

**Enforcement of compliance with information requirements for securities
issuers in 2021**

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Purpose of the report

This report provides information on the enforcement of information requirements for securities issuers in connection with their participation in trading in the capital market.

The report is prepared for users of regulated information, issuers and auditors, to contribute to the correct and consistent application of relevant reporting requirements laid down in legislation. High-quality complete and accurate information is a crucial factor that drives the investors' decision-making process and builds investor confidence in the market and the listed securities. Improper performance of information disclosure obligations of issuers results, in turn, in a lack of universal and equal access to complete and accurate information, which is essential for proper operation of market mechanisms.

1 Introduction

The tasks of the Polish Financial Supervision Authority (PL: Urząd Komisji Nadzoru Finansowego, UKNF) include supervising the fulfilment by the supervised entities referred to in Article 5 point 7 of the Act on capital market supervision¹ of the information disclosure obligations relating to their participation in trading in the capital market, to the extent specified in the legislation – in accordance with Article 7(1) point 2 of the said Act.

The supervision exercised by the UKNF in the area of information requirements covers financial statements (in particular compliance with IFRSs²), management or directors' reports, and non-financial information. The UKNF also exercises direct supervision of inside information of the issuers whose securities are admitted to trading on a regulated market and indirect supervision in relation to the issuers whose securities are admitted to trading on an alternative trading system – ATS³).

Parts two to five of this report provide information on enforcement actions undertaken by the UKNF in 2021 in relation to specific areas of supervision, i.e. financial reporting, timeliness and completeness of periodic reports, non-financial information, and inside information.

Due to COVID-19 pandemic and the related difficulties, the Member States concerned, including Poland, benefited from the opportunity to postpone the deadline for reporting in the ESEF by a year, leaving the option for reporting in that format for 2020. This means that for many issuers the preparation of the report for 2021 will be their first experience with the new format. It should thus be borne in mind that for all reports for 2021, using the ESEF is already mandatory. The topic of the ESEF as well as other important issues related to financial and non-financial reporting and inside information have been discussed in Part six of this report.

¹ Act of 29 July 2005 on capital market supervision (consolidated text: Journal of Laws 2020, item 1400, as amended).

² International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission Regulations.

³ The direct enforcement of information requirements of issuers operating in an ATS is exercised by companies operating a regulated market which organise the ATS (Warsaw Stock Exchange and BondSpot) – the scope of the UKNF supervision is indicated in Part 5 of this report.

2 Review of financial statements and enforcement actions

Enforcement of issuers' financial reporting is based on a review of selected financial statements of issuers whose securities are admitted to trading on a regulated market other than investment funds, for compliance with

the applicable financial reporting regulations. Such enforcement uses selection of issuers based on a combination of a risk-based approach, rotation and/or random sampling.

Selecting financial statements for review and type of review

In 2021, the selection for the purpose of assessment of compliance with the applicable financial reporting regulations included, in particular, financial statements of issuers:

- to whom recommendations had been issued,
- with regard to which information had been obtained which gave reasonable grounds for suspecting irregularities in those financial statements,
- for whom an auditor had issued an audit report containing a modified opinion or a review report containing a modified conclusion,
- in a bad financial situation, including those with significant debt levels and unfavourable liquidity, profitability and productivity ratios,
- with significant positions or significant changes to positions in the financial statements,
- for whom the contract with an audit firm was terminated before the end of its term,
- to ensure rotation, i.e. review the financial statements of all issuers within a given period,
- selected randomly.

Table 1. Number of issuers whose financial statements were subject to a periodic review in 2019–2021

Year	Number of regulated-market issuers (Warsaw Stock Exchange ⁴ and BondSpot ⁵)* at year-end	Number of issuers whose financial statements were subject to review*	Share in the total number of regulated-market issuers
2019	436	96	22.0%
2020	425	59	13.9%
2021	435	56	12.9%

* Excluding closed-end investment funds and issuers for whom the Republic of Poland is a host state.

Source: UKNF

When selecting issuers' financial statements for the periodic review in 2021, a high priority was assigned, as in previous years, to the criterion of: modified opinion of an auditor in the audit report or a modified conclusion in the review report.

As modified opinions or modified conclusions were often related to the issue of the entity's ability to continue

as a going concern, particular attention was paid to financial statements of issuers prepared on a going concern basis which indicated material uncertainties as to events or circumstances which may cast significant doubt upon the entity's ability to continue as a going concern, as well as the financial statements made with the assumption that the entity would not continue as a going concern.

Table 2. Number of issuers with a modified opinion in the audit report or a modified conclusion in the review report

Reporting period	Year 2019	H1 2020	Year 2020	H1 2021
Qualified opinions or conclusions	9	13	18	10
Disclaimers of opinion / report	5	7	6	7
Adverse opinions or conclusions	1	0	0	0
TOTAL	15	20	24	17
Number of issuers at year-end*	436	436	425	425
Share in the number of issuers at year-end	3%	5%	6%	4%

* Excluding closed-end investment funds and issuers for whom the Republic of Poland is a host state.

Source: UKNF

⁴ Giełda Papierów Wartościowych w Warszawie S.A.

⁵ BondSpot S.A.

Financial statements are subject to unlimited scope examination or focused examination. For issuers re-

viewed only for compliance with recommendations, a follow-up examination is carried out.

Unlimited scope examination – examination of the entire financial statements with the goal of identifying any cases of non-compliance with financial reporting regulations applicable to issuers.

Focused examination – examination limited to a scope concerning specific issues, the application of certain IFRSs (e.g. topics highlighted in ESMA’s European common enforcement priorities, examination of selected positions or parts of financial statements).

Follow-up examination – review of subsequent financial statements exclusively for the necessary adjustments and improvements, particularly when recommendations were submitted to the issuer.

Table 3. Number of issuers whose financial statements were subject to the periodic review in 2021, by type of examination

Type of examination	Number of issuers	% share
Unlimited scope examination	38	67.86
Focused examination	13	23.21
Follow-up examination	5	8.93
Total	56	100

Source: UKNF

The following figure shows selected areas of non-compliance resulting from the review of issuers’ financial statements carried out in 2021.

As regards the practical application of IFRSs, it is useful to take note of the

packages of decisions on the enforcement of financial information, made by the European national enforcers and published on the ESMA’s website⁶⁷.

