

Warsaw, 3<sup>rd</sup> January 2018

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

**Dear Mr. Hoogervorst,**

RE: Discussion Paper DP/2018/1 – Financial Instruments with Characteristics of Equity

The Polish Accounting Standards Committee (PASC – Komitet Standardów Rachunkowości) is pleased to respond to the request for comments on the Discussion Paper *Financial Instruments with Characteristics of Equity*.

Our answers to some of questions in the Discussion Paper are included in the Appendix.

Yours sincerely,

*Joanna Dadacz*  
Chairman  
Polish Accounting Standards Committee

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

c/c EFRAG

**Appendix**

**Question 1**

Paragraphs 1.23–1.37 describe the challenges identified and provide an explanation of their causes.

- (a) Do you agree with this description of the challenges and their causes? Why or why not? Do you think there are other factors contributing to the challenges?
- (b) Do you agree that the challenges identified are important to users of financial statements and are pervasive enough to require standard-setting activity? Why or why not?

The challenges described in paragraphs 1.23-1.37 reflect the problems the entities being a party to contracts named in 1.29 have to face. The inconsistencies between the *Conceptual Framework* and IAS 32 are not helpful in overcoming these challenges.

In our opinion another significant challenge is the unification of approaches for the same instruments being in the scope of different standards (IAS 32 and e.g. IFRS 2).

We find and believe that today’s existing principles of IAS 32 are too sophisticated for investors to understand when analysing the financial statements as well as for quite large group of preparers applying IFRSs. The new approach (principles of distinguishing liabilities and equity) should not only resolve the conceptual differences but also ensure a balance between fair and cost-effective reporting and understanding of financial statements. Moreover, it should give an unified approach for the same instruments being in the scope of different standards.

A new standard setting new principles of distinguishing liabilities and equity will require from all IFRS users, including those with only simple instruments, to perform complex analysis that will bring a significant administrative burden.

**Question 2**

The Board’s preferred approach to classification would classify a claim as a liability if it contains:

- (a) an unavoidable obligation to transfer economic resources at a specified time other than at liquidation; and/or
- (b) an unavoidable obligation for an amount independent of the entity’s available economic resources.

This is because, in the Board’s view, information about both of these features is relevant to assessments of the entity’s financial position and financial performance, as summarised in paragraph 2.50.

The Board’s preliminary view is that information about other features of claims should be provided through presentation and disclosure.

Do you agree? Why, or why not?

We agree that timing feature and amount feature are most important features of claims considered by users of financial statements. But we also see the case, when (ref. to a)) the obligation can be settled by the entity by issue of equity instrument(s).

If any other features are considered useful they should be provided via disclosures.

**Appendix**

**Question 3**

The Board’s preliminary view is that a non-derivative financial instrument should be classified as a financial liability if it contains:

- (a) an unavoidable contractual obligation to transfer cash or another financial asset at a specified time other than at liquidation; and/or
- (b) an unavoidable contractual obligation for an amount independent of the entity’s available economic resources.

This will also be the case if the financial instrument has at least one settlement outcome that has the features of a non-derivative financial liability.

Do you agree? Why, or why not?

We agree, as this solution is consistent with the Board’s preferred approach. But we also see the case, when (ref. to a)) the obligation can be settled by the entity by issue of equity instrument(s).

**Question 4**

The Board’s preliminary view is that the puttable exception would be required under the Board’s preferred approach. Do you agree? Why, or why not?

We agree, as not including the exception would make some entities not to present any equity. However, we believe that a part of equity representing puttable interest should be distinguished within equity under separate item. It would make clear to users of financial statements how much of it would have to be paid off by the entity on request of the owners. Moreover, we believe that the amount presented within the equity should express the present value of obligation (with some balance account in equity not being puttable).

**Question 5**

The Board’s preliminary view for classifying derivatives on own equity—other than derivatives that include an obligation to extinguish an entity’s own equity instruments—are as follows:

- (a) a derivative on own equity would be classified in its entirety as an equity instrument, a financial asset or a financial liability; the individual legs of the exchange would not be separately classified; and
- (b) a derivative on own equity is classified as a financial asset or a financial liability if:
  - (i) it is net-cash settled—the derivative requires the entity to deliver cash or another financial asset, and/or contains a right to receive cash for the net amount, at a specified time other than at liquidation; and/or
  - (ii) the net amount of the derivative is affected by a variable that is independent of the entity’s available economic resources.

Do you agree? Why, or why not?

(a) We agree that derivatives on own equity should be classified in their entirety, without separating both legs of the instrument. However, for some derivatives (those, which could be settled on request of the entity in its shares), we would consider separate treatment in disclosure. The information about the cash the entity could collect on possessed rights is important information for users, especially for liquidity analysis purposes.

**Appendix**

(b) We acknowledge that the classification principle of derivatives on own equity is consistent with the Board’s preferred approach. However, we do not agree with “independent” features making some net-share settled derivatives to be presented as assets and liabilities. We believe that this approach does not go in line with equity definition presented in *Conceptual Framework*. In our opinion the more useful and clear approach (for users) would be simply: “all share-settled derivatives” to be recognised as the equity or “only derivatives settled at fair value of shares” to be recognised in equity. The “independent” feature application could be treated as more complex than the IAS 32 “fixed-for-fixed” approach. For many users and reporting entities such an analysis will be burdensome and its complexity may prevent them from appropriate consideration of the terms and conditions of their instruments.

