KNF | KOMISJA NADZORU FINANSOWEGO

ENFORCEMENT OF THE FINANCIAL REPORTING OF SECURITIES ISSUERS CARRIED OUT IN 2017

POLISH FINANCIAL SUPERVISION AUTHORITY OFFICE
WARSAW, FEBRUARY 2018

ACCOUNTING DIVISION, PUBLIC OFFERINGS AND FINANCIAL INFORMATION DEPARTMENT

KEYWORDS: FINANCIAL STATEMENTS, SECURITIES ISSUERS, IFRS, INFORMATION REQUIREMENTS, AUDITITNG FIRMS' QUALIFICATIONS, ENFORCEMENT ACTIONS

Table of contents

1. INTRODUCTION 4

1.1. Objective of the report 4

1.2. Legal basis for the enforcement of the issuers' financial reporting 4

2. THE PRINCIPLES AND THE SUBJECT OF PERIODIC REVIEW 5

3. BASIC FIGURES REGARDING THE FINISHED REVIEW 7

4. ENFORCEMENT ACTIVIES RELATED TO ENSURING THE COMPLIANCE OF FINANCIAL STATEMENTS WITH THE FINANCIAL REPORTING FRAMEWORK 8

5. RESPONSIBILITY OF MANAGEMENT AND SUPERVISORY BOARDS AND THE ROLE OF AUDIT COMMITTEES IN THE AREA OF FINANCIAL REPORTING 10

6. MODIFICATIONS OF OPINIONS AND CONCLUSIONS IN AUDIT REPORTS AND REPORTS ON REVIEW ISSUED BY AUDIT FIRMS 11

7. RECOMMENDATIONS ISSUED AS A RESULT OF THE REVIEW OF THE FINANCIAL STATEMENTS 22

8. SELECTED AREAS WHERE IMPROVEMENT IS NECESSARY AND ISSUES THAT REQUIRE SPECIAL ATTENTION IN THE PREPARATION OF FINANCIAL STATEMENTS 30

8.1. The quality of disclosures 30

8.2. Changes in accounting estimates and correcting errors 31

8.3. Liquidity risk 32

8.4. Implementation of IFRS 9, IFRS 15, IFRS 16 and IFRS 17 34

8.5. Deferred tax 36

8.6. Regulations of the European Commission amending IFRSs, published in 2017 37

8.7. Single electronic reporting format 38

9. SUMMARY 39

LIST OF TABLES 40

LIST OF FIGURES 40

1. INTRODUCTION

1.1. Objective of the report

This report summarises the activities of the Accounting Division of the Public Offerings and Financial Information Department (PID/AD) of the Polish Financial Supervision Authority Office (PFSA Office) carried out in 2017 in the area of enforcement of the financial reporting of issuers other than investment funds, whose securities are admitted to trading on a regulated market. Our enforcement activities include the examination of financial statements[1] of selected issuers on their compliance with the applicable financial reporting framework, particularly IFRS[2] requirements, and taking appropriate measures in order to eliminate infringements of information requirements.

We prepare and publish this report on the website of the Polish Financial Supervision Authority's (PFSA) in order to provide the users of financial statements, as well as issuers and auditors, with the results of the periodic review, including the most common deficiencies and cases of non-compliance in the application of accounting policies and disclosures in financial statements. The above should contribute to a consistent application of the financial reporting framework and help issuers achieve a higher level of compliance with reporting requirements.

It should be highlighted that the information requirements, including financial reporting requirements, are part of the regulations protecting one of the fundamental principles of the capital market – the market transparency principle. High-quality, transparent financial information are useful in the decision-making process of investors and other users of financial statements. They facilitate the assessment of the issuers' and their groups' financial position, their performance and achievements, and thus they enhance the investors' confidence in financial reporting. On the other hand, non-compliance with information requirements results in the lack of universal and equal access to complete and fair information, which is a key factor to the proper operation of market mechanisms. Lack of transparency undermines the investors' confidence in the market.

Moreover, we would like to note that the reports summarising the review of the financial statements of securities issuers other than investment funds on the compliance with the applicable financial reporting framework, prepared in 2010-2016, are available on the PFSA website[3], in the Reports and Analysis tab.

1.2. Legal basis for the enforcement of the issuers' financial reporting

The following are regulations which serve as legal basis for our enforcement of the issuers' financial reporting.

[1] the term 'financial statements' in this report includes both 'standalone' financial statements and consolidated financial statements
[2] International Accounting Standards, International Financial Reporting Standards and related interpretations, issued in the form of regulation of the European Commission
[3] https://www.knf.gov.pl

Pursuant to the provisions of Article 7(1)(2) of the Act on Capital Market Supervision[4], the PFSA shall exercise supervision over the activities of the supervised entities and the performance by such entities of the obligations related to their participation in trading on the capital market, to the extent defined in legal regulations.

According to the provisions of the Transparency Directive[5], the competent authority shall be empowered, *inter alia*, to examine that information referred to in this Directive is drawn up in accordance with the relevant reporting framework and take appropriate measures in case of discovered infringements.

Pursuant to recital 16 of Regulation 1606/2002[6], Member States are required to take appropriate measures to ensure compliance with international accounting standards.

We carry out this supervision in accordance with the guidance issued by ESMA (European Securities and Markets Authority). The ESMA Enforcement Guidelines[7] entered into force in 2014. This document contains guidelines addressed to competent enforcers and issued under the ESMA Regulation[8]. According to the Regulation's provisions, the competent authorities shall make every effort to comply with the abovementioned Guidelines. The ESMA Enforcement Guidelines point out that the objective of enforcement of financial information is to contribute to a consistent application of the applicable financial reporting framework, and, thereby, to the transparency of financial information relevant to the decision-making process of investors and other users of documents subject to the publication requirement in accordance with the Transparency Directive. Enforcement of financial information, in accordance with these Guidelines, includes examining the compliance of financial information with the applicable financial reporting framework, taking appropriate measures where infringements are discovered during the enforcement process in accordance with the regulations implementing the provisions of the Transparency Directive and taking other measures relevant for the purpose of enforcement.

2. THE PRINCIPLES AND THE SUBJECT OF PERIODIC REVIEW

We have carried out the review of the issuers' financial reporting with the applicable reporting framework in accordance with Guideline 5 and Guideline 6 of the ESMA Enforcement Guidelines, which require that enforcement should be based on selection, with the use of a mixed model including a risk based approach and sampling or rotation approach and also that

[4] The Act on Capital Market Supervision of 29 July 205 (consolidated text: Journal of Laws of 2017, item 1480, as amended)
[5] Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (OJ EU L 390, 31.12.2004, p. 38), as amended
[6] 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 EC L 243, 11.9.2002, p. 1; OJ EU Special edition in Polish: Chapter 13, Volume 29, p. 609), as amended
[7] ESMA Guidelines on enforcement of financial information (ESMA/2014/1293pl, 28 October 2014 (available in Polish on the website: https://www.esma.europa.eu/sites/default/files/library/2015/11/2014-esma-1293pl.pdf)
[8] Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC (OJ EU L 331, 15.12.2010, p. 8), as amended

as part of the enforcement process the enforcer can use unlimited scope examination or a combination of unlimited scope and focused examinations. The periodic review encompasses the examination of selected financial statements, as well as on-demand examination, particularly when another unit of the PFSA Office requests an opinion in the course of its proceedings.

In 2017 we have reviewed 2016 annual financial statements and interim financial statements prepared for the periods of financial year 2017, of securities issuers other than investment funds, on their compliance with the applicable financial reporting framework, particularly with IFRS requirements. Our enforcement activities included also cases when financial statements for prior periods to the ones mentioned above were examined. Additionally, this Report reflects the results of our review of the historical financial information of entities applying for the approval of a prospectus.

As in previous years, in selecting financial statements of issuers for the periodic review, high priority was given to the following criteria: qualifications in audit reports on financial statements, disclaimers of opinion or adverse opinions. In addition, the cases of a qualified auditor's report on the review of half-yearly financial statements or a disclaimer of report were taken into account.

Moreover, in selecting issuers' financial statements for the periodic review carried out in 2017, we have also taken into account issuers whose ability to continue as a going concern was at risk or have ceased to continue as a going concern. This applies mostly to issuers where a restructuring or bankruptcy petition was filed, as well as issuers in whose case the audit report on the audit or review of financial statements included: qualifications or disclaimers of opinion / report resulting from threats to the ability to continue as a going concern or emphasis of matter paragraphs regarding a possible threat to the ability to continue as a going concern.

Furthermore, in the assessment of the compliance of financial statements with the applicable financial reporting framework we have taken into account the European common enforcement priorities, identified within ESMA to foster transparency and the proper and consistent application of IFRSs. The European common enforcement priorities for 2016 financial statements included the following topics:

- Presentation of financial performance and related disclosures

ESMA pointed out, *inter alia*, the new provisions of par. 55A and 85A of IAS 1 *Presentation of financial statements* concerning the line items, headings and subtotals presented in financial statements. ESMA also emphasised that special attention should be paid to the presentation of earnings per share and to the disclosures required by IFRS 8.

- Distinction between equity instruments and financial liabilities based on IAS 32

ESMA highlighted pars. 15, 16, 22 and 25 of IAS 32, regarding the classification of financial instruments either as equity or liabilities. ESMA also pointed out that par. 117(b) and par. 122 of IAS 1 are applicable and require the disclosure of the accounting policy and judgment applied by the entity's management, including disclosures concerning the classification of financial instruments.

- Disclosures of the impact of the new standards on IFRS financial statements

ESMA pointed out par. 30 of IAS 8 *Accounting policies, changes in accounting estimates and errors*, which requires the disclosures on new standards that are not yet effective, in the context of IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*.

In view of ESMA publishing European common enforcement priorities for 2017 financial statements, in the current year the following topics will be subject to examination:
- disclosure of the expected impact of implementation of new standards in the period of their initial application (i.e. IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*),
- specific recognition, measurement and disclosure issues of IFRS 3 *Business Combinations*;
- specific issues of IAS 7 *Statement of Cash Flows*.

However, we would like to emphasise that apart from the abovementioned areas, the review of financial statements in the current year will also cover previous years' ESMA enforcement priorities (i.e. those published in 2012-2016).

We inform that the ESMA public statements, containing the European common enforcements priorities for the individual years, are available alongside their Polish translations on the PFSA website[9], in the tab: Dla rynku / Regulacje i praktyka / Dokumenty ESMA.

3. BASIC FIGURES REGARDING THE FINISHED REVIEW

In the course of the review of financial statements on their compliance with the financial reporting regulations applicable to issuers, particularly with IFRS requirements, in 2017 we examined the financial statements of 103 issuers (for comparison, in 2016 the financial statements of 112 issuers were examined and in 2015 – 101 issuers)

Table 1. Number of issuers whose financial statements were subject to a periodic review in 2015-2017

year	Number of regulated-market issuers (Warsaw Stock Exchange and Bondspot) at the year-end*	Number of issuers whose financial statements were examined in 2014	Share in the total number of regulated-market issuers*
2017	456	103	22,6 %
2016	456	112	24,6 %
2015	455	101	22,2%

* the number does not include closed-end investment funds listed on the regulated market and issuers for whom the Republic of Poland is a host state.