⁶ <https://www.esma.europa.eu/>

⁷ https://www.esma.europa.eu/sites/default/files/library/esma32-63-1192_25th_extract_from_the_eecs_database_of_enforcement.pdf

Figure 1. Areas of non-compliance in relation to which recommendations were issued to issuers in 2021

<p>Going concern, liquidity risk</p> <ul style="list-style-type: none"> • failure to disclose material judgements underlying the assessment of going concern • applying assumptions which do not reflect historical data in cash flow forecasts used for assessing the entity's ability to continue as a going concern • failure to specify the value of past due liabilities in the analysis related to the maturity of financial liabilities • failure to include a description of the entity-specific manner of managing liquidity risk • insufficient disclosures on maturity analysis of financial liabilities
<p>Impairment of non-financial assets</p> <ul style="list-style-type: none"> • failure to assess whether there are indications that the shares in a subsidiary may be impaired • determining the recoverable amount of investments in subsidiaries without taking into account the measurement rules applicable to such assets • failure to consider unfavourable external facts and circumstances when assessing indications that investments in subsidiaries may be impaired • allocating an impairment loss to the entire CGU (cash-generating unit), instead of particular assets in a given CGU
<p>Measurement of financial instruments</p> <ul style="list-style-type: none"> • failure to calculate expected credit losses on loans granted to subsidiaries • lack of disclosures on rules and judgements related to estimating expected credit losses • failure to implement IFRS 9 <i>Financial Instruments</i>
<p>Revenue</p> <ul style="list-style-type: none"> • lack of disclosures resulting from IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> related to changes in the presentation of revenue • failure to disclose accounting policies regarding the moment of fulfilment of the performance obligation • failure to measure long-term contracts • lack of sufficient disclosures in the note on revenue resulting from unjustified aggregation of different revenue categories • lack of separate presentation of contract assets which have not yet reached their final maturity on the basis of a contract or a court ruling
<p>Fair value</p> <ul style="list-style-type: none"> • failure to consider specific features of the property of a given company when estimating the fair value of shares in a subsidiary • failure to disclose, among others, a description of measurement techniques and inputs and sensitivity analysis
<p>Consolidation and business combination</p> <ul style="list-style-type: none"> • non-compliance with the standard on using the acquisition method when settling a combination • incorrect identification of the date of combination with another entity • incorrect identification of the acquiring entity in a transaction of acquiring shares in another company
<p>Taxes and deferred income tax</p> <ul style="list-style-type: none"> • failure to make specific disclosures to support the recognition of deferred income tax assets

Source: UKNF, based on the analysis

In 2021, most enforcement actions were taken in three areas: going concern, liquidity risk, and impairment of non-financial assets and financial instruments. In 2020, the actions focused on topics related to going concern, impairment of non-financial assets and establishing fair value.

In the area of going concern, the identified irregularities concerned mainly the failure to disclose significant judgements made by the management with regard to the adopted going concern assumption, the disclosure of which is required in particular when there is a significant uncertainty as to the entity's ability to continue as a going concern. When analysing disclosures related to significant changes to liquidity risk, we notice improvement. However, there is still work to be done to ensure complete disclosures with regard to liquidity risk, managing that risk, and ensuring consistency with other information presented in the financial statements. We point to selected disclosure requirements with regard to going concern

Enforcement actions

After a review of financial statements, if there are any concerns or doubts about their correctness, the issuer (management board / supervisory board) or audit firm is asked to provide further clarification, pursuant to Article 68(1) and (2) of the Act on public offering⁸.

Pursuant to Article 68(5) of the Act on public offering, the Board of the Polish

and liquidity risk in the further part of the report (cf. Part 6.1.1).

Similarly to previous years, impairment of non-financial assets remained an important focus of enforcement actions, including in terms of basic obligations related to identifying conditions for conducting impairment tests and disclosing full and useful information about those tests.

Questions and recommendations addressed to issuers also concerned the application of IFRS 9 *Financial Instruments* to the measurement of financial assets. We notice an improvement in the quality of disclosures on establishing expected credit losses with regard to receivables, although we also notice cases where issuers need to provide more details in that respect. At the same time, some companies still have a cavalier approach to requirements regarding credit risk assessment and the establishment of related write-downs. Basic topics related to estimating expected credit losses, and disclosures in that regard, are also presented in the further part of this report (cf. Part 6.1.3).

Financial Supervision Authority (PL: Komisja Nadzoru Finansowego) (KNF Board) issues recommendations for an issuer to put an end to any breach of information requirements. The purpose of a recommendation is to enable the issuer to eliminate non-compliance as soon as possible by amending the relevant financial statements, and to ensure that the users of financial statements have access to correct and

Communication with the issuer and recommendations

⁸ Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to organised trading, and public

companies (consolidated text: Journal of Laws 2021, item 1983, as amended).

complete information. The implementation of recommendations is monitored.

In 2021, recommendations on financial reporting were issued to 22 issuers, including:

- 5 recommendations concerned recognition/measurement and resulted in an amendment to the annual or interim financial statements,
- 7 recommendations concerned recognition/measurement and concerned future annual or interim financial statements,
- 10 recommendations concerned the inclusion of disclosures in future annual or interim financial statements.

Irregularities resulting in the issuance of recommendations most often concerned: presentation of financial statements (IAS 1, IAS 8), impairment of non-financial assets (IAS 36), measurement and disclosures with regard to financial instruments (IFRS 9, IFRS 7, IAS 32, IAS 39), and revenue (IFRS 15).

3 Review of non-financial information and enforcement actions

Under Article 49b of the Accounting Act⁹, entities, including issuers whose securities are admitted to trading on a regulated market, must include in their management or directors' report, as a separate part, a non-financial statement, or prepare a separate non-financial report.

In 2021, the enforcement of non-financial information involved analysis of completeness of all non-financial reports of issuers under Article 49b of the Accounting Act, which means that the reports were reviewed for the presence of the following information to the extent necessary to evaluate the issuers' business:

- a short description of the entity's business model;
- the non-financial key performance indicators relevant to the entity's business;
- a description of the policies applied by the entity in relation to environmental, social and employee matters, respect of human rights, anti-corruption and bribery matters, as well as a description of the results of those policies;
- a description of due diligence processes, if the entity applies them within the framework of the above-mentioned policies;

Non-financial reporting: legal framework

⁹ Accounting Act of 29 September 1994 (consolidated text: Journal of Laws 2021, item 217, as amended).

- a description of material risks in the entity’s business that may adversely affect non-financial matters, and a description of how those risks are managed.

Additionally, for a selected sample of non-financial information, the reviews carried out in 2021 covered the matters indicated in ESMA’s Public statement on European common enforce-

ment priorities for 2020¹⁰. In particular, the non-financial information was reviewed in terms of inclusion of the following disclosures:

- the impact of COVID-19 on non-financial matters;
- social and employee matters;
- business model and value creation; and
- risks related to climate change.

