphasis of matter paragraphs

Emphasis of matter paragraphs appearing in independent auditors' opinions regarded, among others, the following aspects:

- Failure to audit subsidiaries' financial statements;
- Uncertainty as to the execution of management board's assumptions giving rise to the possibility of going concern;
- Uncertainty as to the measurement of investment property;
- Possible change of the final fair value of acquired assets due to provisional settlement of the acquisition of a subsidiary;
- The "goodwill" impairment test based on assumptions, the execution of which is uncertain;
- Informing about a point made in financial statements, which indicates an entity's poor financial position (or liquidity loss risk);
- Uncertainty as to the measurement of equity securities constituting a portfolio investment of an entity;

- The going concern and liquidity based on the execution of financial plan adopted for 2009 (or restructuring plan);
- Failure to perform a write-down of subsidiary goodwill, despite uncertainties as to the execution of recoverable goodwill;
- Uncertainty as to the execution of forecasts regarding subsidiary's property, plant and equipment impairment test;
- Qualification included in the opinion concerning the audited financial statements of the subsidiary regarding asset value demonstrated in those financial statements;
- Lack of occurrence, as assessed by parent entity, of the impairment of shares in a subsidiary, despite the fact that a subsidiary does not perform any production or trading activity;
- Failure to create write-downs of impaired receivables;
- The execution of investment scheme dependent on future market events and factors;
- Failure to introduce tangible assets operated on the basis of finance lease agreements into accounting;
- Accuracy of assumptions adopted for the impairment test depending on future events and circumstances;
- Uncertainty as to whether concessions owned by an entity will be suspended or taken away in the future;
- Recognition of an entity, in which parent entity owns less than a half of the voting power, as a subsidiary and consolidating it;
- Existence of risks which can influence going concern of these entities in case of difficult economic position of subsidiaries and adverse market factors.

#### 4. Enforcement activities related to the analysis of the compliance of financial statements with financial reporting framework

In accordance with Principle 3 of CESR Standard No 1: "Competent independent administrative authorities set up by Member States should have the ultimate responsibility for enforcement of compliance of the financial information provided by the issuers with the reporting framework", i.e. regulations concerning the financial reporting.

This report is a result of the analysis of financial statements by issuers not being mutual funds, in the light of those statements' compliance with the binding financial reporting framework.

This report is published on PFSA's website for education purposes. Non-compliances and deficiencies in respect of IAS/IFRS disclosure requirements pointed out in the report are also presented during the seminar for financial market participants, organized annually by the PFSA.

We would like to draw attention to the responsibility of boards of directors and supervisory boards (cf. paragraph 4a of the Accounting Act) for ensuring that financial statements and management reports were compliant with the provisions of the Accounting Act, and thus with requirements concerning the drawing up of certain financial statements in accordance with IASs/IFRSs, i.e. with all International Accounting Standards, International Financial Reporting Standards and related interpretations published in the form of European Commission Regulations, which are applicable, including materiality rule, as well as for ensuring consistency with financial framework, i.e. financial reporting regulations.

In the case of significant infringements, the PFSA shall undertake relevant actions, compliant with regulations in force. The PFSA is also responsible for analysing qualification paragraphs found in independent auditors' opinions/reports in the light of undertaking relevant actions resulting from regulations in force. The PFSA shall treat the audit/review of the financial statements by independent auditors as the "first external line" for ensuring proper application of financial reporting regulations<sup>10</sup>.

In relation to the analysis of financial statements/historical financial information of entities applying for the authorization of prospectus (results of these analyses have also been taken into account in the report), remarks are forwarded to issuers in order to receive explanations or to correct financial information included in the prospectus.

In the following years, in order to fulfil the objectives of supervision, it is planned to continue the performance of interim compliance analysis regarding financial reporting among issuers, in respect of relevant reporting regulations.

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In accordance with the comment to Principle 8 of CESR Standard No 1: "The completeness, accuracy and truthfulness of the financial information is under the responsibility of the issuer's relevant bodies (mainly the board of directors). Where applicable, auditors are required to act as a first external line of defence against misstatements by expressing their opinion on the financial information based on their audit".

### **Chapter III. Selected issues to be particularly considered when preparing financial statements in accordance with IASs/IFRSs**

The objective of this Chapter is to present additional, selected issues related to financial reporting regulations, which are useful both at drawing up financial statements and using information included in them.

#### 1. Materiality - consolidation

The position of the PFSA of 21 March 2006 concerning consolidation (“The position concerning financial statements in interim reports”<sup>11</sup>), which has been discussed in Chapter III, Item 6.3, of the “*Report on the review of annual consolidated financial statements for the accounting year 2007 by issuers of securities*”, has been amended by “the Position of PFSA concerning the obligation to prepare a consolidated financial statement in the case of only insignificant subsidiaries in possession (of 7 August 2009)<sup>12</sup>”.