[9]https://www.knf.gov.pl

Figure 1. Number of issuers whose annual financial statements / interim financial statements were subject to the periodic review in 2015-2017

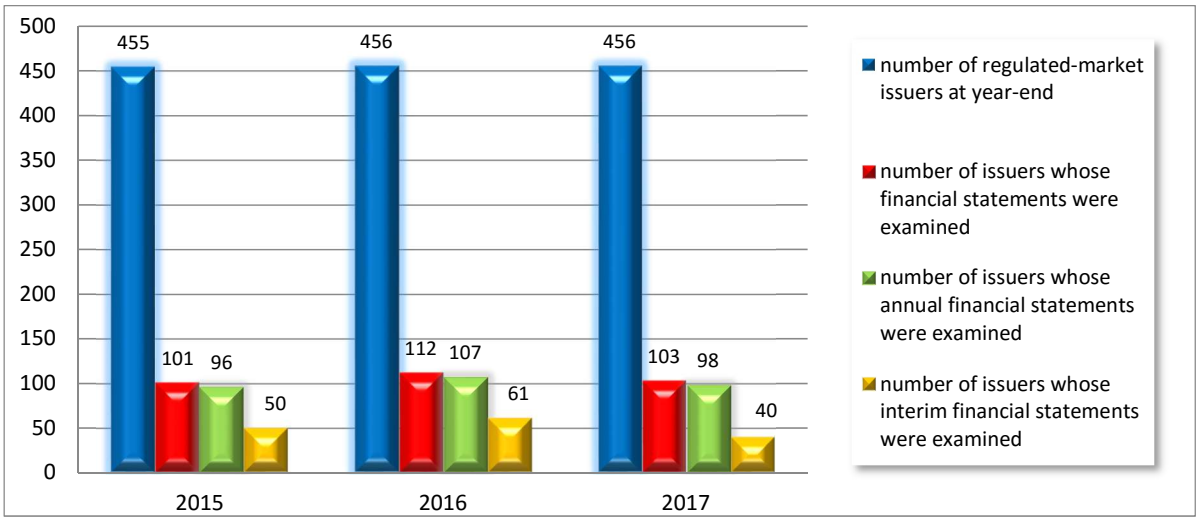


Table 2. Number of issuers whose financial statements were subject to the periodic review in 2017, broken down by type of examination

Type of examination	Number of issuers
Unlimited scope examination	25
Focused examination	73
Follow-up examination	5
total	**103**

Commentary:
Unlimited scope examination *–examination of the entire financial statements with the goal of identifying any deficiencies or mistakes.*
Focused examination – *examination limited to a scope concerning specific issues, the application of some IFRSs (e.g. examination of select items or fragments of the financial statements).*
Follow-up examination *– verification of subsequent financial statements exclusively on the improvement of disclosures, particularly when recommendations were submitted to the issuer. The figure reflects cases when the verification was positive and there was no need for deeper analysis.*

229 sets of financial statements (including consolidated statements) were examined in the course of the issuers' financial reporting enforcement in 2017.

4. ENFORCEMENT ACTIVIES RELATED TO ENSURING THE COMPLIANCE OF FINANCIAL STATEMENTS WITH THE FINANCIAL REPORTING FRAMEWORK

As a result of the examination of financial statements there may arise the need to obtain further clarification on potential infringement in the analysed accounts. In such cases, pursuant to

Article 68(1) of the Act on Public Offering[10] the PFSA or its authorised representative may request issuers (management boards and supervisory boards, accordingly) to provide immediate information and explanations, to enable the supervision of their compliance with information requirements. In justified cases, questions are also asked of the audit firm who audited / reviewed the financial statements (Article 68(2) of the abovementioned act).

As of mid-2016, the PFSA gained new supervisory powers. Pursuant to Article 68(5) of the Act on Public Offering, the PFSA or its authorised representative may issue a recommendation towards an issuer, in order for them to cease infringing on information requirements. The purpose of a recommendation is to allow the issuer to eliminate such an infringement as soon as possible, through the correction of the current or subsequent financial statements, and to ensure that the users of financial statements have access to fair and complete information. The application of recommendations is monitored. In the second half of 2016 the power to issue recommendations was used in 9 cases. 46 recommendations have been submitted to 42 issuers in 2017. Chapter 6 of this Report lists the topics that we have brought up in the 2017 recommendations.

In justified cases administrative proceedings are initiated, concerning the infringement of financial reporting regulation. Pursuant to Article 96(1e) of the Act on Public Offering, the PFSA may decide to impose a pecuniary sanction (up to PLN 5 000 000 or up to 5 % of the total annual turnover according to the last audited annual accounts, providing it does not exceed PLN 5 000 000), or exclude the issuer's securities from trading on the regulated market, or apply both of those sanctions jointly. In such a decision, according to Article 96(3) of the Act on Public Offering, the PFSA may also require the issuer to publish the necessary information in two nationwide daily newspapers, or to make the information public in another way, or to amend the financial statements already made public.

It should be noted that if an issuer needs to correct their periodic report due to its defects, including non-compliance with IFRSs, the correction procedure is specified in the Regulation on current and periodic information[11].

In connection with the review of financial statements / historical financial information of entities applying for approval of their prospectus, the issuers are presented with comments and requested to provide explanations or to correct the financial information in the prospectus.

[10] The Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of 29 July 2005 (consolidated text: Journal of Laws of 2016, item 1639, as amended)

[11] Regulation of the Minister of Finance of 19 February 2009 on the current and periodic information provided by securities issuers and on the conditions for recognizing information required by the law of a non□member state as equivalent information (consolidated text: Journal of Laws of 2014, item 133, as amended)

5. RESPONSIBILITY OF MANAGEMENT AND SUPERVISORY BOARDS AND THE ROLE OF AUDIT COMMITTEES IN THE AREA OF FINANCIAL REPORTING

We would like to draw attention to the management and supervisory boards' responsibility for ensuring that the financial statements and the management report on operations meet the legal requirements.

Pursuant to Article 4a of the Accounting Act[12] the manager of an entity and members of the supervisory board or another supervisory body are required to ensure that the financial statements, consolidated financial statements, the report on operations and the report on the group's operations meet the requirements of this act (in consequence – also the requirements of IFRSs).

In cases of non-preparation of financial statements, lack of compliance with applicable provisions, or unfairness of the information in the financial statements, these persons are liable to fine, imprisonment for up to 2 years or both penalties jointly (Article 77(2) of the Accounting Act).

Likewise, the Act on Public Offering provides for sanctions for members of management and supervisory boards for infringing on reporting requirements. In accordance with Article 96(6)(2) of this act, for infringing on the legal requirements regarding periodic reports, the PFSA may impose a pecuniary sanction of up to the amount of PLN 1 000 000 on a member of a listed company's management board. Pursuant to Article 96(6a)(2) of the abovementioned act, in case of a flagrant infringement on the reporting requirements, a supervisory board member may be fined up to the amount of PLN 100 000. Additionally, Article 100 of the act establishes the criminal liability of persons responsible for misinformation or concealing true data in the periodic information that is made public.

Audit committees also play an important role in ensuring the high quality of financial statements. The requirement to establish audit committees in Public-Interest Entities[13] (PIEs) in Poland dates back to 2009. However, their role and responsibilities have been significantly enhanced in the Act on Statutory Auditors[14], implementing Directive 2014/56/EU of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts and Regulation on the statutory audit of PIEs[15]. In accordance with the abovementioned act, an audit committee comprises of at least three members, out of which at least one has the knowledge and skills in the area of accounting or auditing of financial statements. The audit committee members are also required to have knowledge and skills relevant to the sector in which the PIE operates. A majority of the audit committee members, including the chairman, shall be independent of the PIE (independence requirements are

[12] The Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2017, item 2342, as amended)
[13] Public-interest entities are understood also as issuers of securities admitted to trading on a regulated market of a European Union state, with a registered office in the Republic of Poland, whose financial statements are subject to statutory audit obligation
[14] The Act on Statutory Auditors, Audit Firms and Public Supervision of 11 May 2017 (Journal of Laws, item 1089)
[15] Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (OJ L 158, 27.5.2014, p.77)

defined statutorily). In smaller PIEs the functions of an audit committee may be entrusted to the supervisory board or another supervisory body. Audit committees are primarily tasked with monitoring the financial reporting and statutory audit processes, monitoring the quality control and risk management systems and its internal audit, as well as reviewing and monitoring the independence of the statutory auditor and the audit firm.

6. MODIFICATIONS OF OPINIONS AND CONCLUSIONS IN AUDIT REPORTS AND REPORTS ON REVIEW ISSUED BY AUDIT FIRMS

We noticed a decrease in the total number of issuers with qualifications or disclaimers of opinion concerning their 2016 financial statements, compared to the previous year. However, it is worth noting that the number of issuers whose audit reports contain qualifications, has dropped (from 29 to 22 issuers), whereas the number of issuers with a disclaimer of the audit firm's opinion has increased (from 8 to 11 issuers). Regarding the interim periodic reports, we would like to highlight the decreasing percentage of issuers with qualified reports on review or disclaimers of report on the review of their 2017 half-yearly financial statements, compared to the previous year. In this case, the number of issuers with qualified reports on review has dropped (from 24 to 16 issuers) and the number of disclaimers of report on review remained at the same level as in the previous year (7 issuers).

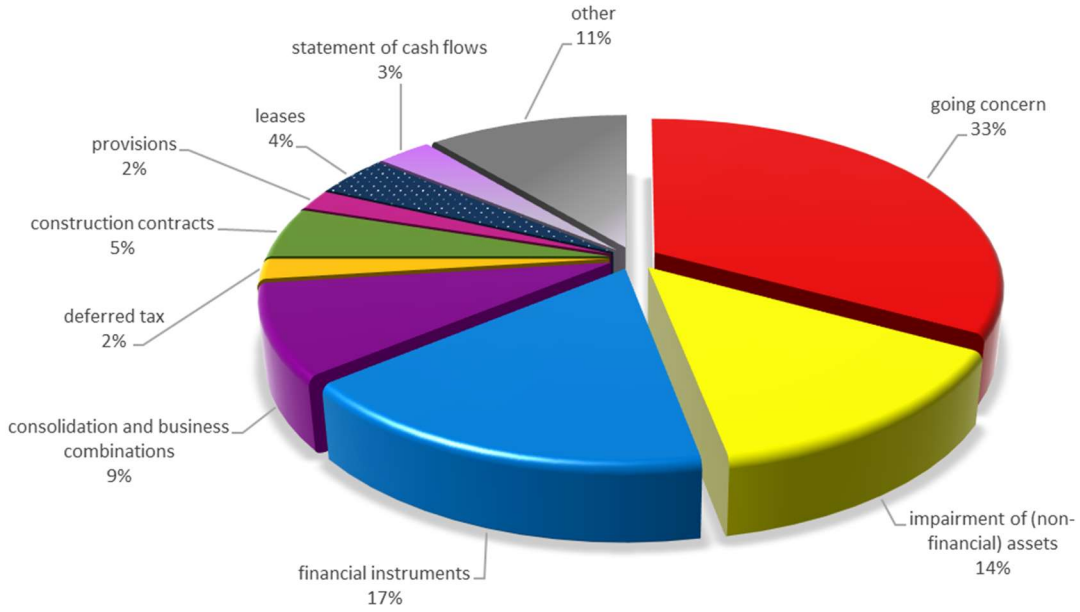
The qualifications in the audit reports on 2016 financial statements and in the reports on the review of 2017 half-yearly statements were most common among issuers *inter alia*, in the following sectors: machinery, IT, construction, telecommunications and real estate. Disclaimers of opinion on the 2016 financial statements related mostly to issuers from the sectors of: IT, wood & paper, health care services (hospitals and clinics, as well as pharmaceuticals), recycling and oil & gas.