The disclosure requirements for non-financial information for 2020 applied to 146 issuers, including:

- 10 issuers in relation to entity-level reports only,
- 49 issuers in relation to group-level reports only,
- 87 issuers in relation to both entity-level and group-level reports.

A total of 140 non-financial disclosures for 2020 were made public by issuers, including:

- 59 statements,
- 81 reports.

Five issuers benefited from the exemption from the obligation to make non-financial statements/reports pursuant to Article 49b(11) of the Accounting Act, as a non-financial statement/report containing information concerning the relevant issuer had been published by the higher level parent.

The non-financial statements/reports for 2020 were prepared in accordance with the following standards:

- GRI (Global Reporting Initiative) – 52 issuers,
- SIN (Non-financial Information Standard) – 23 issuers,
- own standards – other issuers.

In 2021, the enforcement of non-financial information involved review of all published reports. Recommendations were issued to 2 issuers due to identification of non-compliance areas such as failure to publish

Non-financial reporting: enforcement actions

¹⁰ https://www.knf.gov.pl/knf/pl/komponenty/img/esma32-63-1041_public_statement_on_the_european_common_enforcement_priorities_2020_PL_wersja_polska_71632.pdf

a non-financial statement/report and failure to include a description of the non-financial key performance indicators relevant to the entity's business.

4 Analysis of timeliness of publication and completeness of the issuers' periodic reports, and enforcement actions

As of 31 December 2021, the requirement to publish periodic reports pursuant to Article 56(1) point 2 of the Act on public offering applied to **435 issuers** whose securities are admitted to trading on a regulated market, other than investment funds.

In addition, as of 31 December 2021, **309 issuers** that were parent companies of groups were required to publish consolidated periodic reports.

In total, in 2021, more than **2 thousand periodic reports** were published by issuers.

In the case of 21 issuers there were problems with the timely fulfilment of

periodic reporting requirements. Enforcement actions were undertaken in relation to those entities. Compared to the previous year, there were more cases of issuers' failure to publish periodic reports, audit reports and review reports in a timely manner. Issuers should pay particular attention to the publication of periodic reports within the time limits specified in the Regulation on current and periodic information¹¹ as periodic reports are a key source of information for investors and make it possible to assess the issuer's economic and financial standing, and compare that information with the situation of other issuers.

Monitoring the timeliness and completeness of periodic reports

The enforcement actions undertaken in 2021 with regard to the timeliness of publication of the issuers' periodic reports included:

- **18 cases** where a competent department of the UKNF was asked to **request the Warsaw Stock Exchange to suspend trading in securities** pursuant to Article 20 of the Act on trading in financial instruments¹², in connection with a failure to publish periodic reports or

¹¹ Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a third country

may be recognised as equivalent (Journal of Laws 2018, item 757).

¹² Act of 29 July 2005 on trading in financial instruments (consolidated text: Journal of Laws 2021, item 328, as amended).

a failure to include in the annual and half-yearly reports, as appropriate, the auditor's report on the audit or review of financial statements, including:

- 7 – lack of the report for 2020,
 - 3 – lack of the auditor's report on the audit of financial statements for 2020,
 - 2 – lack of report for the first half of 2021,
 - 3 – lack of the auditor's report on the review of financial statements for the first half of 2021,
 - 2 – lack of report for the third quarter of 2021,
 - 1 – lack of report for the first quarter of 2021,
- 13 recommendations were issued to issuers due to their failure to publish periodic reports or the auditor's report on the audit or review of financial statements in a timely manner.

As part of the monitoring of completeness of periodic reports, special attention was paid to the compliance by issuers with the provisions of the Regulation on current and periodic information in relation to the inclusion of descriptions required for each type of periodic report, in accordance with

Part 4 'Periodic reports' of that Regulation.

The enforcement actions also covered an assessment of compliance by issuers with ESMA Guidelines on Alternative Performance Measures (APM) in their periodic reports for 2020 and the first half of 2021.

As part of the enforcement actions undertaken in 2021 in relation to the enforcement of completeness of issuers' periodic reports, 27 recommendations were issued to issuers pursuant to Article 68(5) of the Act on public offering, among others to supplement or correct periodic reports. The above recommendations were issued due to the identification of, among others, the following irregularities:

- failure to apply ESMA Guidelines on APMs (e.g. failure to provide reasons for applying a specific APM),
- failure to provide data for all the required reporting periods,
- failure to indicate the factors which will have an impact on the achieved results at least in the subsequent quarter,

- failure to indicate shareholders holding, directly or indirectly through subsidiaries, at least 5% of the total number of votes at the issuer’s general meeting of shareholders,
- failure to provide the position of the management board or supervisory board in relation to the auditor’s conclusion (opinion) in the qualified review report, adverse conclusion (opinion) or disclaimer of conclusion (opinion),
- failure to provide management board’s statements on the truthfulness and accuracy of data included in the financial statements,
- deficiencies in information drawn up on the basis of a statement of the supervisory board on the selection of the audit firm to audit the financial statements,
- incomplete disclosures in reports on the activities with regard to: selling markets, description of material risk factors and threats, assessment of the management of financial resources, assessment of the possibility of implementing investment plans, as well as shares in affiliates held by members of the management and supervisory bodies of the issuer.

5 Review of issuers’ inside information and enforcement actions

As of 31 December 2021, the requirement to publish inside information applied to **501 issuers** whose securities are admitted to trading on a regulated market (national and foreign issuers of shares, issuers of covered bonds, local government units, issuers of investment certificates, and issuers of bonds) and 463 issuers whose securities are admitted to an alternative trading system (issuers of shares and bonds).

As regards the issuers whose securities are admitted to an alternative trading system, the direct supervision of inside information, in accordance with Article 68b(1) of the Act on public offering, is carried out by the organisers of an alternative trading system

(i.e. Warsaw Stock Exchange and BondSpot). To that end, the KNF Board cooperates with those organisers and intervenes when an ATS organiser has difficulty in obtaining explanations from issuers or identifies a material breach of obligations concerning inside information.

Due to the ongoing COVID-19 pandemic, as part of the monitoring of inside information subject to publication, in 2021 attention was paid to the immediate disclosure, by issuers, of all material information on the impact of the pandemic on their fundamental

Monitoring inside information

parameters, forecasts or financial position, as required by MAR¹³. While there has been an improvement in the quality of the provided reports, some issuers still take a cavalier approach to the scope of information presented in reports with inside information. Enforcement actions have revealed reports which do not provide investors with the knowledge necessary to fully assess the relevance of the presented information. Further attention should also be paid to ensuring the timely

submission of inside information by issuers, which inside information is created during processes spread over time and when drawing up periodic reports, and to making sure that only information which meets the criteria of inside information is submitted through the Electronic Information Transfer System (ESPI). In the further part of the report (cf. Part 6.3), we point to selected topics related to the above areas.

