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Disclosure Practices of Information in the Field of Financial Instruments: Evidence from Polish Companies Listed in the Warsaw Stock Exchange

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Abstract:

Purpose: *The aim of the work is to investigate the practices of disclosing information about financial instruments in the financial statements due to the fulfillment of disclosure obligations and voluntary presentation of information under the accounting policy of financial instruments of companies listed in the Warsaw Stock Exchange.*
Design/Methodology/Approach: *The research aimed at achieving the assumed goal was conducted based on annual, separate financial statements of listed companies for 2016 and 2017. The selection of entities for the audit covered 66 companies and was deliberate selection. In the study, the content of financial statements was analyzed.*
Findings: *The analysis shows that the requirements for disclosing information about financial instruments in accordance with the accounting principles are very liberal. The scope of disclosures about financial instruments among Polish companies is varied and their transparency is low. Overall results show that companies are complying with their accounting policy disclosures, although there are a few requirements that companies ignore. The main problem with information transparency about financial instruments is that companies comply with their disclosure obligations by copying the guidelines and not by presenting important principles to the usefulness of the information.*
Practical Implications: *The information obtained will constitute the basis for multifaceted research on accounting for financial instruments, especially in the field of identifying mandatory and voluntary disclosures of information about the accounting policy of financial instruments, as well as comparing and assessing the application of specific accounting principles of financial instruments from individual periods of application of the guidelines.*
Originality/Value: *The study joins the current literature dealing with disclosure practices about financial instruments that are still missing. The study enriches the existing knowledge in the field of financial instruments and IFRS by identifying attributes that increase the level of information related to financial instruments provided by non-financial enterprises.*

Keywords: *Financial instruments, disclosing information about financial instruments, accounting principles, transparency of disclosures, IFRS7, non-financial companies, Poland.*

JEL code: *M40, M41.*

Paper type: *Research study.*

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1. Introduction

Financial instruments play a fundamental role in the modern world, and the progressive globalization and intensive development of capital markets, providing great opportunities to obtain financial resources for development, have resulted in the creation of a wide range of financial instruments. Financial instruments used by business entities are a challenge for both accountants and recipients of financial statements. The issue of financial instruments is complex and complicated and requires appropriate knowledge both when preparing financial statements and when searching for information about them in the financial statements (Huian, 2012; Judkowiak, 2014). For many years there has been a discussion whether information on financial instruments disclosed in annual financial reports is sufficient and reliable for their users? and how to increase the level and transparency of disclosures of financial instruments provided by companies?

A financial instrument is a contract that gives rise to a financial asset for one party and a financial liability or equity instrument for the other party, provided that a contract between two (or more) parties clearly produces economic effects, whether performance rights or obligations under the contract are unconditional or conditional (Act of September 29, 1994 on accounting...). A similar definition is used in international regulations, where a financial instrument is defined as each contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity (IAS 32). The introduction of the obligation or the possibility to apply the International Accounting Standards (IAS) to the preparation of financial statements in the Polish balance sheet law resulted in the occurrence of a duality of balance sheet solutions. This is particularly true for listed companies and separate financial statements, for which these entities have a choice as to which regulation (national or international) to apply. Such a situation undoubtedly influences the recognition, valuation, presentation, and disclosure of information about financial instruments (Judkowiak, 2018; Liapis and Thalassinos, 2013).

Disclosure of financial information is defined as the deliberate disclosure of financial information that may be quantitative or qualitative, required, or voluntary, through formal or informal channels (Gibbins *et al.*, 1990). Companies disclose information to meet the needs of various user groups, such as investors, creditors, analysts, and other stakeholders, to increase individuals' decision-making capacity (Cooke, 1989; Malaquias and Zambra, 2017). This information is useful when it meets basic characteristics such as usefulness, faithful representation, comparability, neutrality, topicality, timelessness, verifiability, and intelligibility (Belkaoui, 2002; Mainej and Wahlen, 2006; Nichita, 2018). The quality of financial information that users receive is a function of both the quality of the (accounting) standards governing disclosure of information and the enforcement or corporate application of standards in the economy (Nichita, 2018). However, it should be noted here that it is not about providing all the information (Khoram and Janani, 2013). Excessive disclosure is harmful because providing irrelevant details hides key information and makes it difficult to interpret

financial statements (Karbasi, 2007). It is about disclosing only the necessary information so that it can be used to reflect the full picture of the events and financial activities of the entity (Noroush and Hosseini, 2009), thus providing reasonable assurance that investors will not be misled (Hassan *et al.*, 2008).