Table 3. Number of issuers with qualifications or disclaimers of opinion concerning their annual financial statements for the years 2014-2016

Number of issuers	2014	2015	2016
Qualified opinions	20	29	22
Disclaimers of opinion	10	8	11
TOTAL	**30**	**37**	**33**
Number of issuers at year-end*	441	455	456
Percentage share of the number of issuers at year-end	**7%**	**8%**	**7%**

* the number does not include closed-end investment funds listed on the regulated market and issuers for whom the Republic of Poland is a host state.

Figure 2. Topics of qualifications in audit reports on 2016 financial statements



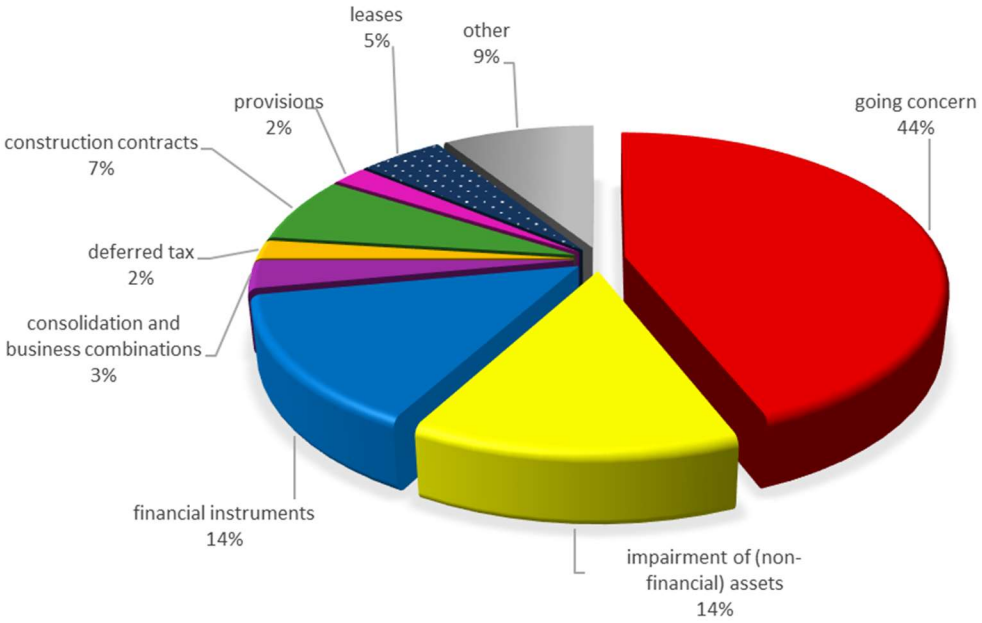
Comment: If a qualification occurred both in the audit report on the consolidated financial statements and in the audit report on the financial statements of an issuer, the figure reflects such a qualification only once. The figure does not take into account audit reports with disclaimers of opinion. The percentage share depends on the frequency of occurrence of an issue in qualifications, whereas in the following description of issues to which qualifications were related, individual topics are presented only once.

Table 4. Number of issuers with qualifications or disclaimers of conclusions in the report on the review of their half-yearly financial statements in the years 2015-2017

Number of issuers	**First half of 2015**	**First half of 2016**	**First half of 2017**
Qualified reports	21	24	16
Disclaimers of conclusions	11	7	7
TOTAL	**32**	**31**	**23**
Number of issuers at year-end	441	455	456
Percentage share of the number of issuers at year-end	**7%**	**7%**	**5%**

* the number does not include closed-end investment funds listed on the regulated market and issuers for whom the Republic of Poland is a host state.

Figure 3. Topics of qualifications in the reports on review of 2017 half-yearly financial statements



Comment: If a qualification occurred both in the report on the review of the consolidated financial statements and in report on the review of the financial statements of an issuer, the figure reflects such a qualification only once. The figure does not take into account reports on review with disclaimers of conclusions. The percentage share depends on the frequency of occurrence of an issue in qualifications, whereas in the following description of issues to which qualifications were related, individual topics are presented only once.

The analysis of the topics in qualifications and disclaimers leads to the conclusion that the issues arise in these areas in several consecutive periods. One must single out as the most common: going concern, financial instruments (including impairment) and the impairment of non-financial assets. It should be noted that these topics are strongly interconnected, as the uncertainties regarding the ability to continue as a going concern influence the increasing risks related to financial instruments, as well as the value of the entity's financial and non-financial assets – usually resulting in their impairment. Conversely, the impairment of significant assets or e.g. an increase in liquidity risk give rise to threats to the entity's ability to continue as a going concern. 'Going concern' is also related to deferred tax assets issues, which also featured in qualifications and disclaimers, as in previous years.

In order to ensure that issuers pay special attention to the need to comply with the applicable reporting framework, particularly with the requirements of IFRSs, the following are issues which relate to disclaimers of opinion and qualifications contained in the audit reports on the issuers' 2016 financial statements, as well as disclaimers of conclusions and qualifications contained in the reports on the review of 2017 half-yearly financial statements. These issues have been grouped in a manner that makes finding a specific topic easier.

DISCLAIMERS OF OPINION / CONCLUSION

Audit reports containing a disclaimer of opinion or reports on review containing a disclaimer of conclusions were issued due to threats to the issuers' ability to continue as a going concern. We present selected circumstances cited by statutory auditors in such reports:

- the financial statements were not prepared on a going concern basis;
- non-disclosure of information justifying the going concern assumption, the inability to obtain sufficient and appropriate audit evidence justifying such an assumption, the restructuring plan was not made available (cf. par. 25-26 of IAS 1 *Presentation of Financial Statements*);
- a restructuring petition was filed with the court in relation to a bank initiating execution proceedings; lack of repayment of budget liabilities; the auditors' inability to confirm the possibility of approving and executing the restructuring plan and lack of sufficient assurance that the issuer will be able to restructure their debt and continue as a going concern in the foreseeable future;
- the court repealing the arrangement adopted in bankruptcy proceedings – the management board has filed a complaint;
- inability to repay liabilities on the bonds issued and high uncertainty regarding the repayment of these liabilities, the management board considering initiating restructuring proceedings – lack of perspectives regarding any additional investments in a subsidiary (in possession of disputed claims) and lack of positive indications regarding the settlement of the sale of shares;
- obligation to convene a general meeting of shareholders, in accordance with Article 397 of the Commercial Companies Code due to the fact the total of previous years' and current losses exceed the amount of reserve capital and 1/3 of share capital;
- significant uncertainty as to the company's survival due to the PFSA issuing a decision on the permanent exclusions of the issuer's shares from trading on the WSE regulated market – according to the auditor this considerably limits the possibilities of securing new investors and hinders negotiations with creditors concerning a debt-to-equity swap and this prevents the assessment of the ability to continue as a going concern;
- substantial limitations to the ability to continue as a going concern unless additional, external financing sources are secured, a final arrangement with the crediting banks is reached, the sale of shares in a subsidiary is finalised and the proceeds from this sale are obtained;
- the subsidiary whose revenue amounted to 99,9% of the group's revenue, has suspended its operations, which in effect means the suspension of the group's current operating activities;
- loss of control over all subsidiaries;
- non-compliance with IFRSs, at least with regards to the composition of the group, as the parent's condensed consolidated half-yearly financial statements (as at 30-06-2017 and as at 31-12-2016 for the comparatives) does not take into account those subsidiaries in the

group, over which control was lost; the reason given for this were the non-functioning management and supervisory bodies of these entities, due to the resignation of their individual members, which in accordance with IFRS 10 is not a reason to conclude that the company has lost control over these entities; the auditor was unable to determine the total impact of excluding the subsidiaries from consolidation on the elements of the condensed consolidated half-yearly financial statements;

- high risk of impairment of assets such as investments in subordinate entities and other financial assets (including a loan provided to a subsidiary), given the situation of these entities;
- undertaking of legal actions by a bank who is the creditor of an overdue loan taken by a subsidiary, in order to obtain an enforcement order against this subsidiary's contract;
- failure to recognise impairment losses on assets, including fixed assets;
- inability to perform a valuation, as all plots of land possessed by the issuer are subject to enforcement proceedings, the valuations are done by the bailiffs carrying out the enforcement and the prices are approved by the court (the issuer's management board finds out the final price only after receiving the court's approval of the price);
- inability to verify the appropriateness of recognising provisions for liabilities;
- the auditor's inability to confirm the correctness of the inventory valuation methods;
- material uncertainty regarding the ability to recover deferred tax assets (due to the uncertain future income, due to the suspension of operating activities);
- uncertainty regarding pending tax proceedings and tax audits relating to the correctness of VAT payments, to which the parent is subject – should the outcome be unfavourable, payment may be required and there is uncertainty whether the company will be able to settle it;
- notification of filling out of a blank promissory note related to lease liabilities; inability to determine the final balance of liabilities to the lessor without the final payment of the building sale price;
- significant decrease in the groups equity at the end of the reporting period in comparison to the previous year due to dividend payments;
- necessity to present and disclose the financial data of a subsidiary as discontinued operations in accordance with IFRS 5 *Non-current assets held for sale and discontinued operations*, given that in the first half of 2017 the parent undertook active efforts in order to sell the shares of this entity;
- the auditor was not provided with:
  - documents concerning asset measurement (e.g. investment property, deferred tax assets),
  - documents that would confirm the verification of assets as far as impairment (e.g. property plant & equipment, fixed assets under construction),

  - documents concerning the process and the settlement of the effects of shutting down shops,
  - valuation reports used as basis for impairment testing of property, plant & equipment,
  - documents confirming the ability to gain benefits from the financial involvement in the bonds purchased and the ownership of shares and interests in independent entities,
  - sufficient information and evidence in the areas: measurement of receivables and liabilities, measurement of bank loans and borrowings and their maturities;
  - information on the company paying its liabilities;
- lack of stocktaking of inventories;
- inability to confirm the correct functioning of the accounting system.