In 2021, as part of the monitoring of issuers' inside information, 33 recommendations were issued to stop infringements of information disclosure obligations, due to¹⁴:

- presenting information in the reports which is insufficiently specific and detailed for investors to assess the described events for their impact on the company's operations (failure to indicate the moment when inside information is created, e.g. date of the agreement, lack of information which justifies the conclusion of the agreement, lack of contract term, parties to the agreement or subject matter of the agreement, manner of and time limits for the performance of obligations under the agreement, causes and effects of terminating the agreement, failure to indicate the legal basis of the decision to dismiss the request for declaration of bankruptcy, lack of material assumptions in the restructuring plan),
- providing information which does not meet the criteria of inside information, e.g. publicly available information, operational and sales estimates,
- failure to submit inside information related to the issuer's subsidiaries,

¹³ 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.

¹⁴ The presented irregularities refer to specific facts. Deficiencies in other reports, similar to the ones presented here, will not always mean that disclosure requirements have not been met.

- failure to notify the KNF Board of the fulfilment of the requirements for a delay in the disclosure of inside information, or providing incomplete information in the notification,
- improper information policy with regard to processes spread over time (failure to properly identify subsequent pieces of inside information, failure to update information on the results of subsequent stages or on completion of projects),
- indicating in the reports an incorrect legal basis for the published information.

The purpose of the enforcement actions taken in that respect was to ensure that inside information was made public by issuers in a manner which allows investors to access such information quickly and make a full, proper

and timely assessment of such information.

European common enforcement priorities

6 Selected reporting areas that require attention

6.1 Financial reporting

Following the 2021 review, this report presents issues that require attention while drawing up financial statements for the financial year 2021 and subse-

quent reporting periods. This will include requirements covered by ESMA's most recent common enforcement priorities.

ESMA's European common enforcement priorities with regard to annual financial reports for 2021 in the area of financial reporting point to topics related to:

- impact of COVID-19,
- matters related to climate risks,
- disclosures on expected credit losses recognised in accordance with IFRS 9 *Financial Instruments*.

In addition to topics directly related to the application of the relevant accounting standards, a particular issue

is the European Single Electronic Format (ESEF).

6.1.1 Assessment of the occurrence of, and disclosure of, material uncertainties (including those related to COVID-19) with regard to the ability to continue as a going concern

The going concern basis determines the rules under which the entity's assets and liabilities are measured in the financial statements. When preparing the annual and interim financial statements, the entity's management should **assess its ability to continue as a going concern** in a foreseeable future (cf. **paragraph 25 of IAS 1 Presentation of Financial Statements**), taking into account the long-term effects of COVID-19 pandemic. When performing such assessment, the entity's management is required to consider a period of at least 12 months from the end of the reporting period¹⁵.

According to the standard, the financial statements are being prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. In order to assess the validity of the going concern basis, the entity's manager has to **analyse events and circumstances** which occurred **during the reporting period**, and take into account **the events after the reporting period**.

In assessing whether the going concern assumption is appropriate, the management should consider factors

relating to the entity's current and expected profitability, debt repayment schedules and potential sources of replacement financing (cf. **paragraph 26 of IAS 1**). The standard requires management to take into account all available information about the future. Therefore, management should consider a wider range of factors before it can conclude whether preparing financial statements on a going concern basis is appropriate.

It should be borne in mind that in the present circumstances – when many issuers or entire market sectors have been severely affected by COVID-19 pandemic, and the return to pre-COVID levels of economic activity may take longer than expected, the financial statements for 2021 should continue to include expanded disclosures about the going concern basis.

Disclosures relating to the ability to continue as a going concern are required in particular when the management is aware of material sources of uncertainties or when there are significant doubts as to the entity's ability to continue as a going concern.

Information subject to disclosure then includes: **type and impact of those**

Assessment of an entity's ability to continue as a going concern

¹⁵ <https://www.ifrs.org/content/dam/ifrs/news/2021/going-concern-jan2021.pdf>

uncertainties (cf. **paragraph 25 of IAS 1**) and **judgements that management has made** (with regard to the entity's ability to continue as a going concern and the existence of a significant uncertainty – cf. **paragraph 122 of IAS 1**). Example factors/events which are subject to disclosure under **paragraph 25 of IAS 1** are uncertainties with regard to concluding contracts for new projects, achieving worse results than those assumed in financial plans and projections, including failure to achieve the assumed sales levels and margins.

It is worth mentioning that if after considering all material information, the entity's manager concludes that there are no material uncertainties, and that assessment involves material judgements – then the entity should disclose exactly those **judgements and assumptions** based on which the entity's manager **came to that conclusion**.

In order to help the users of financial statements understand the issues related with the entity's liquidity, profitability and solvency (cf. **paragraphs 39, 31–35 and B10A–B11F of IFRS 7 Financial Instruments: Disclosures**), issuers should disclose, depending on facts and circumstances, information on the manner of managing liquidity risk, and maturity analysis of financial liabilities, taking into account the relevant timeframes.

Important information in that regard includes information on the use of alternative funding sources such as negotiating extended payment terms with suppliers, taking out new loans, extending existing loans or renegotiating the terms of debt instruments or

loans, derogation from applicable covenants, or concluding agreements with financial institutions, e.g. as part of supply chain finance and reverse factoring. In addition, such qualitative and quantitative information should be transparent and issuer-specific and should relate to events which concern a given entity and the business it carries on.

It is important that issuers also disclose sufficient information about sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year (cf. **paragraph 125 of IAS 1**); the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation (cf. **paragraph 129 of IAS 1**), and the explanations how COVID-19 has affected those significant judgements and the level of estimation uncertainty, and how that has affected, in turn, various items of the financial statements. Such disclosures should be included in the general (usually initial) part of notes, and in notes regarding particular positions with respect to which future estimates may change. It is of key importance that the reader of the financial statements is able to easily find that information, which is facilitated by linking the relevant notes through cross-references.

The information included in the areas related to going concern should be consistent with other areas of the statements, i.e. liquidity risk, impairment of non-financial assets, events after the reporting period, and information included in other parts of the financial report.