Ample evidence shows that financial disclosure plays an important role in the decision-making process of users of financial statements, especially investors. According to Tsalavoutas and Dionysiou (2014), mandatory disclosures under IFRS provide investors with important information about business risks, assumptions about credit risk exposure, assumptions and forecasts made in the impairment testing process and business combinations. The level of disclosed information raises the company's market value by influencing management decisions, and thus changes the distribution of future cash flows (Lajili and Zeghal, 2006; Banghøj and Plenborg, 2008; Hassan and Mohd-Saleh, 2010; Al-Akraa and Jahangir-Ali, 2012; Leuz and Wysocki, 2016; Tahat *et al.*, 2016). A higher level of disclosure is also of great importance in enterprise valuation (Tsalavoutas and Dionysiou, 2014; Tahat *et al.*, 2016). Conversely, as Beyer *et al.* (2010) argues, voluntary disclosures and high-quality accounting information reduce unfavorable choice, increase liquidity, and reduce the risk of evaluation (in the case of securities) (Coles *et al.*, 1995, Clarkson *et al.*, 1996). Kang and Gray (2011) concluded that voluntarily disclosing a variety of financial information can be a way for companies to differentiate themselves because a large amount of information can help users of financial information better understand the company.

According to Verrecchia (2001), greater disclosure of financial information reduces information asymmetry, mitigating unfavorable selection costs, while increasing stock market liquidity (Kim and Verrecchia, 1994; Baiman and Verrecchia, 1996). Similar conclusions were reached, among others, by Diamond and Verrecchia (1991), Patel *et al.* (2002), Hassan (2004), Poshakwale and Courtis (2005) and Laidroo (2008), emphasizing that greater disclosure of financial information is associated with less asymmetry of information, it adequately mitigates the agency problem in corporate governance and contributes to avoiding high risks for firms. On the other hand, Boston and Plumlee (2006), Francis *et al.* (2008), Dhaliwal *et al.* (2011) and Bauwhede *et al.* (2015) argue that the policy of disclosing more information in annual reports reflects economic benefits for the company, such as lowering cost of capital.

The variety of financial instruments, which is a derivative of the increased needs of enterprises in the field of investment and financial activities, made the issues related to them become the subject of interest not only in the field of practice, but also in the field of science. Moreover, ensuring the safety and proper organization of trading in instruments required the introduction of appropriate regulations in legal provisions relating to the financial market. It is worth emphasizing that the increase in the scale of their use in economic life has been noticed by the bodies constituting the balance sheet law.

The purpose of this study is to examine the practices of disclosing information about financial instruments in the financial statements due to the fulfillment of disclosure obligations and the voluntary presentation of information under the accounting policy of financial instruments of companies listed in the Warsaw Stock Exchange. The work is an attempt to answer the question: *"Do Polish non-financial companies listed on the stock exchange meet the requirements for disclosing information about financial instruments as part of the adopted accounting policy?"*

The study joins the current literature dealing with disclosure practices about financial instruments that are still missing. The study enriches the existing knowledge in the field of financial instruments and IFRS by identifying attributes that increase the level of information related to financial instruments provided by non-financial enterprises. The information obtained will constitute the basis for multifaceted research on accounting for financial instruments, especially in the field of identifying mandatory and voluntary disclosures of information about the accounting policy of financial instruments, as well as comparing and assessing the application of specific accounting principles of financial instruments from individual periods of application of the guidelines. In addition, the empirical research undertaken provides a lot of information on disclosures about financial instruments that have not been researched on such a scale in Poland before.

2. Literature Review

The pressure of business transactions and the rapid development of the international market have increased the need for more relevant information and greater transparency of financial disclosure (Elzahar and Hussainey, 2012). Transparent financial statements are those that "disclose the events, transactions, judgments, and estimates underlying the statements, and their implications" (Pownall and Schipper, 1999). This detailed information is critical to ensuring that financial statements are prepared to reflect the true financial position of companies and help their users make more informed decisions (Adznan and Nelson, 2015; Leote *et al.*, 2020).

The level and transparency of disclosures provided by companies is the result of rational management decisions based on perceived (direct and indirect) costs and benefits (Gray *et al.*, 1990). The ample evidence shows that companies rarely make full disclosures (Hellman *et al.*, 2018). The research conducted so far in the field of disclosure of information on financial instruments is embedded in various periods and economic realities, which affects their level and transparency. Roulstone (1999) conducted an exploratory impact analysis of SEC Financial Reporting Release # 48 in conjunction with SFAS 119 and 133 for US companies and found inconsistencies in qualitative risk management disclosures that made it difficult to understand the company's risk management objectives and its ability to meet those objectives. It found that the market risk disclosures that were recommended (voluntary) but not required under SFAS 119 and 133 varied considerably in detail and clarity. While some companies submitting their reports provided quantitative and qualitative

information about market risk without discussing the details and limitations of their risk measurement models, others only repeated the quantitative information in the qualitative part. One specific finding from Roulstone is that some required or strongly recommended contextual disclosures were almost completely absent. It noted that some registrants provided detailed information on how and why risks are hedged and to what extent the safeguards have been applied. Godfrey and Chalmers (Chalmers and Godfrey, 2000; Chalmers, 2001) have shown that companies that prepare financial statements in accordance with Australian Accounting Standards present information about their accounting policies for financial instruments in a general manner that prevents the understanding of the financial statements. \