QUALIFICATIONS

The qualifications in audit reports and reports on review addressed, *inter alia*, the following issues:

Qualifications concerning threats to the ability to continue as a going concern

- failure to fully apply the requirement to measure assets at their net realisable value, even though assuming the lack of continuing as a going concern is justified (ongoing work on the valuation of assets) (cf. IAS 1 *Presentation of Financial Statements*);
- uncertainty regarding the company's ability to continue as a going concern due to the possibility of losing financial liquidity; the information presented in the financial statements and the management report indicate that unless the management board's plans are realised there is material threat to the company's and the group's ability to continue as a going concern;
- threat to the ability to continue as a going concern due to the pending court proceedings regarding an attempt of a 'hostile' takeover of the company and its assets, according to the company there is a high probability of a favourable resolution of the disputes;
- the incurred losses exceed the amount of reserve capital and 1/3 of share capital – pursuant to Article 397 of the Commercial Companies Code there is an obligation to convene a general meeting of shareholders to adopt a resolution on further existence of the company;
- initiation of accelerated restructuring proceedings of a subsidiary;
- initiation of restructuring proceedings of the issuer;
- filing of a simplified petition for liquidation bankruptcy;
- the remission of the petition for a bankruptcy order with the possibility of arrangement has come into effect;

- filing of a petition for the approval of the conditions of the sale of an organised part of the enterprise, as a supplement to the bankruptcy petition;
- a subsidiary is subject to accelerated restructuring proceedings and this entity's continuing operations is dependent on the main creditors approving the arrangement conditions;
- material risk of losing financial liquidity (the sum of liabilities and provisions exceeds total assets) combined with dwindling ability to issue new bonds and cover the cost of debt servicing; the inability to secure financing will result in the need to file for bankruptcy;
- substantial threat to the ability to continue as a going concern if the issuer fails to implement plans for the pending proceedings concerning the partial reimbursement – with interest – of financing received for an ongoing project;
- lack of operating activities generating sales revenue;
- lack of regular payment of due liabilities, a material sum of liabilities which are overdue by at least 3 months and negative equity;
- current liabilities at the end of the reporting period exceed the carrying amount of current assets;
- the book value of liabilities may change due to objections raised to the list of debts and the list of debts not being filed with the court;
- lack of timely payment of liabilities towards contractual counterparties, the bank and the budget (current liabilities exceeding the carrying amount of current assets);
- lack of inflows from receivables claimed in court, which are the main source of net income;
- non-payment of loans taken in two banks despite the loans becoming overdue; lack of agreement with the banks before the opinion was issued; lack of timely payment of the entities liabilities due to working capital deficit;
- lack of agreements regarding overdue loans;
- the receiving of a payment request on the surety for the loans of a subsidiary;
- no finalised agreements confirming the possibility of securing significant external financing, which would allow paying the liabilities; without securing additional external financing there are substantial threats to the ability to continue as a going concern;
- necessity to pay financial liabilities in case the subsidiaries do not meet the settlement conditions;
- preparing the financial statements on a going concern basis; according to the auditor the going concern analysis should take the following circumstances into account: the fair value measurement of assets amounting to app. 65% of total assets at the end of the reporting period and app. 85% of assets at the date the financial statements were prepared, are based on unobservable and unverifiable inputs (cf. par. 25 and 26 of IAS 1).

Qualifications concerning impairment (non-financial) assets

- overstating the value of property, plant & equipment and the net profit or loss by failing to recognise impairment losses determined during impairment tests of cash generating units; the units' recoverable amounts in these impairment tests are lower than the carrying amounts of their assets (cf. IAS 36 *Impairment of assets*);
- failure to recognise impairment losses on intangible assets of a subsidiary / inventories / unused right to a mass communication platform (cf. IAS 36);
- determining cash generating units and allocating the projected cash flows not in accordance with IAS 36;
- failure to recognise impairment losses regarding the estimated impairment of inventories stored in a subsidiary (cf. IAS 2 *Inventories* and IAS 34 *Interim financial reporting*);
- the auditor's inability to confirm what part of the impairment losses on a subsidiary's development assets, recognised in the previous period (comparatives), relates to the 2015 expenses and what part relates to previous years, due the auditor expressing serious doubts in the 2014 opinion concerning the realisability of these assets, and the resulting inability to assess how the comparative net profit or loss would change in the audited 2016 financial statements (the auditor does not challenge the amount of impairment loss);
- the auditor's inability to assess the correctness of impairment losses recognised on the shares in subsidiaries, given that the auditor was not provided with the impairment test of these assets;
- the auditor's inability to conclude on the correctness of measurement, the need and the value of a possible impairment loss of investment certificates issued by a Ukrainian fund, recognised in the consolidated financial statements as investment in joint ventures measured by applying the equity method;
- the auditor's inability to conclude on the correctness of recognising impairment losses on an investment in profit or loss;
- lack of audit evidence confirming the correctness of the carrying amount of a trademark and the correctness of the impairment loss recognised (the auditor was not provided with an impairment test which should have been performed in accordance with IAS 36);
- the auditor's inability to conclude on the likelihood of an impairment, and its possible extent, on advances paid for a licence (presented as intangible assets), as it was impossible to estimate the chances of success or failure of the plans regarding the possibilities of using the licences;
- the auditor's inability to assess the correctness of the amount of impairment loss recognised on fixed assets, as the auditor was not provided with an estimation of the recoverable amount.

Qualifications concerning financial instruments

- failure to recognise impairment losses on receivables, for which there are indications of impairment; the auditor's inability to collect evidence confirming the effectiveness of the established collateral, as well as evidence justifying the lack of additional impairment losses (cf. IAS 39 *Financial instruments: recognition and measurement*);
- failure to recognise impairment losses on loans granted in previous years; due to the lack of information on the debtor's current financial standing, the auditor was unable to confirm that the loans are fully recoverable – according to the auditor the collateral on these loans is insufficient (cf. IAS 39);
- failure to recognise interest on overdue loans (cf. IAS 39);
- offsetting lease liabilities against the amount of security deposits paid despite the lack of a legal right to set off these amounts (cf. IAS 32 *Financial instruments: presentation*);
- lack of evidence justifying not recognising impairment losses on receivables, for which there are indications of impairment (cf. IAS 39);
- failure to recognise impairment losses for receivables which are overdue by more than a year (cf. IAS 39);
- lack of impairment testing for assets which are bond issued by an entity outside the issuer's group, purchased through the conversion of receivables – because of this the auditor was unable to obtain sufficient and appropriate audit evidence regarding the carrying amounts of these investments and unable to determine whether any adjustments to these amounts would be necessary (cf. IAS 39);
- the auditor's inability to confirm what part of the impairment losses on a subsidiary's development assets, recognised in the previous period (comparatives), relates to the 2015 expenses and what part relates to previous years, due the auditor expressing serious doubts in the 2014 opinion concerning the realisability of these assets, and the resulting inability to assess how the comparative net profit or loss would change in the audited 2016 financial statements (the auditor does not challenge the amount of impairment loss);
- the auditor was not provided with audited financial statements of related parties (including the parent who is in liquidation) which prevented the verification of their financial standing (over 80% of the company's revenue comes from its parent and over 66% of the balance sheet total are available-for-sale financial assets, which are bonds issued by these related parties); additionally the auditor was unable to assess whether the issuer will receive future economic benefits from the bonds classified as available-for-sale financial assets, whose fair value measurement is based on unobservable inputs;
- inability to verify the fair value measurement of the bonds of an entity that was incorporated during the reporting period (80% of the issuer's assets at the date the financial statements were prepared), where the measurement should be based on unobservable inputs, as no financial data of this entity is publicly available;

- the auditor was unable to assess the risk and confirm that the issuer will receive the entire sum from the sale of 100% of a subsidiary's shares, given the short period since the contract (the sale occurred in December 2016 and the payment was divided into 20 equal instalments, the first of which was paid in January 2017);
- the auditor was not provided with sufficient evidence on the correctness of the amount of receivables arising from the sale of shares and from the assignment of other receivables – for which no impairment losses were recognised;

Qualifications concerning consolidation and business combinations

- failure to adjust the provisional amounts of the acquisition price and – in consequence – the auditor's inability to conclude on the presented goodwill, arising from the exchange of control over a group, and on the correctness of the recognised impairment loss on goodwill (cf. IFRS 3 *Business Combinations*);
- incorrect calculation of the amount of non-controlling interest (cf. IFRS 10 *Consolidated Financial Statements*)
- failure to fulfil the requirements of par. B92 and B93 of IFRS 10, as the financial statements of foreign subsidiaries used in the preparation of the consolidated financial statements do not have the same reporting date as the consolidated financial statements and the difference between the date of the subsidiaries' financial statements and the date of the consolidated financial statement is longer than 3 months;
- the auditor has not received the audit opinion on the financial statements of a subsidiary whose assets, liabilities, revenue and expenses are material for the group;

Qualifications concerning deferred tax

- failure to derecognise deferred tax assets and recognise the corresponding expenses (cf. IAS 12 *Income taxes*)
- according to the auditor, the amount of deferred tax assets is too high for the issuer to able in the future to settle these assets against the generated taxable income, given the uncertainty as to the possibility of implementing projects, especially concerning the substantial, planned, increase in revenue from operating activities (cf. IAS 12);

Qualifications concerning construction contracts

- lack of reliable measurement of the outcome of incomplete contracts at the end of the current and the previous reporting periods (the contracts are accounted for using the percentage of completion method at the balance sheet date), and consequently, in accordance with IAS 11 *Construction contracts*, the entity should recognise the contract costs as expenses in the period in which they were incurred, which would cause a decrease in accruals, deferred tax liabilities, equity, as well as the net profit or loss of the current and previous years;

- in previous years, the recognition of claims against customers as revenue of certain contracts, even though the legal proceedings and negotiations with customers have not reached an advanced stage yet; the impact on the net profit or loss from previous years and the recognised gross amounts due from customers (cd. IAS 11 *Construction contracts*);
- recognition of impairment losses related to the valuation of a long-term project (including an expected loss allowances); according to the auditor it is probable that this amount should be partially included in the profit or loss of previous year; the auditor, however, was not provided with sufficient information and explanations to determine what part, if any, of this amount should be recognised in the profit or loss of previous years;
- uncertainty regarding the outcome of a dispute concerning one of the construction contracts;

Qualifications concerning provisions

- the entity recognised contingent liabilities regarding the outcome of VAT tax proceedings – an appropriate provision should have been recognised according to the auditor (cf. IAS 37 *Provisions, contingent liabilities and contingent assets*);
- the auditor's inability to confirm the carrying amount of repair warranty provisions, as the costing system does not allow to determine warranty repair costs that have actually been incurred, which prevents the verification of estimates used in the measurement of the abovementioned provisions;

Qualifications concerning leases

- in the balance sheet the entity recognised the rights to perpetual usufruct of land, which were obtained free of charge, as property, plant & equipment, investment properties or assets classified as held for sale and not as off-balance-sheet items; according to the auditor, those rights are a form of operating lease under IAS 17 *Leases*;
- recognition of rights to perpetual usufruct of land, which were obtained free of charge, as fixed assets instead as operating leases under IAS 17.