Disclosure of material threats and uncertainties

Disclosure of material judgements

Disclosure of liquidity issues

6.1.2 Situation in Ukraine

It should be borne in mind that the situation in Ukraine may affect the items presented in the financial statements at the balance sheet date (cf. **paragraph 8 of IAS 10** *Events after the Reporting Period*) or have an impact on recognition and measurement of items after the balance sheet date. In both cases, entities should:

- assess the impact of the above situation on the going

concern assumption (**paragraphs 14–16 of IAS 10**),

- disclose information on the effects of the above situation for the financial statements (**paragraphs 19–22 of IAS 10**),
- consider the need to provide additional disclosures in the financial statements (cf. **paragraph 17(c) of IAS 1**).

6.1.3 Climate risks in the financial statements

It should be borne in mind that when preparing IFRS financial statements, issuers should assess the climate impact and climate risk on their operations and financial results, and make appropriate disclosures on climate-related matters in their financial statements (cf. **paragraph 112(c) of IAS 1**).

Issuers in sectors which are most affected by the impact of climate change should consider disclosing: material judgements (cf. **paragraph 122 of IAS 1**) and estimation uncertainties (cf. **paragraphs 125–133 of IAS 1**), in particular with regard to the impact of climate change on:

- non-current assets (e.g. useful life of non-current assets, their recoverable amount, assessment whether there are indications that non-financial assets may be impaired, taking climate risk into account in recoverable amount estimates, extension of disclosures with regard to sensitivity analysis),

- provisions and contingent liabilities (e.g. with regard to contingent liabilities related to any court proceedings, regulatory requirements which require the removal of damage done to natural environment, additional charges or penalties resulting from environmental protection regulations, agreements which may give rise to burdens, or restructuring aimed at achieving climate goals).

Issuers should also ensure transparency of submitted information on their accounting policy with regard to CO₂ and greenhouse gas emissions trading system, and information on how those systems affect their financial results and financial standing.

Issuers should also ensure consistency between financial and non-financial reporting.

Consistency of disclosures in financial and non-financial reports

6.1.4 Credit risk in the measurement of receivables of entities other than financial institutions

A significant majority of issuers of securities listed on the regulated market has **trade receivables**, which are recognised and presented as trade receivables in the statement of financial position (balance sheet).

In addition, particularly non-consolidated, standalone financial statements include **receivables resulting from outstanding balances with sub-**

sidiaries or other affiliates. Such instruments are subject to the requirements of IFRS 9 *Financial Instruments* with regard to measurement and are measured at amortised cost. The requirements of IFRS 9 also apply to the measurement and recognition of loss allowances for expected credit losses. This is a topic which also concerns entities which are non-financial institutions, but are also exposed to credit risk.

Debt financial instruments do not have zero credit risk.

Credit risk is intrinsically connected with debt financial instruments, including common trade receivables and loan receivables. In the case of every debtor there is a probability – however low – of default.

Such risk is also present in outstanding balances between members of the same group. Even if the issuer controls its debtor (i.e. is its parent company), it is unable to eliminate the risk of low liquidity or insolvency of its counterparty, which may stem mostly from factors which are external to the group.

Credit losses result not only from a total failure to repay the debt, but also from a partial failure to repay, or from postponing the repayment. IFRS 9 requires measuring expected credit losses even if the risk of default is low

(cf. **paragraph 5.5.18 of IFRS 9**). As a result of analysis and estimations made in accordance with the requirements of Part **5.5 of IFRS 9**, it is possible that the estimated expected credit losses will be low.

However, in order to be able to determine the loss allowances and eventually assess their materiality it is necessary to estimate credit losses relating to given financial assets. On the grounds of IFRS 9 there is hardly any basis to determine ‘upfront’ that there is no need to recognise loss allowances. Such regular estimations at the end of each reporting period are also necessary to be able to take into account the changing financial standing of the debtors, economic situation and projections (cf. **paragraphs 5.5.4 and B5.5.52 of IFRS 9**). A failure to monitor the expected credit losses may result in the non-recognition of

Settlements between group members and credit risk

the relevant loss allowances until the debts become irrecoverable and should be subject to a full write-off or even derecognised (cf. **paragraph 5.4.4 of IFRS 9**). One of the goals of developing and implementing IFRS 9 requirements regarding expected credit losses was to eliminate such practices of delaying the recognition of poor quality financial assets in the financial statements (recognising losses ‘too little, too late’).

Entities which are not financial institutions often take advantage of the practical solution allowed under IFRS 9, namely a provision matrix (allowance matrix, cf. **paragraph B5.5.35 of IFRS 9**) relating to financial assets measured at amortised cost. Sometimes there is an additional process

6.1.5 Fair value measurement

Fair value is an objective measurement and not entity-specific, and is established using assumptions that would be made by other market participants when measuring an asset or liability, including assumptions regarding risk.

Measuring fair value may be a serious challenge for preparers of financial statements, especially as it involves judgement and estimations – if there are no listed prices regarding a given asset. Fair value is determined by the approach of market participants, so preparers of financial statements have to monitor whether the measurement models and assumptions used for financial reporting correspond to the assumptions of market participants (cf. **paragraph 11 of IFRS 13 Fair Value Measurement**).

for individual setting of allowances for some of the receivables.

Disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* (cf. **paragraph 35A–36 of IFRS 7**) should be fulfilled with regard to both assets measured on a collective basis (according to the provision matrix) as well as assets measured individually – in a manner that will enable the users of financial statements to become familiar with the approach applied by the issuer. It is also advisable to disclose the criteria for selecting assets for individual assessment in terms of credit losses, and to provide information on the manner of measuring allowances on to those assets (cf. **paragraphs 35F(e) and 35G of IFRS 7**).

In some circumstances, when there is no listed price on the active market for a financial instrument held by an entity, the reporting entity establishes fair value by applying the parameters of another financial instrument (or asset) being subject to trading on the organised market.

However, in such cases it is necessary **to analyse any qualitative differences** between the instrument being measured and the instrument selected by the entity as the reference instrument, and **to take account of those differences** by adjusting inputs used for establishing fair value.

In the case of an asset, example factors which require adjustment in order to reflect differences between the reference instrument and the instrument being measured include:

- having a third party guarantee in the case of a reference instrument,
- introducing the reference instrument to a regulated market.

Need to monitor expected credit losses

Taking account of qualitative differences between the instrument being measured and the reference instrument

Example differentiating features

The entity performing the measurement assumes that market participants have a good understanding of the rights and obligations related to the asset or liability being measured, based on information which would be available to them. It is thus assumed that a market participant would use all the necessary adjustments, in particular those which take into account different risks: market risk, credit risk (failure to repay an instrument), liquidity risk and volatility risk (cf. **paragraphs 88–89, paragraph B14(a)–(b) of IFRS 13**). In each case, the nature and amount of adjustments will depend on the facts and circumstances as of the measurement date. The entity must consider all available information and apply judgement in order to establish if any adjustments are necessary in order to reflect differences between the features of instruments which are the sources of inputs and the instruments being measured (cf. **paragraph B13 of IFRS 13**).