Moreover, they proved that the disclosed information about financial instruments is incomprehensible, especially regarding costs related to financial instruments and hedge accounting principles. Dunne *et al.* (2004) used the categorical scoring method to examine the content of disclosures in companies' annual reports to determine whether this had a significant impact on the quantity and quality of information on the use of derivatives in companies. The purpose of the research was to determine whether the requirement of IAS 13 (ensuring the disclosure of relevant information regarding the hedging process) was met. Disclosure of information about the use of derivatives before and after the introduction of IAS 13 was also compared. This allowed for the measurement of additional information disclosed because of the implementation and the requirements of the standard.

Inconsistencies were found in managerial reporting practices in both systems as managers were only encouraged to disclose the derivative hedging process and not authorized to do so. Strouhal (2006), using the financial statements of 51 Czech listed companies, compared the information disclosed in the statements in accordance with the Czech balance sheet law and with the guidelines presented in IAS 32 and IAS 39. He assessed the information on derivatives presented in the reports as low. The information disclosed was limited and heterogeneous, which could adversely affect the ability to make a reliable assessment and investors' decisions. The author also pointed out that there are problems with determining the carrying amount of OTC derivatives. Hassan *et al.* (2006) examined the scope of financial disclosures and their determinants for Egyptian ESE listed non-financial companies. The results obtained generally show a gradual increase in the level of disclosures for listed non-financial companies in the analyzed years. Large companies disclose more information on voluntary disclosure but disclose less information on mandatory disclosure.

Public sector companies disclose less information than private sector companies, regardless of the type of disclosure. One possible explanation is that public sector companies disclose in their annual reports information on compliance with the disclosure obligations of the Unified Accounting System, and not the disclosure requirement under the Capital Market Act, which was the main disclosure indicator in this study. For different types of information, differences were found between

public sector and private sector companies. While public sector companies disclose more financial details about certain items on their balance sheet and income statement, they disclose less information about the layout of their balance sheet, cash flow statement, notes, principles adopted in preparation of financial statements and general information. Lopes and Rodrigues (2007) examined the scope of disclosure of financial instruments used by Portuguese companies using 54 disclosure ratios that included requirements for items such as cash flow hedges, fair value of derivatives, accounting policies, securitization and repurchase agreements that partially includes collateral and exclusion from the balance sheet and many others, in accordance with the requirements of IAS 32 and 39.

Research has shown that larger companies, companies listed on more than one stock market and controlled by international auditing companies are closer to the requirements of IAS. The reports did not include data on the shareholder structure, which did not allow for an in-depth analysis of the impact of family ownership on information practices. In addition, there were several inconsistencies in the disclosure of information by companies, namely the definition of an independent director. In another study, Lopes and Rodrigues (2008) analyzed publicly traded companies in the EU to compare existing disclosure practices on financial instruments with the required IAS 32 and IAS 39. First, around 50% of firms were found to apply fair measurement principles for financial assets held for sale. trading as required by IAS 39, but did not apply this criterion to available-for-sale financial assets. Second, most companies disclosed their fair value method, however, disclosure of derivatives was low. Third, large companies with advanced accounting systems and disclosure practices found it difficult to account for financial instruments and related disclosures.

Tsalavoutas (2011), when analyzing the compliance of 153 Greek listed companies with all IFRS in the scope of mandatory disclosure in 2005, proves a low level of compliance with IFRS (approximately 80%). The key findings of this audit are as follows: (a) most companies have complied with the relatively simple requirement to disclose the date that financial statements were authorized for issue and who issued the authorization; (b) many companies do not disclose the amount of each significant category of revenue recognized during the period; and (c) a large number of companies were silent about the nature and extent of government grants recognized in the financial statements and any other forms of government assistance from which the entity benefited directly.

Jonker *et al.* (2013), analyzing IFRS 7 disclosures of listed companies in South Africa to determine whether listed companies are improving IFRS compliance and complying with IFRS 7, showed that publicly traded companies disclose more information on publicly traded South African listed companies. with financial risk in their financial statements. However, this information did not translate into meaningful information for users. Probohudono *et al.* (2013), analyzing the practices of voluntary disclosure of information about financial instruments in accordance with IFRS 7 regarding the five main types of risk (business, strategic, market and credit) in the

financial statements of listed manufacturing companies from Southeast Asia, concluded that that business risk is most exposed and strategic risk the least. The scope of disclosed information on credit and business risk increased, while the scope of information on market, operational and strategic risk decreased in the analyzed period. Adznan and Nelson (2014) conducted an analysis of the financial statements of 319 Malaysian IFRS-adopting companies, based on which they concluded that the audited companies mostly comply with disclosure obligations regarding financial instruments in accordance with IFRS guidelines. The information that was most rarely disclosed concerned the application of hedge accounting. Huang and Gao (2014) investigated the usefulness of derivative disclosures for Chinese institutional investors in the investment decision-making process.