Qualifications concerning the preparation of the statement of cash flows

- incorrect classification of cash flows related to obtained loans as operating activities in the statement of cash flows (cf. IAS 7 *Statement of Cash Flows*);
- overstating the cash flows from operating activities by the incorrect presentation of cash flows from operating activities, as well as the classification of some transactions in the individual segments of the statement of cash flows not in accordance with their character and substance (cf. IAS 7);

Qualifications concerning other issues

- understating revenue and the corresponding manufacturing costs recognised in the 2016 financial statements due to the incorrect recognition of sales in the 2015 accounts instead of 2016; according to the auditor, pursuant to IAS 18 *Revenue*, transferring the wares to the shipping company did not justify the recognition of revenue in 2015;
- using the average exchange rate for the period when the transactions took place, for the measurement of non-monetary assets of a subsidiary operating abroad, instead of measurement [in the functional currency] using the exchange rate at the date of the transaction; at the date of the review the auditor was unable to estimate the possible impact on the interim financial statements (cf. IAS 21 *The effects of changes in foreign exchange rates*);
- non-disclosure regarding events that occurred after the end of the reporting period but before the auditor issued the opinion, this including disclosures regarding additional facts, assumptions and assessment presented in the note on the ability to continue as a going concern, in relation to the fact the financial statements (unaudited) had been published before the date the opinion was issued (cf. IAS 10 *Events after the Reporting Period*)
- final court ruling on the transferring back a contribution in kind – real estate – which has been unlawfully disposed of;
- inability to determine what part of the liabilities arising from the granted sureties and guarantees, as well as joint and several liability to the subcontractors, and other liabilities will have to be paid by the group;
- the auditor was not provided with a contract containing a 'confidential' clause and, consequently, the auditor is unable to conclude on the correctness of the revenue and expenses recognised in relation to this contract.

7. RECOMMENDATIONS ISSUED AS A RESULT OF THE REVIEW OF THE FINANCIAL STATEMENTS

As indicated in Chapter 4, pursuant to Article 68(5) of the Act on Public Offering, the PFSA or its authorised representative may issue a recommendation towards an issuer, in order for them to cease infringing on information requirements. 46 recommendations have been submitted to 42 issuers in 2017. The recommendations are preceded by examinations of financial statements. The results of these examinations were similar to the results of previous years' examinations and, consequently, we refer you to the description of the non-compliances in the previous reports, which are available on the PFSA website.

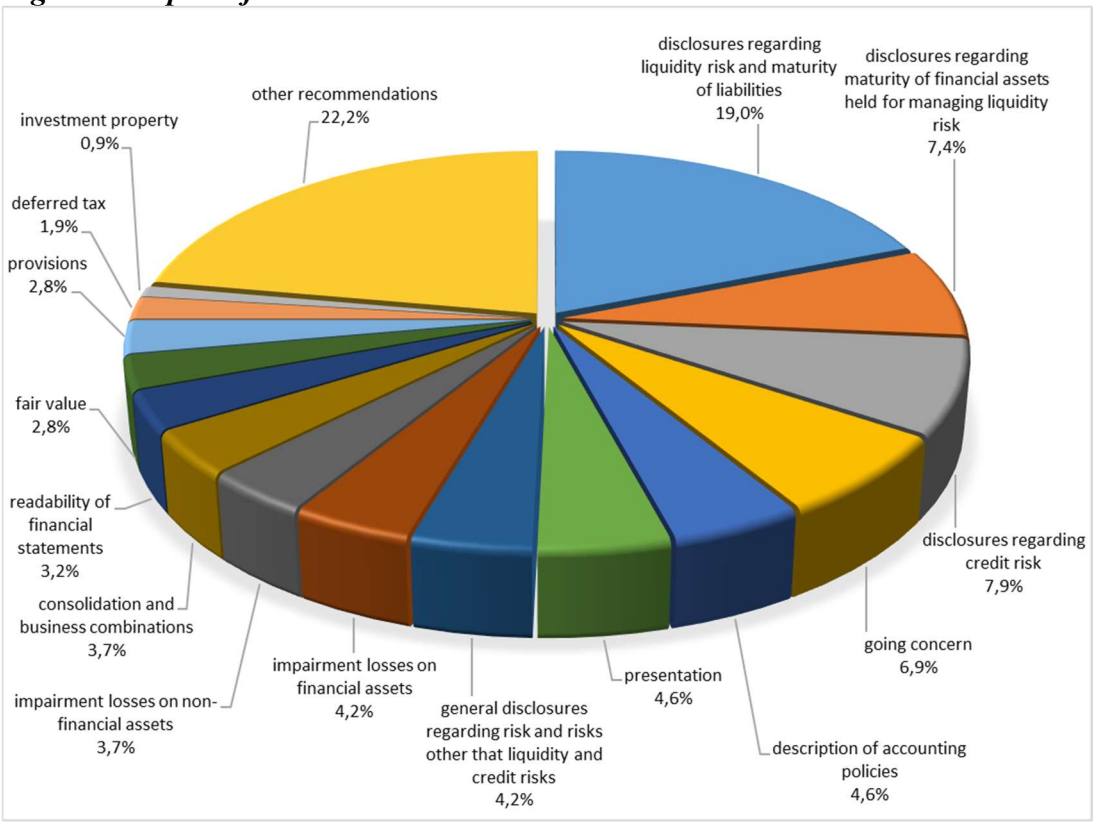
The recommendations concerned both annual as well as interim financial statements. The most common recommendations concerning interim financial statements were the highlighting of the obligation to disclose updates on the information and data indicated in the recommendation, according to the requirement to include in the interim financial statements an explanation of events, which are significant to an understanding of the financial position and performance of the entity since the end of the last annual reporting period (an update of

the information in the most recent annual financial statements) (par. 15 of IAS 34 *Interim financial reporting*). We would also like to point out the provisions of par. 10, 15B, 15C and 28 of IAS 34, which should be taken into account when preparing interim financial statements.

We would like to remind, that each time the issuer should analyse, whether applying the recommendations results in inside information within the meaning of the Market Abuse Regulation[16]. If a piece of inside information arises, it should be made public in accordance with Article 17 of the Market Abuse Regulation.

We would like to present more detailed information on the topic of the most relevant and most common recommendations issued in 2017.

Figure 4. Topics of recommendations issued in 2017



Recommendations concerning threats to the ability to continue as a going concern

- assessment of the issuer's ability to continue as a going concern (par. 25 – 26 of IAS 1 *Presentation of Financial Statements*)
- disclosing information regarding material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern (par. 25

[16] Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC (OJ EU L 173, 12.06.2014, p. 1)

IAS 1 or par. 6(1)(8) of the Regulation on financial statements according to Polish Accounting Principles[17]);

- including in the additional explanatory notes a description of the uncertainty regarding the ability to continue as a going concern and stating that such an uncertainty exists (p. 27 of section B. Additional Explanatory Notes, Appendix No 1 to the Regulation on financial statements according to Polish Accounting Principles).

Recommendations concerning disclosures regarding risks

- disclosing a description of how the liquidity risk is managed (par. 39(c) of IFRS 7 *Financial instruments: disclosures*, taking par. 32A of IFRS 7 into account);
- disclosing a maturity analysis for current financial liabilities, presenting the remaining contractual maturities (par. 39(a) of IFRS 7, taking into account par. B11 of Appendix B of IFRS 7, regarding the appropriate number of time bands);
- disclosing the assessment, complete with a justification, of the financial resources' management, with special attention given to the ability to settle incurred liabilities, in the management reports on the entities' operations, which are a part of annual reports (par. 91(6)(11) of the Regulation on current and periodic information)
- disclosing information regarding liquidity risk (p. 1.2.20 of section B. Additional Explanatory Notes, Appendix No 1 to the Regulation on financial statements according to Polish Accounting Principles, requiring the presentation of information on the goals and policies of liquidity risk management);
- disclosing information regarding the description of threats in the area of the risk of losing financial liquidity, to which the entity is exposed (Article 49(2)(7) of the Accounting Act in conjunction with par. 91(5)(1) of the Regulation on current and periodic information);
- disclosing a maturity analysis of financial assets held for managing liquidity risk, in order to enable users of the financial statements to evaluate the nature and extent of liquidity risk (par. 39(c) B11E of Appendix B of IFRS 7);
- disclosing information on financial assets that are neither past due, nor impaired and, accordingly, disclosing an analysis of the age of financial assets that are past due but not impaired as well as an analysis of financial assets that are individually determined to be impaired (par. 36(c) and par. 37 of IFRS 7);
- disclosing the remaining payment period of receivables as at the balance sheet date (Note 8.4. Trade receivables (gross) (…)) and disclosing information on overdue receivables (Note 8.4.1. Overdue trade receivables (gross) (…)), as well as disclosing information on disputed and overdue receivables in relation to the total amount of non-current and current receivables (Note 9 to line items II. 2. and I. 4. of assets in Section A. Explanatory Notes,

[17] Regulation of the Minister of Finance of 18 October 2005 on the scope of information disclosed in financial statements and consolidated financial statements, as required in the issue prospectus for issuers having their registered offices in the Republic of Poland and to which the Polish accounting principles apply (consolidated text: Journal of Laws of 2017, item 1927)

Appendix No 1 to Regulation on financial statements according to Polish Accounting Principles);

- disclosing information on the concentration risk regarding credit risk (par. 34 (c) of IFRS 7);
- disclosing information on the burden of credit risk (p .1.2.1.(h) in Section B. Additional Explanatory Notes of Appendix No 1 to the Regulation on financial statements according to Polish Accounting Principles);
- disclosing information on the burden of interest rate risk (p .1.2.1.(g) in Section B. Additional Explanatory Notes of Appendix No 1 to the Regulation on financial statements according to Polish Accounting Principles);
- disclosing a sensitivity analysis for each type of market risk, to which the Issuer is exposed, particularly for the interest rate risk and currency risk (par. 40 of IFRS 7)
- disclosing qualitative data for each type of risk arising from financial instruments (par. 33 of IFRS 7) as well as quantitative data for each type of risk arising from financial instruments (par. 34 – 42 of IFRS 7).