Both the Position of the PFSA of 7 August 2009 and the Position of 21 March 2006 were drawn up in response to the question, whether issuers of securities owning only subsidiaries, which if assessed both separately and as a whole, have no significant influence on its operation and the operation of the group, can refrain from drawing up a consolidated financial statement.

The amendment of the aforementioned Position of the PFSA of 21 March 2006 is a result of the amendment to the Seventh Directive 83/349/EEC on consolidated accounts<sup>13</sup> (hereinafter: Seventh Directive), introduced by Directive 2009/49/EC of 18 June 2009.<sup>14</sup>

In article 13 of the Seventh Directive, paragraph 2a has been inserted, in the following reading: “Without prejudice to Article 4 (2) and Articles 5 and 6, any parent undertaking governed by the national law of a Member State which only has subsidiary undertakings which are not material for the purposes of Article 16 (3), both individually and as a whole, shall be exempted from the obligation imposed in Article 1 (1).”

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<sup>11</sup> [http://www.knf.gov.pl/Images/stanowisko\\_1\\_tcm75-6360.pdf](http://www.knf.gov.pl/Images/stanowisko_1_tcm75-6360.pdf)

<sup>12</sup> [http://www.knf.gov.pl/Images/stanowisko\\_7\\_08\\_09\\_tcm75-11534.pdf](http://www.knf.gov.pl/Images/stanowisko_7_08_09_tcm75-11534.pdf)

<sup>13</sup> Seventh Council Directive of 13 June 1983 based on the Article 54 (3) (g) of the Treaty on consolidated accounts (83/349/EEC) (OJ L 193, 18.07.1983, p. 1, as amended; Polish special edition, Dz. U. UE, Chapter 17, t. 1, p. 58)

<sup>14</sup> Directive 2009/49/EC of the European Parliament and of the Council of 18 June 2009 amending Council Directives 78/660/EEC and 83/349/EEC as regards certain disclosure requirements for medium-sized companies and the obligation to draw up consolidated accounts (OJ L 164, 26.06.2009, p. 42)

Amendment to the Seventh Directive was supposed to eliminate doubts as to the use of the aforementioned Directive and Regulation (EC) No 1606/2002<sup>15</sup>.

This means that issuers of securities admitted to trading on the regulated market (issuers of securities pending admission to or issuers of securities intending to file for admission to trading on the regulated market, respectively) should refer to domestic accounting regulations as the basis for the refraining from drawing up the consolidated financial statement exclusively due to having subsidiaries which are not material.

In accordance with the opinion of the Accounting Department of the Ministry of Finance, paragraph 2a introduced to Seventh Directive has already been taken into account in Article 56 (3) of the Accounting Act, therefore it does not require implementation.

Therefore, in the presented case, the issuer of securities authorized to float into the regulated market (issuer of securities pending admission to or issuer of securities intending to file for admission to trading on the regulated market, respectively) should refer to regulations of the Article 56 (3) of the Accounting Act as the basis for refraining from drawing up a consolidated financial statement, exclusively on condition that such entity has subsidiaries, whose data, both individually and as a whole, are not material for the execution of the objective specified in Article 4 (1) of the Accounting Act.

At evaluating the materiality of subsidiaries in possession, both individually and as a whole, the Issuer is obliged to be guided by the need to fulfil the objective specified in Article 4 (1) of the Accounting Act, i.e. apply the adopted accounting rules (policy), present the property and financial performance and profit or loss in a reliable way. In our opinion, the issuer should also take into account qualitative premises which can affect the risk and scope assessment (information character), not only quantitative figures.

## 2. Major changes in applying IASs/IFRSs

In accordance with Article 3 (1) of Regulation (EC) No 1606/2002, the European Commission shall decide on the applicability within the Community of international accounting standards. Article 3 (4) of the Regulation provides that adopted international accounting standards shall be published in full in each of the official languages of the Community, as a Commission Regulation, in the *Official Journal of the European Communities*.

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<sup>15</sup> Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards (OJ L 243, 11.09.2002, p. 1; Polish special edition, OJ Chapter 13 t. 29, p. 609) and Regulation (EC) No 297/2008 of the European Parliament and of the Council of 11 March 2008 amending Regulation (EC) No 1606/2002 on the application of international accounting standards, as regards the implementing powers conferred on the Commission (OJ L 97, 09.04.2008, p. 62)

In accordance with the requirements of paragraph 10-12 of IAS 8 “*Accounting policies, changes in accounting estimates and errors*”, in the absence of a standard or an interpretation that specifically applies to a transaction, other event or condition, management shall use its judgment in developing and applying an accounting policy (...).