Research shows that information on the use of derivatives disclosed by publicly traded companies in China is generally seen as useful for Chinese institutional investors (e.g., fund managers and professional analysts) in facilitating their investment decisions, although the information is generally considered to be these are less meaningful in comparison with other basic financial information such as assets, liabilities and gains / losses. They also find that the current scope of information on derivatives disclosed by Chinese listed companies is largely unsatisfactory, mainly due to insufficient information and a lack of timely disclosures. Buckby *et al.* (2015) analyzed the financial disclosures of the top 300 Australian companies listed on the ASX in 2010.

The results show widespread discrepancies in disclosure practices and low compliance with Principle 7 ASX CGPR. This finding suggests that companies are failing to disclose all material business risks, possibly due to ignorance at the management level or deliberately hiding confidential information from users of financial statements. Although the presence of the risk committee and the technology committee was found to be associated with some improvement in disclosure levels. However, the authors find no evidence that the firm's risk measures (such as equity ratio and market value to book value) are significantly associated with higher levels of disclosure. Kubickova and Jindrichovska (2016) analyzed the form and extent of IFRS adoption in the Czech accounting and the main reasons of the lack of interest in IFRS reporting with a special attention to the segment of SMEs. Proved that the main causes of the lack of interest in IFRS usage are the specific features of economic conditions, resulting in imbalances between the costs and benefits of practical implementation of IFRS and the lack of interest to report in accordance with IFRS on the side of business partners.

Mazzi *et al.* (2017) analyzed European non-financial companies included in the Standard & Poor's Europe 350 index to test the level of compliance of financial disclosures with the requirements of IFRS 3 and IAS 36. The analysis carried out provides evidence of an average compliance rate of around 83% and a wide variation in companies' disclosure levels. In-depth analysis reveals that the discrepancy is mostly about proprietary information and information that reveals managerial judgment and expectations. Malaquias and Zambra (2017) analyzed the level of

disclosure of information on financial instruments made available by mining companies located in the Latin America region. The sample consists of 72 companies from Brazil, Chile, Peru, and Mexico. It has been proven that the companies did not disclose the full and detailed information required by IFRS. Information on expected credit losses scored low in the disclosure index, which poses a problem for estimating these losses and developing the calculations. Only some companies have disclosed information on the hedge accounting principles, and these companies have partially or fully complied with the disclosure ratio (hedge accounting). These companies did not apply hedge accounting in the period covered by the analysis. This means that some companies duplicate the information presented in their financial statements from previous years, despite the change in accounting policies.

3. Material and Methodology

The research covered companies listed in the Warsaw Stock Exchange. These were companies from all economic sectors with a non-financial nature. The population consisted of 446 publicly traded companies that published annual reports during the survey period. Some of these companies were not included in the research sample for various reasons. First, the companies which: a) do not prepare separate financial statements in accordance with IAS / IFRS were eliminated; b) they are a bank or an insurance company due to a different reporting structure, they come from the financial sector and the capital market sector, as their core business, to a greater or lesser extent, is related to financial instruments; c) they are a foreign entity due to different economic conditions; and d) are in bankruptcy or liquidation because their current legal and financial condition threatens to continue as a going concern and the results of this group of companies are incomparable for other companies and companies in which the financial year is different than the calendar year.

Second, information on financial instruments disclosed by companies played a major role in determining the research sample. During the verification of the information contained in individual financial statements, the sample was reduced by more companies due to technical reasons. Third, companies that had incomplete financial statements, no financial statements available and which had errors in reading the companies' websites were eliminated from the audit. Fourthly, it was also necessary to identify companies that presented in their financial statements comprehensive information on the impact of financial instruments on the property, financial position, and results of operations. Information on the share of financial instruments in assets and sources of financing was disclosed by most companies, and the key issue in the further selection of companies was information on the impact of financial instruments on the financial result.

In addition, the multitude of guidelines and the detail of solutions determined the selection of the sample entities whose financial statements are prepared in accordance with IFRS. An additional argument in favor of such a choice is that the national regulations in the field of accounting for financial instruments are based on the

international guidelines in force before 2018, when IAS 39 was replaced with IFRS 9, therefore the audits carried out on the statements compliant with IFRS for the analyzed period will allow to indicate the directions of changes and development of accounting for financial instruments in a broader perspective. Ultimately, 66 non-financial companies were accepted for research.