Recommendations concerning impairment of financial and non-financial assets

- determining the amount of impairment loss and recognising of impairment allowance for non-current and current trade receivables and deposits where there is objective evidence that those assets are impaired (par. 58 of IAS 39 *Financial instruments: recognition and measurement*);
- assessing appropriate impairment losses for receivables and bonds owned by the entity, if their impairment is confirmed in the light of existing evidence (par. 58 and 59 of IAS 39, as well as par. 63 of IAS 39);
- determining the impairment loss and recognition of impairment allowance for receivables arising from the sale of shares and assignment of other receivables (par. 63 of IAS 39);
- recognising of an impairment loss for property, plant & equipment, in view of the impairment tests for cash-generating units, which proved that the recoverable amounts of these units are less than the carrying amounts of these assets (par. 104 of IAS 36)
- given the difficult financial position of the entity, assessing whether, and to what extent, future economic benefits will flow from the value of property, plant & equipment – and recognising impairment losses accordingly (Article 28(7) of the Accounting Act);
- estimating and recognising impairment losses for shares of non-consolidated subsidiaries, given the occurrence of indications mentioned in par. 12 of IAS 36 and, accordingly, recognising impairment losses for shares of companies (Article 28(1)(3) and 28(1)(7) of the Accounting Act);
- assessing whether there are indications of impairment of assets of non-consolidated subordinated entities and, accordingly, estimating the recoverable amounts of these assets in order to recognise a possible impairment loss (par. 9 of IAS 36);

- performing an impairment test for a cash-generating unit, to which goodwill had been allocated as a result of a business combination during the annual period, before the end of that period (par. 96 of IAS 36);
- recognising an impairment loss for a copyright when the recoverable amount of this asset is less than its carrying amount (par. 59 – 64 of IAS 36);
- performing impairment tests of cash-generating units, to which goodwill is allocated, not only once annually, but also every time there are indications of their impairment (par. 90 of IAS 36);
- disclosing the events and circumstances that led to the recognition of the impairment loss on investments in associates (par. 130(a) of IAS 36);
- disclosing of specific information regarding assets for which impairment losses had been recognised (par. 130(a), 130(c)(ii) and 130(e)-130(g) of IAS 36);
- disclosing detailed information on impairment tests in relation to testing goodwill for impairment (IAS 36, particularly par. 134 of IAS 36);
- disclosing information regarding assets (including goodwill) or a cash-generating unit, for which impairment losses had been recognised, indicating whether their recoverable amounts are their fair value less costs of disposal or their value in use (par. 130(e), 130(f) or 130(g) of IAS 36);

Recommendations concerning the presentation of assets and liabilities in the financial statements

- correct presentation of receivables arising from the sale of a subsidiary, as the explanations provided do not lead to a conclusion that these receivables meet the conditions for their classification as current assets in the consolidated statement of financial position (par. 66 of IAS 1);
- correct presentation of investments in subsidiaries, when these assets do not meet the conditions for their classification as current assets in the statement of financial position (par. 66 of IAS 1);
- separate presentation of line items of dissimilar nature or function in the statement of cash flows, particularly of amounts presented as part of the aggregated ‘Other adjustments’ line item in the cash flows from operating activities (par. 29 of IAS 1);
- presenting goodwill impairment expenses, recognised in accordance with par. 60 of IAS 36, either as a separate line item in the statement of comprehensive income, or aggregated within another line item according to its nature or function – as opposed to presenting it within the ‘finance cost’ line item (par. 29 and 30 of IAS 1, in conjunction with par. 85 and 85A of IAS 1);
- classifying as current the long-term loan liabilities, in cases when the contractual provisions had been broken and the liabilities become payable on demand (par. 74 of IAS 1);

Recommendations concerning fair value

- measuring the fair value of bonds (classified as available-for-sale financial assets), acquired through the conversion of receivables, using the assumptions that market participants would use when pricing those assets, so that their price matches the price that would be received to sell those assets in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) – instead of basing the measurement on the cost incurred by the issuer when acquiring those assets (par. 22 and 24 of IFRS 13 *Fair Value Measurement*, taking par. 2 of IFRS 13 into account);
- measuring the fair value of bonds, acquired through the conversion of receivables, classified as available-for-sale financial assets, using an appropriate valuation technique: the market approach in accordance with par. B5-B7 of IFRS 13, or the income approach in accordance with par. B10 of IFRS 13 (par. 61 and 62 of IFRS 13);
- disclosing information regarding a description of the valuation technique, due to the classification of investment property within Level 3 of the fair value hierarchy (par. 93(d) of IFRS 13);

Recommendations concerning consolidation and business combinations

- including the financial statements of a given business in the issuer's consolidated financial statements, due to circumstances indicating that the issuer exercises control over this business (par. 20 of IFRS 10 *Consolidated Financial Statements*);
- recalculating the non-controlling interests and adjusting them accordingly (IFRS 10, including par. B94 – B96);
- reassessing the applied consolidation conditions and taking them into account while preparing the consolidated financial statements (par. 4-14 of IFRS 10);
- disclosing information concerning the evaluation of the nature and financial effect of a business combination, as the issuer has acquired a majority of shares in a company during the financial year (par. 59-60 of IFRS 3 *Business Combinations*)
- disclosing of the consequences of the issuer losing control of a subsidiary (par. 19 of IFRS 12 *Disclosure of Interests in Other Entities*)

Recommendations concerning deferred tax

- analysing meeting the criteria for recognition of deferred tax assets arising from unused tax losses, in the area of having sufficient taxable temporary differences or the existence of proof that the entity will have sufficient taxable profits to utilise unused tax losses against, in order to assess the correctness of deferred tax assets recognition (par. 34-36 of IAS 12 *Income taxes*)

- reviewing the carrying amount of the deferred tax asset and reducing the carrying amount of this asset to the extent that it is not probable that sufficient taxable profit will be available to allow the benefit of part of all of that deferred tax asset to be utilised (par. 56 of IAS 12);
- recognising deferred tax assets to the amount projected to be deducted from the taxable profit in the future, arising from deductible temporary differences, which will lower the income tax base, as well as from the deductible tax losses, determined taking prudence into account (Article 37(4) of the Accounting Act).

Recommendations concerning provisions

- assessing the correctness of recognising provisions in view of the court disputes the issuer takes part in (par. 14 of IAS 37 *Provisions, contingent liabilities and contingent assets*);
- assessing whether the criteria for the recognition of provisions are met and, accordingly, recognising those provisions, as the entity is not regarded as a going concern in the foreseeable future of at least 12 months from the end of the reporting period (par. 14 of IAS 37);
- continually assessing contingent liabilities arising from guaranteeing loans, in order to determine whether an outflow of resources embodying economic benefits has become probable and, accordingly, recognising a provision in the financial statements of the period in which the change in probability occurred (par. 30 of IAS 37);
- assessing the completeness and correctness of the recognition and measurement of liabilities and provisions for liabilities (IAS 37).

Recommendation concerning investment property

- disclosing the extent to which the fair value of an investment property is based on a valuation by an independent valuer (par. 75(e) of IAS 40 *Investment property*);
- disclosing information regarding rental income and direct operating expenses (par. 75(f)(i)-75(f)(iii) of IAS 40).

Recommendations concerning other disclosures and issues

- including the policy regarding investments in subsidiary in the accounting policy description and disclosing information on the change in the accounting policy applied to those assets (p. 25 of section B. Additional Explanatory Notes, Appendix No 1 to the Regulation on financial statements according to Polish Accounting Principles);
- disclosing a summary of significant accounting policies, particularly disclosing the measurement basis for bonds and shares and clarifying which accounting standard is applied when measuring the abovementioned assets (par. 117 of IAS 1);
- disclosing a summary of significant accounting standards regarding the accounting for construction contracts (par. 117 of IAS 1);

- including the accounting policies for non-current financial assets in the form of shares in subsidiaries in the description of the adopted accounting policies (par. 117 of IAS 1);
- disclosing the description of and applying accounting policies applicable to the consolidation of a closed-end fund of non-public assets, based on the provisions of IFRS 10, instead of the provisions of IAS 27 *Separate Financial Statements* which are no longer in force;
- disclosing the description of accounting policies regarding consolidation based on the applicable provisions of IFRS 10 and IFRS 3 (par. 17(b) of IAS 1);
- disclosing the relationships between the issuer and its subsidiaries (par. 13 of IAS 24 *Related party disclosures*);
- disclosing information on the relationships with related parties and the related party transactions (par. 18(a)-18(d) of IAS 24);
- disclosing information about the extent of the issuer's reliance on its major customers, if revenues with a single external customer amount to 10 per cent or more of total revenues from each such customer (par. 34 of IFRS 8 *Operating segments*)
- disclosing the basis of accounting for any transactions between reportable segments (par. 27(a) of IFRS 8);
- assessing the correctness of recognising the expenses incurred by a subsidiary, regarding development and adapting new technology for production, as an asset and its presentation within short-term accruals; (par. 8 and par. 57-64 of IAS 38 *Intangible assets*);
- recognising the contract costs as expenses in the period in which they are incurred, when the outcome of a contract cannot be estimated reliably (par. 32(b) of IAS 11) also taking into account the obligation to immediately recognise expenses, when it is probable that the total contract costs will exceed total contract revenue (par. 36 of IAS 11);
- classifying and recognising bonds and shares in the appropriate financial asset category (par. 9 of IAS 39) and applying the measurement appropriate for each category (par. 43-70 of IAS 39) or, when these assets meet the conditions set out in par. 6-12A of IFRS 5 *Non-current assets held for sale and discontinued operations*, classifying them according to that standard;
- translating non-monetary assets of a subsidiary who is operating abroad, using the exchange rate at the date of the transaction instead of the average exchange rate for the period when the transactions took place (par. 23 of IAS 21 *The effects of changes in foreign exchange rates*);

Recommendations concerning improvements in the readability of financial statements

- presenting and labelling subtotals in the profit and loss account (statement of profit or loss) in a manner that makes the line items that constitutes those subtotals clear and understandable – in particular regarding the line item labelled as 'EBITDA', presented in the issuer's profit or loss account (par. 85A(b) of IAS 1);

- presenting within the notes disclosures providing information that is not presented elsewhere in the financial statements, but is relevant to an understanding to understanding any of them, particularly explanatory notes concerning material line items of the financial statements (par. 112(b) and 112(c) of IAS 1);
- presenting information regarding current assets and current liabilities in a readable and understandable manner, in view of the discrepancies between the figures presented in the consolidated statement of financial position and the figures in the notes (par. 9 of IAS 1);
- cross-referencing each item in the statement of financial position and statement of profit of profit or loss and other comprehensive income, statement of changes in equity and of cash flows to any related information in the notes (par. 113 of IAS 1).

8. SELECTED AREAS WHERE IMPROVEMENT IS NECESSARY AND ISSUES THAT REQUIRE SPECIAL ATTENTION IN THE PREPARATION OF FINANCIAL STATEMENTS

8.1. The quality of disclosures

Pursuant to par. 3(1) of the Regulation on current and periodic information, periodic reports should contain information reflecting the specific nature of the situation described and should be prepared in a true, fair and complete manner. If the specific nature of the event covered by the periodic report requires additional disclosures to ensure its true, fair and complete view, the issuer is required to make such disclosures in the periodic report in accordance with par. 3(2) of the above-mentioned Regulation. Furthermore, par. 3(3) of the above-mentioned Regulation stipulates that periodic reports presented by an issuer should be prepared in a manner that allows investors to assess the impact of the information presented on the issuer's economic and financial position.

When preparing financial statements, one should take into account the materiality of the information that is being disclosed. Providing concise and clear disclosures based on material, entity-specific facts is necessary to understand the specificity of that entity and its financial position.

The issuer decides, taking into consideration all relevant facts and circumstances, how it aggregates information in the financial statements, including the notes. The issuer should not reduce the understandability of its financial statements by obscuring material information with immaterial information (cf. par. 30A of IAS 1). Additionally, par. 31 of IAS 1 is applicable to IFRS financial statements. This provision directly stipulates that, even though a specific standard contains a list of detailed disclosure requirements, an entity need not provide such disclosure if the information is not material. We especially highlight the requirement to disclose accounting policies, which concerns significant policies (par. 117 of IAS 1). Consequently, accounting policies regarding transactions or items that are non-existent or immaterial for a particular issuer, should not be disclosed. On the other hand, in accordance with par. 17(c) of IAS 1, a fair presentation requires providing additional disclosures, if the

IFRS requirements are insufficient to enable the financial statement users to understand particular transactions or events.

Information presented in the financial statements, especially in the description of accounting policies, should provide relevant, reliable, comparable and understandable information for all readers. As they are the basis for investment decisions, boilerplate and trite disclosures should be avoided. The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making investment decisions.