If the fair value of assets being measured is established with the use of the income technique, based on discounted cash flows and in accordance with the adopted technique, one set of planned cash flows is assumed, i.e. one scenario – any risks and uncertainties should be taken into account in the **discount rate adjustment** (cf. **paragraph B18 of IFRS 13**). As a result of using the above technique, the differentiating elements identified by the reporting entity should be appropriately taken into account in adjustments of the discount rate used for establishing the fair value of the instrument being measured, so that it reflects the characteristics and risks of the assets being measured.

Investment properties

The fair value of investment properties is not estimated based on inputs from the active market. The requirements of **paragraph 40 of IAS 40 Investment Properties** cover certain detailed aspects related to establishing the fair value of investment properties. If properties are being leased in whole or in part, the entity's manager, when establishing fair values at the end of the reporting period, should ensure that the value reflects, among others, the terms of actual lease agreements. Terms which should be reflected in the relevant forecasts of the amount and period of cash flows generated by the property include:

- rental area occupied by a given tenant, number of leased places, e.g. parking places,
- rental rate,
- rental agreement start and end date,
- other characteristic contract terms, e.g. any incentives for tenants in the form of covering the costs of fit-out and arranging the area according to individual needs and expectations of a particular tenant.

This data should be sourced from **current agreements**, which means that if terms have changed, e.g. rents have been cut or rental period has been extended, such events should be reflected in the cash flow projection.

It is important that the entities which hold investment properties measure those properties **at the end of each reporting period**. Measurements made in previous reporting periods may significantly differ from the property value in the current period.

If the measurement of investment properties is based on documents of

Analysis of characteristics which differentiate the instrument being measured from the reference instrument

Establishing fair value at the end of each reporting period

the issuer's adviser (appraiser), the issuer should assess such measurement for compliance with: regulations applicable to the issuer's reporting, the goal of measurement, consistency of the adopted assumptions, facts, and the current knowledge of the issuer (e.g. in the area of signed contracts and the expected speed of commercialisation).

The entity's manager should understand how the measurement has been made by the adviser, i.e. what inputs, sources and assumptions have been used to estimate fair value. If proper-

ties measured at fair value form a significant portion of the issuer's assets, it is advisable to implement appropriate internal control procedures in order to check if the information received from the adviser and used by the management in the process of measurement is appropriate and reliable.

It should be borne in mind that in the case of hiring an adviser/expert for the purpose of establishing fair value of assets/liabilities, the entity's manager is still **responsible for performing accounting obligations** (including preparing the financial statements).

Taking account of the current terms and conditions of lease agreements

6.1.6 Impairment losses for CGUs

Estimating the recoverable amount of non-current assets, including goodwill, is an important topic in each reporting period. It should be given particular attention due to the impact of COVID-19, but also due to actions taken by public institutions and governments to mitigate climate risks – also as part of international agreements. Attention should be paid to the correctness of conducting impairment tests at the level of cash-generating units (CGU) or groups of CGUs under IAS 36 *Impairment of Assets*.

Conducting such tests at the level of CGU or groups of CGUs is necessary when a given asset does not generate cash flows on its own (cf. **paragraph 22 of IAS 36**). In order to be able to correctly recognise any impairment loss related to a given asset, it should be assigned to a CGU, e.g. a subsidiary, enterprise or its organised part (production facility, mining facility, retail outlet).

It can be expected that the CGU's business needs the use of assets outside of the scope of IAS 36 (cf. **paragraph 2 of IAS 36**) and that there may be liabilities which are closely connected with a given unit (cf. **paragraphs 76(b) and 78 of IAS 36**). Those items are also allocated to and included in the carrying amount of CGU, which may be a kind of a 'net asset value' of a CGU, i.e. asset value minus liabilities allocated to the unit.

Such a 'net asset value' of a CGU is compared with the estimated recoverable amount of a CGU (cf. **first sentence of paragraph 104 of IAS 36**), which may be, e.g., the value in use – and if the recoverable amount is lower, the difference constitutes an impairment loss that should be recognised in the financial statement.

After determining the impairment loss, the CGU ceases to be considered as a whole, and the amount of the impairment loss is allocated to particular assets (cf. **paragraphs 104 and 105 of**

IAS 36). If the recoverable amount of CGU is very low, the value of assets subject to IAS 36 may be written down in a significant part or entirely.

It should be borne in mind that despite the existence of common expressions such as ‘impairment losses for CGUs’, impairment losses apply to particular assets and not the CGU as a whole. A CGU referred to in IAS 36 is only a practical, technical solution to the problem of determining the impairment losses for assets which do not lend themselves to easy fair value measurement, and which themselves are not a source of cash inflows for their holder.

In addition, it is necessary to make disclosures required in IAS 36 in relation to CGUs to which goodwill or an intangible asset with an indefinite useful life is allocated (cf. **paragraphs 134 and 135 of IAS 36**). For certain issuers,

goodwill in fact results from many combinations with other entities and is allocated to CGUs operating in different sectors and on a wide geographical area. In such case, disclosing information in a very aggregated form may make it significantly more difficult for the reader to get acquainted with the specifics of business in a given sector or region. It is then necessary to make disclosures by groups with similar characteristics or assumptions adopted for the purpose of impairment tests (cf. **paragraph 135 of IAS 36**). Information about assumptions thus becomes concrete and specific for a given group of CGUs. In particular, when disclosing figures in ranges (value brackets), such disaggregation of information into groups of similar CGUs narrows the bracket corresponding to a given group, and thus makes it more understandable for the reader.

Disaggregation of test disclosures

Impairment losses do not apply to CGUs

6.1.7 European Single Electronic Format – ESEF

Under the amended Transparency Directive¹⁶ and national regulations¹⁷, issuers whose securities are admitted to trading on a regulated market could elect to prepare their annual reports and consolidated annual reports for 2020 in ESEF¹⁸, i.e. in accordance with

the requirements of regulatory technical standards (RTS)¹⁹.

In order to prepare issuers to use that possibility, in January/February 2021 the UKNF conducted tests of ESEF reporting, addressed to all interested issuers. As a result, ESEF reports for the financial year 2020 were submitted by

¹⁶ 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.

¹⁷ Act of 25 February 2021 amending the Banking Law and certain other laws (Journal of Laws 2021, item 680).

¹⁸ European Single Electronic Format.