To define the accounting principles (policy) for financial instruments applied by non-financial enterprises and to present disclosures regarding the accounting principles of financial instruments, a list of control questions was developed, on the basis of which the compliance of each company with the disclosed information was assessed. The financial instruments disclosure checklist contained a total of 15 questions, including:

1. Is the applicable classification of financial assets shown?
2. Has the applicable classification of financial liabilities been presented?
3. Are the rules for classifying financial instruments to categories presented?
4. Has information been provided on the recognition of embedded financial instruments?
5. Have you informed about the rules of derecognition of a financial asset from the balance sheet?
6. Have you informed about the rules of derecognition of the financial liability component from the balance sheet?
7. Is the moment of recognizing / excluding standardized purchase / sale transactions of financial assets presented in the accounting policy?
8. Does the accounting policy (policy) present the initial measurement for financial instruments at fair value through profit or loss?
9. Does the accounting principles (policy) present the initial measurement for financial instruments other than those measured at fair value through profit or loss?
10. Is the valuation of financial instruments after initial recognition presented?
11. Is the method of determining the fair value presented?
12. Does the accounting policy show how to recognize gains or losses from changes in fair value?
13. Has the accounting policy informed about objective evidence of impairment of financial assets?
14. Has the accounting policy included the criteria for making impairment losses for individual financial assets?
15. Is the hedge accounting principles presented in the accounting policy?

The inspiration for the creation of the control list of questions in the field of accounting principles (policy) of listed companies were the international accounting standards determining financial instruments. When constructing the checklist, the recommended disclosures regarding financial instruments, included in IFRS 7 (2016), were considered. This standard aims to improve the quality and quantity of information disclosed by companies.

In the study, textual analysis was used to determine the disclosure practices of financial instruments. This analysis is objective in nature and is based on a direct analysis of the original documents for which information was made available (Scaltrito, 2015). The disclosure recording process for all surveyed companies was as follows. The disclosed items were coded as "1" and if not "0". If an item did not apply to the company, it was marked as "not applicable" (Cooke, 1992; Probohudono *et al.,* 2013; Adznan and Nelson, 2014).

4. Results and Discussion

4.1 Results of the Research

Most companies, before presenting the accounting principles for individual financial statements components, presented the measurement principle used in the preparation of the financial statements. The analyzed data show that 81.8% of companies included information about the applied valuation model in their financial statements. The dominant valuation model used in the preparation of financial statements was the mixed model. In over half (62%) of listed companies, financial statements were prepared at historical cost, except for some assets (for example, derivatives, financial instruments at fair value through profit or loss, assets available for sale, investment property), which are at fair value. Most of them (17 companies) singled out financial instruments as measured at fair value, 3 apply fair value measurement only to investment properties, and 1 provided information about the measurement at historical cost, modified for financial instruments. However, there is no explanation of what this cost modification is. A uniform valuation model based on historical cost was declared in their accounting policies by 18% of companies. It should be emphasized, however, that 20% of the analyzed financial statements do not present the basis (s) of the valuation used in the preparation of the valuation.

The verification of the content of the accounting principles (policy) with regard to financial instruments showed that 89.4% of companies present the classification of financial instruments in their accounting policies. The surveyed companies much more often presented the classification of financial assets. The simultaneous division of financial instruments into financial assets and financial liabilities and the presentation of individual categories of these components in accordance with IAS 39 was applied in 50% of companies, and in 39.4% only the classification of financial assets was used in accordance with IAS 39. In 11.60% of the analyzed companies, the applicable classification was not presented financial assets.

The most frequently presented category of financial instruments in the accounting policy are loans and receivables (Table 1). This category of financial instruments is the most frequently appearing category of financial instruments and the largest number of financial instruments is classified therein. While it is understandable that loans and receivables are frequently presented as a category of financial instruments, it is completely incomprehensible to omit the main category of financial instruments

on the liabilities side - financial liabilities at amortized cost. In their accounting policies, companies rarely present the name "financial liabilities at amortized cost", often a division into financial liabilities measured at fair value, (other) financial liabilities and non-financial liabilities. IAS 39 also does not refer to these liabilities as "measured at amortized cost", however, it should be noted that in the explanatory notes relating to financial instruments, liabilities other than those measured through profit or loss are categorized in this way. Therefore, there is no consistency in the terminology used.

Table 1. *Categories of financial instruments in the accounting principles of listed companies*

Category of financial instruments	Number of companies	Percentage
Financial assets at fair value through profit or loss	53	80.30
Financial assets available for sale	58	81.88
Loans and receivables	61	92.42
Held-to-maturity investments	57	86.36
Financial liabilities at fair value through profit or loss	40	60.60
Financial liabilities are measured at amortized cost	27	40.90

Source: *Own study.*

It should be noted that not all companies that present categories of financial assets and liabilities measured at fair value through profit or loss indicate their division into those held for trading and designated for such measurement upon initial recognition. The omission of the remaining categories in the classification of financial instruments was incidental.