Experience shows that the issuers' disclosures sometimes lack sufficiently detailed information about the key estimates and management's assumptions, valuation techniques and significant inputs. Once more we would like to point out the need to avoid boilerplate language and disclosing needlessly extensive disclosure and focusing on providing users with relevant information. Disclosures should present information in a possibly short and direct manner, without omitting material information, but also not including superfluous or immaterial information which convey no message for the investors.

Financial statements that lack a detailed description of the changes that happened in the previous reporting period, are hard to interpret for the average investor. It is important to cross-reference the presented figures with appropriate descriptive disclosures in a way that highlights the relation between the individual pieces of information and, consequently, facilitates the correct interpretation of the entity's situation. Including a description of material components and main changes of the presented periods in the notes has a positive impact on the understanding of the specificity of the entity's business. The descriptions in the notes should be organised in a manner that highlights the gravity of a particular issue and its impact on the financial position of the entity and facilitates the comparison between reporting periods, as well as the comparison with other entities.

Furthermore, we recommend reading ESMA's Report: *Review of Fair Value Measurement in the IFRS financial statements*[18]. The Report evaluates the compliance of the financial statements of 78 issuers, from various sectors, with IFRS 13 requirements. One of the findings was the widespread deficiencies in the area of disclosures concerning fair value, including overly generic or boilerplate disclosures in the financial statements. In other cases, observable market interest rates were not used in determination of the discount rate, or the multiplier in the multiple valuation technique was determined by taking into account, incorrectly, varying or very old transactions.

8.2. Changes in accounting estimates and correcting errors

During the process of preparing financial statements, estimates are often used. They are applied, *inter alia*, in the determination of the fair value of individual items in the statement of financial position, in the determination of impairment losses or provisions. By definition estimates are approximate figures and may be revised if new information is obtained. We

[18] Report. Review of Fair Value Measurement in the IFRS financial statements (ESMA32-67-284) www.knf.gov.pl, tab: Dla rynku / Regulacje i praktyka / Dokumenty ESMA

would like to note that an estimate may be revised as a result of changes in the circumstances on which the estimate was based or as a result of new information. Such a revision of estimates by its nature does not relate to prior periods. Therefore, the change in an estimate is recognised by adjusting the carrying amount of the appropriate assets, liabilities or equity in the period of the change. We would like to point out that par. 32 – 38 of IAS 8 *Accounting policies, changes in accounting estimates and errors* are applicable in this situation. We would like to remind that a change in an estimate is not a correction of an error and should not be treated as such. For example, the gain or loss recognised on the outcome of a contingency is not the correction of an error.

We would like to point out that IAS 8 describes the differences between a change in estimates and a correction of discovered errors. Errors occur when there was a failure to use, or misuse of, reliable information that was available when financial statements for those periods were authorised for issue or could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Errors are a result of mathematical mistakes, mistakes in applying accounting policies, oversight or misinterpretation of facts, and fraud (acting to the detriment of the entity). We would like to highlight that financial statements do not comply with IFRSs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

8.3. Liquidity risk

We would like to remind issuers that they should pay special attention to the scope and the quality of liquidity risk disclosures. The liquidity risk is defined in Appendix A of IFRS 7 as 'the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.'

Disclosures regarding liquidity risk should enable the user of financial statements to assess the amount of the entity's exposure to troubles concerning the ability to settle its liabilities and how the entity manages this risk. Both quantitative disclosures, as well as qualitative disclosures (descriptions) need to be provided, as stipulated in par. 32A of IFRS 7.

Disclosures regarding liquidity risk should include the following:

- qualitative disclosures, including the exposure to risk and how it arises; the objectives, policies and processes for managing risk (par. 33 of IFRS 7);
- quantitative disclosures, including summary quantitative data about its exposure to that risk at reporting date, prepared on the basis of information provided internally to key management personnel; the concentration of risk (par. 34 of IFRS 7);
- a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) for which the remaining contractual maturities are shown and, separately, a maturity analysis for derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows (par. 39 of IFRS 7)

Fulfilling the abovementioned requirements of IFRS 7 the requirements of Appendix B (par. B10A, B11, B11A-B11F) which are an integral part of IFRS 7, should be kept in mind.

When preparing the maturity analysis of financial liabilities, in accordance with par. B11 of IFRS 1, an entity uses judgement to determine the appropriate number of time bands, which means determining time bands in a manner that will show the distribution of payments over time in a way that is most suitable for the issuer's and their group's situation. We would like to highlight that the judgment mentioned in par. B11 of IFRS 7 does not mean arbitrariness, but the necessity to assess and select the scope of the disclosure that is most relevant to the situation and accomplishments of the issuer. This includes the determination of an appropriate number of time bands in the maturity analysis, as this information may influence the liquidity assessment and, as a result, also the investors' decisions. The lack of time bands shorter than 12 month, especially when the issuer experiences troubles maintaining liquidity, prevents the users of the financial statements from assessing the nature and the scope of the liquidity risk, and thus prevents achieving the objective of the disclosure requirements. Excessively broad time bands for maturities of liabilities classified as current do not reflect the concentration of payments in time and the user is unable to gauge what amounts are to be paid at the beginning of the disclosed period, and what amounts may be paid later in the period.

Regarding the description of the way liquidity risk is managed, especially in entities / groups where there are threats to the ability to continue as a going concern or there is trouble maintaining liquidity, it is important for assessing the risk to disclose a maturity analysis of financial assets held for managing liquidity risk (par. B11E of IFRS 7). It is essential to present these disclosures that allow to determine which financial assets are held by the entity for managing liquidity, e.g. whether they include trade receivables. It is reasonable to expect that the presentation of time bands for financial liabilities and financial assets should be coherent and should enable the users to analyse and assess the liquidity risk. We would like to note that disclosing the breakdown of financial assets by the period (time band) they are overdue, referred to in par. 37 of IFRS 7, fulfils the requirements regarding credit risk disclosures and does not substitute fulfilling the requirements regarding liquidity risk (par. 39(c) and par. B11E of IFRS 7).

We would like to point out that the description of the way the liquidity risk is managed (par. 39(c) of IFRS 7) should be entity-specific, i.e. it should reflect the individual characteristics of each issuer, its business sector and the circumstances the issuer found itself during the reporting period. There is hardly any information value in a description that is limited to stating that the entity monitors the maturities of the liabilities or that it makes use of 'various sources of finance'. We would like to highlight par. B11F of IFRS 7, which indicates other factors that the entity may consider in providing the disclosure required in paragraph 39(c) of IFRS 7, including, *inter alia*, stating whether the entity has committed borrowing facilities (e.g. commercial paper facilities) or other lines of credit (e.g. stand-by credit facilities) that it can access to meet liquidity needs; has very diverse funding sources; has significant concentrations of liquidity risk in either its assets or its funding sources; has internal control processes and contingency plans for managing liquidity risk; has instruments that are subject to master netting agreements. To understand the way the liquidity risk is being managed it is useful to have information about the instruments utilised by the entity, such as stand-by credit

facilities, overdrafts, cash pooling schemes or factoring, whose descriptions are scattered over various parts of the financial statements. The requirement of par. 39(c) of IFRS 7 may be fulfilled by disclosing information about these instruments in the liquidity risk note or by cross-referencing other parts of the notes.

At the same time, we would like to emphasise that pursuant to par. B6 of IFRS 7 the disclosures required by paragraphs 31-42 should be either in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report. The paragraph stipulates that the incorporation by cross-reference is only possible for reports that are available to the users of financial statements on the same terms and at the same time as the financial statements. We would like to draw the issuers' attention to fulfilling the abovementioned requirements when preparing the financial statements, considering that, according to these provisions, without the information incorporated by cross-reference, the financial statements are incomplete.

Issues related to the risks arising from financial instruments, including liquidity risk and credit risk, are especially significant for issuers / groups, where there are uncertainties regarding their ability to continue as a going concern. Therefore, we would like to highlight that disclosing fair and complete information on liquidity risk will also help users of the financial statements to assess the correctness of the going concern assumption or material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, and in consequence, to support the fulfilment of the requirements of par. 25 of IAS 1. Accordingly, the issuer should make every reasonable effort to ensure that the disclosed information concerning liquidity risk is fair and complete.

8.4. Implementation of IFRS 9, IFRS 15, IFRS 16 and IFRS 17

The new standards, IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* are applicable as of 1 January 2018. IFRS 9 supersedes the previous IAS 39 *Financial instruments: recognition and measurement*, while IFRS 15 supersedes, *inter alia*, the previous IAS 18 *Revenue* and IAS 11 *Construction contracts*. One year later, i.e. as of 1 January 2019, IFRS 16 *Leases* will supersede the currently applicable IAS 17 *Leases* and as of 1 January 2021 the new IFRS 17 *Insurance Contracts* will supersede IFRS 4 of the same title.

Most importantly, IFRS 9 introduces changes in the classification and measurement of financial assets, impairment and hedge accounting. The four categories of financial assets set out previously by IAS 39 are replaced by a classification based on the entity's business model and on the assessment whether the contractual cash flows are solely payments of principal and interest reflecting the credit risk and time value of money. This classification determines the measurement of financial assets either at amortised cost or at fair value through profit or loss or through other comprehensive income. According to IFRS 9, the recognition and measurement of impairment losses is based on the concept of expected losses, instead of the incurred loss concept of IAS 39. The new approach requires the entity to estimate the expected credit losses of financial assets from the moment they are recognised in the statement of financial position, in a 3-stage model based on the changes in credit risk. These changes will

result in a substantial increase of the significance of estimates and assumptions made in the process of measuring impairment and they will shorten the period before losses are recognised. Additionally, IFRS 9 adapts the hedge accounting to the risk management practice. The main changes concern the principles on hedge effectiveness and qualifying items as 'hedged items' and 'hedging instruments'. IFRS 9 also enhances the scope of disclosure requirements regarding risk management strategy, cash flows arising from hedges and the impact of hedge accounting on the financial statements.

IFRS 15 changes the rules for revenue recognition in the financial statements. In order to recognise the correct amount of revenue at the appropriate time, the standard requires the entities to analyse 5 areas, which are: identifying the contract, identifying the contractual performance obligations, determining the transaction price, allocating the transaction price to each contractual performance obligation and recognising the revenue (point-in-time or over time). Therefore, IFRS 15 will cause potential changes regarding the moment and the amount of the revenue recognised. The changes concern primarily cases, where the contracts usually consist of multiple elements and contain numerous obligations the seller has to perform during the course of the contract. The new principles will have the most impact on entities, *inter alia*, from the sector of telecommunications, IT, construction & engineering, as well as entities in the media and entertainment business. These entities sell various services and goods as part of a single contract with a customer and the transfer of those goods and services takes places in different reporting periods. Additionally, IFRS 15 introduces extensive requirements concerning disclosures in the financial statements.