Moreover, the impact on some recognition of derivatives on own shares in liabilities could be avoided by recognition of changes in fair value in OCI (not being recycled to the profit/loss).

**Question 6**

Do you agree with the Board’s preliminary views set out in paragraphs 5.48(a)–(b)? Why, or why not? Applying these preliminary views to a derivative that could result in the extinguishment of an entity’s own equity instruments, such as a written put option on own shares, would result in the accounting as described in paragraph 5.30 and as illustrated in paragraphs 5.33–5.34.

For financial instruments with alternative settlement outcomes that do not contain an unavoidable contractual obligation that has the feature(s) of a financial liability as described in paragraph 5.48(c), the Board considered possible ways to provide information about the alternative settlement outcomes as described in paragraphs 5.43–5.47.

- (a) Do you think the Board should seek to address the issue? Why, or why not?
- (b) If so what approach do you think would be most effective in providing the information, and why?

We agree with the given approach in 5.48 (a)-(b). In our opinion any revaluations recognised in OCI relating to credit risk should be clearly distinguished. We acknowledge that some changes in fair values of liabilities linked to equity (or equity resources) could be presented as OCI with no recycling to profit/loss.

**Question 7**

Do you agree with the Board’s preliminary views stated in paragraphs 6.53–6.54? Why, or why not?

In our opinion the presentation principles expressed in paragraph 6.53 will result in obscure information presented on the face of the statement of financial position and the statement of financial performance. If the information was disclosed in the notes, it would meet the *Conceptual Framework* characteristic of “understandability” better.

For most of the users the financial statements will lack clarity as a consequence of presentation of too much incomprehensible information.

The users of financial statements that are interested in and understand the features of claims listed in paragraph 6.53 should find this information in the notes. However, we believe that within the equity the entity should distinguish the amounts, which could be payable on demand of the holder, especially when there are many types of equity instruments issued by the entity (see answer to question 4).

**Appendix**

**Question 8**

The Board’s preliminary view is that it would be useful to users of financial statements assessing the distribution of returns among equity instruments to expand the attribution of income and expenses to some equity instruments other than ordinary shares. Do you agree? Why, or why not? The Board’s preliminary view is that the attribution for non-derivative equity instruments should be based on the existing requirements of IAS 33. Do you agree? Why, or why not?

The Board did not form a preliminary view in relation to the attribution approach for derivative equity instruments. However, the Board considered various approaches, including:

- (a) a full fair value approach (paragraphs 6.74–6.78);
- (b) the average-of-period approach (paragraphs 6.79–6.82);
- (c) the end-of-period approach (paragraphs 6.83–6.86); and
- (d) not requiring attribution, but using disclosure as introduced in paragraphs 6.87–6.90 and developed in paragraphs 7.13–7.25.

Which approach do you think would best balance the costs and benefits of improving information provided to users of financial statements?

We share the view of the separation of returns among the different types of equity instruments. In our opinion the existing requirements of IAS 33 are sufficient for allocation of returns to ordinary shares and other instruments.

We believe that the full fair value approach would be the most appropriate for derivative equity. However, this approach would be much burdensome for the entity. Because of that we suggest to include it as the preferred approach while the entity should have the right to choose the different one (c), which would satisfy the needs of investors and limit the entity’s costs (burden).

**Question 9**

The Board’s preliminary view is that providing the following information in the notes to the financial statements would be useful to users of financial instruments:

- (a) information about the priority of financial liabilities and equity instruments on liquidation (see paragraphs 7.7–7.8). Entities could choose to present financial liabilities and equity instruments in order of priority, either on the statement of financial position, or in the notes (see paragraphs 6.8–6.9).
- (b) information about potential dilution of ordinary shares. These disclosures would include potential dilution for all potential issuance of ordinary shares (see paragraphs 7.21–7.22).
- (c) information about terms and conditions should be provided for both financial liabilities and equity instruments in the notes to the financial statements (see paragraphs 7.26–7.29).

Do you agree with the Board’s preliminary view? Why, or why not?

How would you improve the Board’s suggestions in order to provide useful information to users of financial statements that will overcome the challenges identified in paragraphs 7.10 and 7.29?

Are there other challenges that you think the Board should consider when developing its preliminary views on disclosures?

In our opinion the information presented (suggested) could be very useful to the users. However, in our view some distinction (especially for puttable instruments)

**Appendix**

should be made on the face of the statement of financial position (see answer to question 4).

<b>Question 10.</b>
Do you agree with the Board’s preliminary view that: (a) economic incentives that might influence the issuer’s decision to exercise its rights should not be considered when classifying a financial instrument as a financial liability or an equity instrument? (b) the requirements in paragraph 20 of IAS 32 for indirect obligations should be retained? Why, or why not?

In our opinion the economic incentives of the issuer should not be taken into account considering the classification of the elements considered. Therefore, we agree with the Board’s preliminary view on this issue.

<b>Question 11</b>
The Board’s preliminary view is that an entity shall apply the Board’s preferred approach to the contractual terms of a financial instrument consistently with the existing scope of IAS 32. Do you agree? Why, or why not?

We do not agree with the Board’s preliminary view presented. We believe the worked-out approach should be applied to all financial instruments (also being in the scope of IFRS 2 and other standards). In our opinion different approaches undermine the user’s trust on, credibility and usefulness of financial statements.