Another verified issue in the accounting principles (policy) of listed companies was the disclosure of information on the principles of qualifying financial instruments to individual categories according to IAS 39. According to the research, 56.06% of entities indicated the principles of including financial instruments in all categories. 9.09% of companies presented only selected principles of classifying financial instruments into categories. And 34.85% of the companies did not inform at all about the conditions that a given instrument must meet to qualify for the categories specified in the standard.

The issue of embedded financial instruments turned out to be significant for 43.9% of listed companies, while over half (56.06%) of the analyzed companies do not present the principles of recognizing embedded financial instruments. This may result from the fact that the companies surveyed do not use hybrid financial instruments in the economic practice. Companies presenting principles regarding embedded financial instruments inform the recipients of financial statements about the conditions for separating them from contracts and further treatment as derivative instruments. Considering this aspect of the accounting policy, one can get the impression that it is only a quotation of the wording from IAS / IFRS, because in the explanatory notes to

the financial statements regarding financial instruments, none of the companies dealt with the subject of embedded derivatives.

As regards the presentation of information on the removal of a financial instrument from the balance sheet, companies more often report that a financial asset is derecognized. 57.58% of companies inform that they remove a financial asset when they lose control over contractual rights constituting a given financial instrument (sale of an asset or transfer to an independent third party of all cash flows assigned to a given instrument). On the other hand, 40.91% of companies report the exclusion of a financial liability component. The companies unanimously eliminate the financial liability when it expires, i.e., when the obligation included in the contract has been fulfilled, redeemed, or expired by the company.

In terms of financial instruments, it is important to indicate the moment of booking the purchase / sale transaction of a given instrument, it is of particular importance in the case of standardized transactions, i.e., transactions concluded on the stock exchange. 56.06% of analyzed listed companies included information in their accounting policy about the moment of recognition of purchase / sale transactions of financial assets.

The next three questions on the checklist related to the valuation of financial instruments. First, it was determined whether the companies inform about the valuation of financial instruments in their accounting policies upon initial recognition. 62.12% of the audited companies present information on the preliminary valuation of financial assets at fair value through profit or loss. 24.24% includes in its accounting policy the initial recognition of financial liabilities measured at fair value through profit or loss. 34.84% of entities did not provide any information on the initial valuation of these categories of financial instruments. More companies presented the initial valuation of other financial instruments, other than those measured at fair value through profit or loss. A frequent entry among the companies from the analyzed group was the indication that "the transaction costs are included by the company in the initial value of the valuation of all financial assets and liabilities." Such a provision resulted in a negative answer in the case of preliminary valuation of financial instruments qualified for measurement at fair value through profit or loss.

Information on preliminary valuation for other categories of financial instruments, such as loans and receivables, available-for-sale financial assets and held-to-maturity investments, was presented by 81.82% of companies. 18.18% of the companies did not inform about the initial valuation of financial assets other than those measured at fair value through profit or loss. The analyzed companies classified their financial liabilities according to IAS 39 much less frequently, which meant that they were looking for information on measurement according to balance sheet items. Initial valuation for the category of financial liabilities at amortized cost in accordance with the requirements of IAS 39 was presented by 34.84% of companies, i.e., at fair value plus transaction costs. Initial recognition at fair value (without information on

transaction costs) was presented by 3% of companies. On the other hand, 37.88% of companies disclosed that, upon initial recognition, all bank loans, borrowings, and debt securities are recognized at fair value less costs related to obtaining a loan or credit facility. The current (initial) valuation for financial liabilities measured at amortized cost was not provided by 24.24% of the companies. 16.67% of the companies did not publish any information on preliminary valuation for financial instruments other than those measured at fair value.

Information on the balance sheet valuation is the next stage of the accounting policy analysis in terms of disclosing the accounting principles for financial instruments. The research shows that 6.06% of entities did not present the principles of balance sheet valuation of financial instruments in their accounting policies, most of which omitted the aspect of financial instruments.

Financial assets at fair value through profit or loss should, in accordance with IAS 39, be measured at fair value without deducting transaction costs. This method of valuation was recorded in 34.84% of the companies. Others, while disclosing this information, present the balance sheet at fair value. These companies do not refer to transaction costs, the recipient of the information has no knowledge of whether the costs increase, decrease, or do not affect the fair value of this group of financial instruments. The situation was similar among the other categories that should be recognized without deducting transaction costs, i.e., financial liabilities measured at fair value through profit or loss and assets available for sale.

Balance sheet valuation of financial liabilities measured at fair value through profit or loss in 28.79% of companies is made at fair value without deducting transaction costs. On the other hand, one third of companies measure this category of financial instruments at the balance sheet date at fair value, not to mention transaction costs. The accounting principles of only 22.72% of companies indicate that financial assets available for sale are recognized as at the balance sheet date at fair value without deducting transaction costs. Less than half (48.48%) of entities present the valuation of financial assets available for sale at fair value (without providing any information about transaction costs). 13.63% of companies presented that this category of financial instruments is measured at fair value increased by transaction costs. The smallest discrepancy occurred among financial instruments measured as at the reporting date at amortized cost using the effective interest rate.