As of 1 January 2019, IFRS 16 will supersede IAS 17. At present, operations leases are treated as an off-balance-sheet item, and the impact of such contracts is reflected only in the profit or loss as cost of external services. After IFRS 16 enters into force, in the case of a lessee, virtually every lease will be a finance lease, and this will lead to the appropriate recognition of assets and liabilities in the company's balance sheet. In practice there will be a need to recognise the amortisation of those assets and to reduce the lease liability every month by the principal portion of the lease instalment, as well as to recognise the interest implicit in the lease in the profit or loss. The standard provides exemptions regarding short-term leases, i.e. do not contain purchase options at the end of the lease term and the lease term does not extend beyond 12 months – in such a case the lessee recognises lease instalments as expenses during the lease term. IFRS 16 allows early application, providing that IFRS 15 is applied simultaneously. When applying IFRS 16 the lessor will still classify and recognise two separate types of leases – operating and finance leases.

In May 2017 the International Accounting Standards Board (IASB) published IFRS 17. The new standard is applicable for annual reporting periods beginning on 1 January 2021 with possible early application, provided that the issuer simultaneously applies IFRS 15 and IFRS 9. This standard introduces a new approach to recognising revenue and income/losses in the coverage period and uniform measurement and presentation requirements for all types of insurance contracts. The objective of IFRS 17 is to ensure more clarity and comparability of insurers' financial statements.

Due to the expected effects of the abovementioned new regulation on the financial statements of issuers, we would like to highlight the requirement to provide disclosures concerning the

impact of the application of the new standards, set out in par. 30 of IAS 8 and taking par. 31 of IAS 8 into account. In order to provide relevant, high quality information in the financial statements, the issuer should disclose the available quantitative data and specific information regarding the possible impact of the application of the abovementioned standards.

In 2016 ESMA published statements on the implementation of IFRS 9[19] and IFRS 15[20], which should be taken into account for the 2017 financial statements. Given that the 2017 annual financial statements will be published after IFRS 9 and IFRS 15 (and IFRS 16 in the cases of early application) enter into force, ESMA expects that the quantitative impact of the first application of the new standard will be known or reliably estimable at the date the 2017 financial statements are prepared and, consequently, this impact should be disclosed.

8.5. Deferred tax

We would like to highlight the requirements of IAS 12 *Income taxes* concerning the recognition and measurement of deferred tax assets. Pursuant to par. 29 and 34 of IAS 12, when the deductible temporary differences, the carryforward of unused tax losses and unused tax credits exceed the amount of taxable temporary differences, the deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. Par. 35 of IAS 12 in particular stipulates that the existence of unused tax losses is strong evidence that future taxable profit may not be available. Therefore, when an entity has a history of recent losses, the recognition of deferred tax assets is dependent on the existence of other convincing evidence. As a result, when assessing the probability of future taxable profit, against which unused tax losses may be utilised, the criteria in par. 36 of IAS 12 should be considered and at the end of every reporting period, the carrying amount of the deferred tax assets should be reviewed in accordance with par. 56 of IAS 12[21]. Additionally, with the exception of items previously recognised to equity, the change in the carrying amount of deferred tax assets and liabilities is recognised in profit or loss, in accordance with par. 60 of IAS 12.

Moreover, we would like to emphasise the potential impact in the implementation of the general anti-abuse rule[22] (Article 119a et seq. of the Tax Ordinance[23]) on the information requirements of issuers, regarding preparing consolidated financial statements and financial statements[24]. The abovementioned regulation entered into force on 15 July 2016. Due to the implementation of the general anti-abuse rule, tax authorities may challenge the effects of transactions carried out with the primary goal of achieving tax benefits. Such a situation may

[19] Public statement. Issues for consideration in implementing IFRS 9: Financial Instruments (2016/ESMA/1563/1148) of 20 July 2016.
[20] Public statement. Issues for consideration in implementing IFRS 15: Revenue from Contracts with Customers (ESMA/2016/1148) of 20 July 2016
[21] See also: Public statement. European common enforcement priorities for 2014 financial statements, ESMA/2014/1309, of 28 October 2014
[22] The Act on the amendment of the Tax Ordinance Act and of some other acts (Journal of Laws of 2016, item 846) of 13 May 2016, introducing Section IIIa of the Tax Ordinance 'Preventing tax evasion'
[23] The Tax Ordinance Act of 29 August 1997 (consolidated text: Journal of Laws of 2017, item 201 as amended)
[24] See also the Statement of the PFSA Office concerning the impact of the regulation regarding preventing tax evasion on the financial statements of securities issuers, www.knf.gov.pl, tab: Dla rynku/Stanowiska Urzędu/Rynek kapitałowy

occur, *inter alia*, when the transactions were carried out according to the pattern described in the warnings published by the Ministry of Finance, concerning certain practices of aggressive tax optimisation. We would like to especially highlight the topic of recognising, in such transactions, goodwill that is amortised for tax purposes[25]. Given the discrepancies between the applicable accounting framework and the tax law, a difference may arise between the carrying amount and the tax base, which in turn results in the recognition of deferred tax assets. Should a tax audit prove there is a case of tax evasion, the goodwill may no longer be amortised for tax purposes, which has its consequences for the recognition and measurement of deferred tax assets in issuers' consolidated financial statements and financial statements.

8.6. Regulations of the European Commission amending IFRSs, published in 2017

We would like to point out that 2017 saw the publication of 5 regulations of the European Commission, amending IFRSs:

1) Commission Regulation (EU) 2017/1986 of 31 October 2017 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 International Financial Reporting Standard 16

   All entities shall apply this IFRS 16 at the latest for annual reporting periods beginning on or after 1 January 2019.

2) Commission Regulation (EU) 2017/1987 of 31 October 2017 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 International Financial Reporting Standard 15

   All entities shall apply this IFRS 15 at the latest for annual reporting periods beginning on or after 1 January 2018.

3) Commission Regulation (EU) 2017/1988 of 3 November 2017 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 International Financial Reporting Standard 4

   All entities shall apply the amendments to IFRS 4 at the latest for annual reporting periods beginning on or after 1 January 2018.

4) Commission Regulation (EU) 2017/1989 of 6 November 2017 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 International Accounting Standard 12

   All entities shall apply the amendments to IAS 12 at the latest for annual reporting periods beginning on or after 1 January 2017.

[25] The Ministry's of Finance warning against tax optimisation using goodwill (No 002/17) of 22 May 2017, published on the Ministry of Finance website.

5) Commission Regulation (EU) 2017/1990 of 6 November 2017 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 International Accounting Standard 7

   All entities shall apply the amendments to IAS 7 at the latest for annual reporting periods beginning on or after 1 January 2017.

The full list of the regulations of the European Commission on IFRSs is available on European Commission website:
(www. ec.europa.eu, tab: Amending and supplementary acts / acts adopted on the basis of regulatory procedure with scrutiny (RPS))

or through the following websites:
- Polish Financial Supervision Authority (www.knf.gov.pl/en/, tab: Market / Regulations and practice / EU regulations / International accounting and financial reporting standards / Individual RPS acts adopting international accounting standards (IFRS/IAS) and related interpretations (IFRIC)

- Ministry of Finance (www.mf.gov.pl, tab: Działalność / Rachunkowość / Międzynarodowe Standardy Rachunkowości / Rozporządzenia Komisji Europejskiej przyjmujące określone międzynarodowe standardy rachunkowości).

8.7. Single electronic reporting format

We would like to remind, that pursuant to Article 4(7) of the Transparency Directive with the effect from 1 January 2020 all issuers whose securities are admitted to trading on a regulated market in the territory of the European Union, will be obligated to prepare their annual reports in single electronic reporting format (European Single Electronic Format, ESEF). On 18 December 2017 ESMA published the final report on the implementation of ESEF together with a draft of regulatory technical standards (RTS) specifying ESEF and information on the outcome of tests that had been carried out[26].

According to the draft RTS, the annual reports of all the issuers shall be prepared in XHTML. The exception are consolidated IFRS financial statements included in consolidated reports, which additionally shall be marked up with eXtensible Business Reporting Language (XBRL) tags. The XBRL tags should be embedded in the XHTML document through the Inline XBRL technology (iXBRL)[27]. For the first two years, only the primary financial statements will have be mandatorily marked up, i.e. the statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flows, as well as basic information about the issuer and the financial statements. After this period, the requirement will also include the rest of the consolidated financial statements.

[26] Final Report on the RTS on the European Single Electronic Format (ESMA32-60-204)
[27] See also: Statement on ESMA publishing new documents concerning ESEF: www.knf.gov.pl, tab: Dla rynku/Regulacje i praktyka/Dokumenty ESMA

9. SUMMARY

The 2017 enforcement activities in the area of financial reporting focused on:
- the review of 2016 financial statements and the review of 2017 half-yearly statements of select securities issuers other than investment funds, on their compliance with the applicable financial reporting framework,
- submitting recommendations concerning the deficiencies or mistakes in the area of accounting policy application and disclosures in the financial statements, that were identified during the examinations, in order for the issuers to cease infringing on information requirements;
- carrying out administrative proceedings concerning suspected infringements on reporting requirements.

Based on 2017 review of financial statements, that included more than 22% of all securities issuers subject to our enforcement, we have identified the areas where the non-compliance with the applicable financial reporting framework was most common. In the period for which this report is prepared, submitting recommendations to issuers was out primary enforcement tool intended to improve the quality of financial statements in these areas. This report contains a detailed description of the subject of those recommendations. The most important ones concerned financial instruments (including disclosures on risk and impairment), threats to the ability to continue as a going concern and the impairment of non-financial assets.

Apart from areas that require improvement, in this report we have also presented issues which require attention while preparing the 2017 financial statements and subsequent financial statements. Among the described issues, special attention should be paid to the implementation of the new standards: IFRS 9 and IFRS 15, which will significantly change the current principles regarding the recognition of financial instruments and revenue. Issuers should make every effort to disclose the quantitative impact of the first application of these standards in their 2017 financial statements.

We believe that publishing this report will contribute to the improvement in quality of the financial statements of securities issuers, including the coherent application of the applicable financial reporting framework and to the issuers' increasing compliance with reporting requirements. We encourage issuers and auditors to familiarise themselves with this document before the publication of the 2017 annual reports.

The issuers brought up in this report are also presented during a seminar targeted towards financial market participants, organised yearly by the PFSA Office as part of the CEDUR initiative (Education Centre for Market Participants) and also during meetings with auditors.

We expect that the improvement in the quality of financial statements will lead to enhancing the investors' confidence in the information contained in the periodic reports that are made public.

LIST OF TABLES

Table 1. Number of issuers whose financial statements were subject to a periodic review in 2015-2017 ..... *7*

Table 2. Number of issuers whose financial statements were subject to the periodic review in 2017, broken down by type of examination *8*

Table 3. Number of issuers with qualifications or disclaimers of opinion concerning their annual financial statements for the years 2014-2016 ..... *11*

Table 4. Number of issuers with qualifications or disclaimers of conclusions in the report on the review of their half-yearly financial statements in the years 2015-2017 ..... *12*

LIST OF FIGURES

Figure 1. Number of issuers whose annual financial statements / interim financial statements were subject to the periodic review in 2015-2017 ..... *8*

Figure 2. Topics of qualifications in audit reports on 2016 financial statements *12*

Figure 3. Topics of qualifications in the reports on review of 2017 half-yearly financial statements *13*

Figure 4. Topics of recommendations issued in 2017 ..... *23*

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