In making the judgment, management shall refer to, and consider the applicability of, the sources indicated in paragraph 11 of IAS 8 in descending order. Management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent these do not conflict with the sources in paragraph 11 of IAS 8 (paragraph 12 of IAS 8).

We would like to highlight that in making the judgment, management may take into account the provisions of the Accounting Act and National Accounting Standards issued by the National Committee of Accounting Standards, however exclusively in the case of having fulfilled the conditions provided for in IAS 8.

Amendments to IASs/IFRSs adopted in the form of European Commission Regulations in 2009 have been presented below, starting from the newest:

- 1) Commission Regulation (EC) No 1293/2009 of 23 December 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards the International Accounting Standard (IAS) 32. All entities shall apply the aforementioned amendment to IAS 32 at the latest, as from the commencement date of its first financial year starting after 31 January 2010;
- 2) Commission Regulation (EC) No 1171/2009 of 30 November 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards the International Financial Reporting Interpretations Committee (IFRIC) Interpretation 9 and International Accounting Standard (IAS) 39.

Each company shall apply the aforementioned amendments to IFRIC 9 “*Reassessment of embedded derivatives*” and IAS 39 at the latest, as from the commencement date of its first financial year starting after 31 December 2008;

- 3) Commission Regulation (EC) No 1165/2009 of 27 November 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards the International Financial Reporting Standard (IFRS) 4 and IFRS 7.

Each company shall apply the aforementioned amendments to IFRS 4 and IFRS 7 at the latest, as from the commencement date of its first financial year starting after 31 December 2008;

- 4) Commission Regulation (EC) No 1164/2009 of 27 November 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards the International Financial Reporting Interpretations Committee (IFRIC) Interpretation 18.

Each company shall apply the aforementioned amendments to IFRIC 18 "*Transfers of assets from customers*" at the latest, as from the commencement date of its first financial year starting after 31 October 2009;

- 5) Commission Regulation (EC) No 1142/2009 of 26 November 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards the International Financial Reporting Interpretations Committee (IFRIC) Interpretation 17.

Each company shall apply the aforementioned amendments to IFRIC 17 "*Distributions of non-cash assets to owners*" at the latest, as from the commencement date of its first financial year starting after 31 October 2009;

- 6) Commission Regulation (EC) No 1136/2009 of 25 November 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards the International Financial Reporting Standard (IFRS) 1.

Each company shall apply the aforementioned amendments to IFRS 1 "*First-time adoption of international financial reporting standards*" at the latest, as from the commencement date of its first financial year starting after 31 December 2009;

- 7) Commission Regulation (EC) No 839/2009 of 15 September 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards the International Accounting Standard (IAS) 39. All entities shall apply the aforementioned amendment to IAS 32 at the latest, as from the commencement date of its first financial year starting after 30 June 2009;

- 8) Commission Regulation (EC) No 824/2009 of 9 September 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards the International Accounting Standard (IAS) 39 and International Financial Reporting Standard (IFRS) 7.

This Regulation was put into effect on the third day after its publication in the Official Journal of the European Communities, i.e. 13 September 2009;

- 9) Commission Regulation (EC) No 636/2009 of 22 July 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards the International Financial Reporting Interpretations Committee (IFRIC) Interpretation 15.

Each company shall apply IFRIC 15 “*Agreements for the construction of real estate*” at the latest, as from the commencement date of its first financial year starting after 31 December 2009;

- 10) Commission Regulation (EC) No 460/2009 of 4 June 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards the International Financial Reporting Interpretations Committee (IFRIC) Interpretation 16.

Each company shall apply IFRIC 16 “*Hedges of a net investment in a foreign operation*” at the latest, as from the commencement date of its first financial year starting after 30 June 2009;

- 11) Commission Regulation (EC) No 495/2009 of 3 June 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards the International Financial Reporting Standard (IFRS) 3.

Each company shall apply the revised IFRS 3 “*Business combinations*” at the latest, as from the commencement date of its first financial year starting after 30 June 2009;

- 12) Commission Regulation (EC) No 494/2009 of 3 June 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards the International Accounting Standard (IAS) 27. All entities shall apply the amendments to IAS 27 at the latest, as from the commencement date of its first financial year starting after 30 June 2009;

- 13) Commission Regulation (EC) No 254/2009 of 25 March 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards the International Financial Reporting Interpretations Committee (IFRIC) Interpretation 12.