The principles of valuation of held-to-maturity investments were presented by 78.79% of companies, financial liabilities measured at amortized cost - 77.28%, and loans and receivables by 68.19% of companies. Half of the surveyed companies also presented the valuation of investments in unquoted equity instruments. Such valuation as at the balance sheet date is made at the purchase price adjusted by the impairment loss. 4.55% of companies stated that instruments for which an active market does not exist,

and their value cannot be determined using alternative methods are measured at the purchase price.

The obtained results indicate that, unfortunately, "fair" disclosure of information about the fair value of financial instruments in the accounting principles (policy) is rare. Only 19.70% of companies enable their recipients to become familiar with the method of determining the fair value of financial instruments. These companies admit that prices quoted on an active market are confirmation of the fair value. In addition, they indicate how they determine the fair value of financial instruments in the absence of a stock exchange listing, specifying the valuation techniques used.

The most used techniques are a) discounted cash flow analysis; b) comparisons to similar instruments; (c) using the prices of recently concluded deals or offer prices; and d) option pricing models. Apart from the methods used to determine the fair value, 33.33% of the companies reported that the choice of methods and assumptions used to determine the fair value is determined by professional judgment. This means the use of valuations carried out by banks executing transactions, or valuations are performed by independent experts with recognized professional qualifications and up-to-date knowledge resulting from experience in the valuation of financial instruments.

The analysis showed that companies more often present information about the recognition of changes in fair value regarding financial assets measured at fair value through profit or loss (69.70%) than in the corresponding category of liabilities - financial liabilities measured at fair value through profit or loss (56.06%). From among the companies publishing the principles of recognizing changes in the fair value of assets and liabilities measured at fair value through profit or loss, 60% of them informed about the impact of the change in the fair value on a given area of revenues and costs.

More than half (55.56%) indicated that changes in the value of these financial instruments are recognized in the statement of comprehensive income as financial revenues (favorable net changes in fair value) or financial costs (unfavorable net changes in fair value). 3.77% indicated other result levels, and 39.62% did not indicate in which income / cost and profit / loss levels the change in the fair value of financial instruments measured at fair value through profit or loss is considered.

Available-for-sale financial assets are subject to slightly more complex requirements. The result of the analysis of the accounting principles (policy) of listed companies in terms of disclosing information on recognizing the effects of changes in the fair value of this category of financial instruments indicates that the frequency of presenting this information is at a similar level as in the case of financial instruments measured at fair value through profit or loss. The methods of relating the effects of revaluation to the fair value of financial assets available for sale were presented in varying detail by 81.81% of companies (Table 2).

Table 2. *Recognition of the effects of changes in the fair value of available-for-sale assets*

Description	Number of companies	Percentage
Equity capital	24	44.45
Other comprehensive income	21	38.89
Statement of comprehensive income	2	3.70
Profit and Loss Account	2	3.70
equity and other comprehensive income	5	9.26

Source: *Own study.*

The principle that the effects of changes in fair value is recognized in other comprehensive income and presented in equity, for example as fair value capital or revaluation reserve, seems to be the most relevant and best reflecting the requirements of international standards. In the analyzed group of companies, only 7.58% presented the method of recognizing changes in fair value in a way that considers, on the one hand, other comprehensive income, and, on the other hand, equity capital, in which to include accumulated other income. Some companies indicated that they recognize changes in fair value in the statement of comprehensive income or in the profit and loss account. It should be noted that the first entry in the accounting policy is correct and consistent with the regulations, however, too general.

It can be presumed that the company, in accordance with the guidelines of IAS / IFRS, recognizes profits and losses related to financial assets held for trading in the part of the statement of comprehensive income which relates to the financial result. Changes related to the revaluation of assets available for sale - in the part related to other comprehensive income, shown after the financial result. According to the author, the reporting of profit or loss on available-for-sale assets to the profit or loss account is a violation of the guidelines set out in IAS 39, because in the case of available-for-sale assets, the standard clearly emphasizes which events result in the recognition of gains or losses related to the discussed class of instruments. financial result in the financial result. In addition to indicating the general principle related to the recognition of changes in the fair value of available-for-sale financial assets, 59.10% of companies in their accounting principles presented that the decrease in the value of available-for-sale assets caused by impairment is recognized in a different way than in equity, of which 66.66% of companies indicated recognition in the financial result, and 34% of companies presented the specific cost charged for impairment of financial assets available for sale.