¹⁹ Commission Delegated Regulation (EU) 2018/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (hereinafter: RTS on ESEF).

152 issuers, including 128 issuers which prepare not only annual reports but also consolidated annual reports.

Under RTS requirements, ESEF annual reports and consolidated annual reports must be prepared in the XHTML format. In addition, RTS requires that the primary financial statements of the consolidated financial statements²⁰, submitted as part of consolidated annual reports, be marked up (tagged) in accordance with the ESEF taxonomy.

Starting from annual consolidated financial statements for the financial years beginning on or after 1 January 2022, it will also be mandatory to tag notes to the consolidated financial statements using the ‘block tagging’ standard.

Main observations collected during tests and during the analysis of ESEF reports for 2020 indicate several most problematic aspects related to the application of the new format.

One of frequent mistakes made by issuers consisted in applying wrong sign to tagged values (negative value instead of positive or *vice versa*). It should be borne in mind that taxonomy elements provided for particular asset items in the statement of financial position (balance sheet), cost items in the statement of profit or loss and other comprehensive income (profit and loss account) and cash inflow items in the cash flow statement are assigned a debit balance attribute. At the same time, taxonomy elements

provided for items under liabilities and equity, revenue and cash outflows have a credit balance. Therefore, when selecting the appropriate sign, the issuer should take into account the natural balance attribute (debit or credit), held by a given taxonomy element.

In addition, in many cases inconsistencies were revealed with regard to the calculation layer, i.e. values in the financial statements did not correspond to the calculation defined in the taxonomy. Such inconsistencies may point to, among others, errors in the values of particular items, or tagging errors. Such errors must each time be analysed by the issuer for the need to submit any correction of the annual report, which is necessary if the errors are material.

Another frequent irregularity was a report package error, which usually prevents report uploading and its automatic validation. In order to avoid this type of errors, one should maintain an appropriate file structure within the reporting package, which has been specified in Annex III to RTS and Guidance 2.6.1 of the ESEF Reporting Manual²¹.

In addition, we point out that implementing the ESEF reporting format involves the need to identify the tags within the ESEF taxonomy which are necessary to tag particular items of the basic parts of the consolidated financial statements, so that issuers avoid the unnecessary creation of

²⁰ A statement of financial position (balance sheet), a statement of profit or loss and other comprehensive income (income statement, profit and loss account), a statement of cash flows, a statement of changes in equity.

²¹ https://www.knf.gov.pl/knf/pl/komponenty/img/Reporting_manual_2021_aktualizacja_27-07-2021.pdf

their own taxonomy extensions when equivalents of those elements already exist in the basic taxonomy.

It should be borne in mind that in all annual reports and consolidated annual reports for 2021, using ESEF is mandatory. For many issuers, it will be

their first experience with the new format. That is why we invite issuers to take part in ESEF reporting tests. Information on the tests is available in the 'News' section at www.knf.gov.pl and in the form of communications in the ESEF section²².

²² https://www.knf.gov.pl/dla_ryнку/ESEF/komunikaty

6.2 Non-financial reporting

ESMA's European common enforcement priorities for 2021 annual financial reports in the area of non-financial reporting point in particular to topics related to:

- impact of COVID-19,
- disclosures and policies related to the impact of the issuer's operations on climate change and *vice versa*,
- disclosures under Article 8 of the Taxonomy Regulation,
- disclosures which include APMs.

As part of its enforcement priorities for 2021 annual financial reports²³, ESMA points to the continued relevance of COVID-19 and its impact on issuers' business activity, and the fact that it may impair their ability to meet any pre-determined sustainability-related goals in the short and medium term.

It is thus important that issuers submit information about how the consequences of the pandemic are affecting their plans to meet any sustainability targets and whether any new or adjusted goals have been set.

Issuers are encouraged to disclose information on the planned development of their operations taking into account the changing circumstances caused by the pandemic, especially in the context of expected structural changes in the manner of conducting business (e.g. changes in supply chains and distribution channels) and changes in the arrangements on the

working conditions for their employees.

Issuers should also disclose information on each potential material impact of the pandemic on their existing non-financial key performance indicators and on any new non-financial key performance indicators which have been developed in order to reflect the long-term effects of the pandemic.

Climate-related matters are another area which requires appropriate disclosures when preparing non-financial information for 2021. ESMA reminds issuers of the obligation laid down in Articles 19a and 29a of the Accounting Directive²⁴, i.e. the obligation to submit information on policies pursued by issuers in relation to non-financial areas and the outcomes of those policies.

With regard to the manner of meeting these obligations, issuers should bear in mind the European Commission's

²³ https://www.esma.europa.eu/sites/default/files/library/esma32-63-1186_public_statement_on_the_european_common_enforcement_priorities_2021.pdf

²⁴ Directive of the European Parliament and of the Council 2013/34/EU of 26 June 2013 on the

annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC.

Guidelines on reporting climate-related information, which, though not binding, correspond to the disclosure rules adopted by the Task Force on Climate-Related Financial Disclosures (TCFD).

Having regard to supervisory experience with non-financial reports submitted for previous reporting periods, it was noted that in several instances the issuers did not disclose information specific to climate change and have only generically referred to policies addressing environmental issues, often omitting to provide explanations for any such omissions.

A good practice could be to disclose the reasons to conclude why the disclosures on climate-related matters were not provided. It is also important to disclose which policies, if any, issuers have put in place to address climate change, both in terms of any identified risks and opportunities that climate-related matters may give rise to for the undertakings' activities as well as on the impact (positive or negative) that the undertaking's actions may have on such matters. Disclosure of such policies should include reference to the most significant transitional risks and physical risks that issuers have identified having a current or future expected material impact on their business model and activities and disclose how those risks are managed and which climate change mitigation or adaptation actions are put in place to address those risks.

ESMA recommends that issuers provide transparency of the process leading to the identification of such risks and on the outcomes of their climate-

related policies also by providing specific indicators and explaining how the entity's performance on such indicators is consistent with any pre-defined targets. Issuers should also disclose the progress made towards achieving any such targets.

For example, ESMA reminds issuers that disclosures on their greenhouse gas (GHG) emissions are most useful when they are provided by means of an appropriate segmentation (i.e. by country/region of operations or business segment) and when they are contextualised within specific pre-defined targets. ESMA recommends that this information is contextualised in the undertaking's broader strategic orientation and the related implementation plans which should indicate the expected progress to meet any pre-defined targets.