Each company shall apply IFRIC 12 “*Service concession agreements*” at the latest, as from the commencement date of its first financial year starting after the date of entry into force of this Regulation, i.e. after 29 March 2009;

14) Commission Regulation (EC) No 70/2009 of 23 January 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards Improvements to International Financial Reporting Standards (IFRSs).

Amendments to IASs/IFRSs have been introduced within the framework of the annual improvement process which aims at streamlining and clarifying IASs/IFRSs. Each company shall apply the aforementioned amendments to IAS 1, IAS 8, IAS 10, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41 and IFRS 5 at the latest, as from the commencement date of its first financial year starting after 31 December 2008; Each company shall apply the aforementioned amendments to IFRS 5 at the latest, as from the commencement date of its first financial year starting after 30 June 2009;

15) Commission Regulation (EC) No 69/2009 of 23 January 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards amendments to the International Financial Reporting Standard (IFRS) 1 and International Accounting Standard (IAS) 27. All entities shall apply the aforementioned amendments to IFRS 1 and IAS 27 at the latest, as from the commencement date of its first financial year starting after 31 December 2008;

16) Commission Regulation (EC) No 53/2009 of 21 January 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards the International Accounting Standard (IAS) 32 and IAS 1.

Each company shall apply the aforementioned amendments to IAS 32 and IAS 1 at the latest, as from the commencement date of its first financial year starting after 31 December 2008;

Moreover, it needs to be highlighted that issuers were obliged to apply the following regulations at the latest, as from the commencement date of their first financial year starting after 31 December 2008:

1) Commission Regulation (EC) No 1274/2008 of 17 December 2008 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards the International Accounting Standard (IAS) 1;

2) Commission Regulation (EC) No 1263/2008 of 16 December 2008 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards the International

Financial Reporting Interpretations Committee (IFRIC) Interpretation 14 “*IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction*”;

- 3) Commission Regulation (EC) No 1262/2008 of 16 December 2008 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards the International Financial Reporting Interpretations Committee (IFRIC) Interpretation 13 “*Customer loyalty programmes*”;
- 4) Commission Regulation (EC) No 1261/2008 of 16 December 2008 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards the International Financial Reporting Standard (IFRS) 2.
- 5) Commission Regulation (EC) No 1260/2008 of 10 December 2008 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards the International Accounting Standard (IAS) 23;
- 6) Commission Regulation (EC) No 1358/2007 of 21 November 2007 amending Regulation (EC) No 1725/2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards the International Financial Reporting Standard (IFRS) 8 “*Operating segments*”.

Amendments to IASs/IFRSs adopted by the aforementioned Regulation have been included in the Appendix to the Commission Regulation (EC) No 1126/2008 of 3 November 2008.<sup>16</sup>;

- 7) Commission Regulation (EC) No 611/2007 of 1 June 2007 amending Regulation (EC) No 1725/2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards the International Financial Reporting Interpretations Committee (IFRIC) Interpretation 11.

Amendments to IASs/IFRSs adopted by the aforementioned Regulation have been included in the Appendix to the Commission Regulation (EC) No 1126/2008 of 3 November 2008. Each company shall apply IFRIC 11 “*IFRS 2 – Group and treasury share transactions*” as from the commencement date of its financial year 2008 at the latest, except for companies with a January

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<sup>16</sup> Commission Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council. Commission Regulation (EC) No 1126/2008 introduced a consolidated text containing all international accounting standards adopted by the legal system of the Community until 15 October 2008 and overruled the Commission Regulation (EC) No 1725/2003

or February commencement date which shall apply IFRIC 11 as from the commencement date of the 2009 financial year at the latest.

We would also like to remind that:

- when initial application of a standard or an interpretation has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose information required by paragraph 28 of IAS 8,
- when an entity has not applied a new standard or interpretation that has been issued but is not yet in force, the entity shall disclose information required by paragraph 30 of IAS 8 (cf. also paragraph 31 of IAS 8).

To get acquainted with the European Commission Regulations concerning IASs/IFRSs, also in the Polish language version, please visit the following websites:  
[http://ec.europa.eu/internal\\_market/accounting/legal\\_framework/regulations\\_adopting\\_ias\\_text\\_en.htm](http://ec.europa.eu/internal_market/accounting/legal_framework/regulations_adopting_ias_text_en.htm)  
<http://eur-lex.europa.eu/pl/index.htm>

European Commission Regulations concerning IASs/IFRSs are also available via the PFSA website:

[http://www.knf.gov.pl/o\\_nas/wspolpraca\\_miedzynarodowa/unia/regulacje\\_i\\_dokumenty\\_powiazane/ias\\_ifrs.html](http://www.knf.gov.pl/o_nas/wspolpraca_miedzynarodowa/unia/regulacje_i_dokumenty_powiazane/ias_ifrs.html)