ESMA notes that an issuer's strategy, plans, targets and current performance in relation to climate-related matters should be taken into account both in terms of non-financial disclosures as well as financial information. ESMA emphasises the importance of providing the necessary information in the non-financial statements to enable users to understand the financial consequences of the issues arising from climate-related matters. In this context, ESMA highlights the importance of ensuring **consistency and connectivity** between the information provided **within the non-financial statements** in relation to climate-related matters with the information provided **in the financial statements**, including the judgements made and estimates which should duly consider

Climate-related disclosures in non-financial and financial reports

Consistency of disclosures in financial and non-financial reports

any financial implications of climate-related matters.

According to ESMA, the third enforcement priority for 2021 non-financial reporting are disclosure obligations set out in Article 8 of the Taxonomy Regulation²⁵ in relation to the taxonomy alignment of the economic activities which they undertake²⁶. ESMA emphasises the importance of issuers' preparedness to discharge such obligations resulting from a legislative package²⁷, acknowledging that the assessment of taxonomy eligibility and alignment is likely to require progressive adjustments. In particular, ESMA notes that the classification regime envisaged by the Taxonomy Regulation for the classification of economic activities as environmentally sustainable envisages six environmental objectives.

Although according to the final version of the Commission's Disclosures

Delegated Act under Article 8, the first application of such disclosure requirements is subject to simplified reporting rules set out for the transition period, issuers are encouraged to use that additional time for adjusting their internal reporting systems to those requirements. It should be borne in mind that the assessment of the degree of compliance of the issuer's economic activity with the taxonomy criteria may require issuers to collect data which are not immediately available for them. It is thus necessary to take preparatory activities to ensure the timely and correct application of the necessary requirements.

Having regard to the future legal changes related to delegated acts, the UKNF will continue to monitor compliance with disclosure requirements specified in Article 8 of the Taxonomy Regulation.

²⁵ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088.

²⁶ Economic activity meeting the conditions specified in Article 3 of the Taxonomy Regulation;

²⁷ Taxonomy Regulation;

- Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 supplementing the

Taxonomy Regulation by specifying the content and presentation of information to be disclosed by undertakings concerning environmentally sustainable economic activities;

- Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing the Taxonomy Regulation by establishing the criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation.

6.3 Inside information

Based on the analyses of inside information submitted by issuers in 2021, we present the topics which require particular attention in 2022.

When preparing periodic reports for 2022, it is important that issuers assess the information being created for meeting the criteria of inside information. If during the above analyses an issuer identifies inside information, the issuer should immediately make it public, without waiting for the publication of a relevant periodic report. For example, the need to identify and publish inside information may arise when issuers recognise impairment losses and/or provisions.

In particular, issuers should pay attention to the information on estimated financial results of the issuer or its group, which information is created when preparing periodic reports. Upon obtaining preliminary information on financial results, the issuer should assess that information for meeting the criteria of inside information referred to in Article 7 of MAR. When making the above assessment, the issuer should take into account in particular the existing information policy and the information communicated to the market earlier, not only through ESPI but also through other channels (e.g. in press releases or on the issuer's website). If a given piece of information regarding estimated financial results is considered as inside information, it should be immediately submitted by the issuer through ESPI. If it is not considered as inside information, it should be submitted via a different communication channel, e.g. by placing it on the issuer's website

(Rule 1.2 of Best Practice for GPW Listed Companies²⁸).

It should be borne in mind that inside information may be created also at further stages of a process which is spread over time, which process is aimed at, or results in, the occurrence of particular circumstances or a particular event. Such processes spread over time may include the process of negotiations regarding an agreement which is material for the issuer, or the process of reviewing strategic options.

In the course of a process spread over time, an issuer should carry out an appropriate information policy, assess information created in the course of actions taken at particular stages of that process, and if it identifies new inside information, it should immediately make it public. It should be borne in mind that disinformation, i.e. gaps in informing about material decisions and circumstances related to a given process, should be avoided. It is also worth mentioning that information on such events as breaking negotiations, refraining from choosing an option, or ceasing work on implementing a given option, including the reasons for making such decisions, should also be analysed in the context of the definition of inside information.

In order to ensure compliance with disclosure obligations resulting from MAR, it is important that issuers assess not only information created within the company, but also in its environment, for meeting the criteria of inside information. Such information may concern, among others: changes

Information created in the process of preparing periodic reports

Information created in processes spread over time

Information created in the environment of the issuer and its group

²⁸ https://www.gpw.pl/pub/GPW/pdf/Uch_13_1834_2021_DPSN2021.pdf

in legal regulations, changes in interest rates, situation in FX markets or in commodity markets. In particular in 2022, issuers should monitor the impact of the political and economic situation in Ukraine on the economic activity of the issuer or its group, or on the financial results in future periods, and in the case of identification of inside information referred to in Article 7 of MAR, immediately submit a relevant report.

It should be borne in mind that pursuant to Article 17(1) of MAR, the issuer shall ensure that the inside information is made public in a manner which enables fast access and complete, correct and timely assessment of the information by the public. If market participants raise a number of questions in response to an issuer's report, it means that the report may not have been correctly prepared in editorial terms – maybe it failed to include sufficient explanation, and thus was not sufficiently precise.

It should be borne in mind that inside information should be formulated in such a manner as to leave as little room as possible for guesswork and

speculation. A report with inside information should be specific and detailed enough to enable an investor to assess the impact of the events being described on the issuer's operations. In addition, the information submitted by issuers in reports should form a consistent whole and constitute a series of cause-and-effect events, and it is only when it is submitted in such a manner that we can expect them to provide investors with relevant knowledge and be properly used for making investment decisions.

Some issuers submit through ESPI inside information which gives rise to doubts whether it really meets the criteria for inside information. The definition of inside information clearly indicates what kind of information constitutes inside information. It should be noted that ESPI's public channel is not the issuer's promotional platform and may only be used for submitting information which the issuer is required to publish under law. It should also be borne in mind that under Article 17(1) of MAR, the issuer must not combine the disclosure of inside information to the public with the marketing of its activities.

Quality of submitted inside information

Proper use of ESPI

7 Conclusion

The purpose of publication of issuers' information is to provide stakeholders with information that is useful in making investment decisions.

Regulated information must reflect the issuer's specific situation and circumstances as accurately as possible and include the most recent qualitative and quantitative data available to the entity. Up-to-date knowledge is especially important when preparing regulated information which is based on estimates and forecasts. Dynamically evolving circumstances related to

the political and economic situation in Ukraine, as well as other factors which have its roots in political, legal or climate risks but which do not directly result from an analysis of historical data may have a significant impact on forecasts and estimates. The recipients of regulated information should receive data which take such factors into account, and they should be able to learn from the issuer's reports about the impact of those factors on the presented data and its potential future volatility.