Information on the different treatment of exchange rate differences related to monetary assets classified as available for sale was presented in the accounting policy of 7.58% of the companies. 15.15% of the companies informed about the transfer to the financial result, now of removing a given component from the books, of all accumulated amounts previously shown in equity. 7.58% of the companies generated information on recognizing interest (calculated using the effective interest rate) in the

financial result on debt instruments classified as available-for-sale financial assets. The principle that dividends related to financial assets available for sale are recognized in the profit and loss account, when the rights to receive payment by the company have been established, were included in the accounting policy of 4.45% of the audited entities. 80.30% of the surveyed companies presented in their accounting principles the method of recognizing profits and losses related to financial assets measured at amortized cost, and 31.82% of companies - with financial liabilities measured at amortized cost.

Among companies reporting the recognition of gains and losses on financial liabilities measured at amortized cost, the vast majority (85.71%) focused on presenting how to proceed when an existing debt instrument is replaced by an instrument with substantially different terms between the same parties. The principle of conduct in each of these companies is the same, as is the provision of the principle itself - "the company recognizes as the expiration of the original financial liability and the recognition of a new financial liability. Similarly, significant modifications to the terms of an agreement relating to an existing financial liability are recognized by the company as the expiration of the original and the recognition of a new financial liability. The differences in the respective carrying amounts arising from the replacement are recognized in profit or loss. " The remaining companies informed about the recognition of profits and losses in the financial result as soon as the liability was removed from the balance sheet.

The companies presenting the principles of recognizing profits or losses related to the group of financial assets measured at amortized cost presented only the principles of recognizing impairment losses on financial assets measured at amortized cost. The presented principles of recognizing impairment losses differ in the detail of disclosed information in this respect and the costs incurred in this respect (Table 3). All companies recognize an impairment loss in the financial result for the current period without exception. The most frequent information appeared around recognizing the amount of the loss on account of the write-off in profit or loss. 5.45% of companies informed about recognizing an impairment loss in the statement of comprehensive income. Different requirements regarding the recognition of profit or loss for individual groups of financial instruments oblige companies to disclose their accounting policies in more detail, more so as the recognition of a profit or loss in the statement of comprehensive income may imply both profit and loss recognition.

Table 3. *Principles of recognizing impairment losses*

Description	Number of companies	Percentage
Profit or loss	31	56.37
Statement of comprehensive income	3	5.45
Operation costs	2	3.64
Selling costs	3	5.45
Management costs	3	5.45
Other operating cost	13	23.64

Source: *Own study.*

At the end of each reporting period, an assessment is made to see if there is any objective evidence that a financial asset or group of financial assets is impaired. When asked whether the accounting principles provided information about objective evidence of impairment of financial assets, 21.21% of companies were answered in the affirmative. The study showed that only every fifth analyzed company provided objective evidence of impairment. Among the circumstances proving the impairment of financial assets, the most frequently indicated were high probability of bankruptcy or other reorganization and significant difficulties of the issuer or debtor (Table 4).

***Table 4.** Circumstances proving the impairment of financial assets*

Description	Number of companies	Percentage
Significant difficulties of the issuer or the debtor	8	16.33
Breach of contract	4	8.16
Highly probable bankruptcy or other reorganization	9	18.37
Negative changes in the payment status of borrowers in the asset group (late payments)	5	10.20
National or local economic circumstances affecting the default of assets in the group	3	6.12
Restructuring of the debt by the debtor, which the company has agreed to for economic or legal reasons resulting from the debtor's financial difficulties, and which the company would not otherwise grant	2	4.08
The disappearance of an active market for a given ingredient	4	8.16
A significant or prolonged decline in the fair value of an investment in equity instruments (below its cost)	6	12.25
Taking legal action against the debtor	6	12.25
A material adverse change in the economic, legal or market environment of an issuer of a financial instrument	2	4.08

***Source:** Own study.*

The companies most often presented the principles of impairment of financial assets measured at amortized cost. Slightly more than half of the companies posted information on the impairment of this group of financial assets. 48.48% of companies presented the principles of impairment of assets available for sale, and 36.36% of entities informed about the principles of impairment of financial assets measured at cost.

The conducted study showed that more than half of the analyzed companies (51.50%) informed about the method of estimating the amount of the write-down of financial assets measured at amortized cost. In each of these cases, the amount of the write-down "equals the difference between the carrying amount of the financial asset and the present value of the estimated cash flows discounted at the original interest rate". Issues related to the reversal of impairment losses and the method of their recognition were generated by 48.48% of the companies. All of them agreed that the subsequent reversal of the impairment loss for financial assets measured at amortized cost is possible. On the other hand, all companies emphasized that the reversal of an impairment loss should be recognized to the extent that, as at the reversal date, the

carrying amount of the asset does not exceed its amortized cost. In addition to the information on the method of calculating the amount of the impairment loss, its recognition, and the principles of reversing the impairment losses, 40.90% of the companies additionally presented the principles of making and presented the order of making group and individual write-offs.

A group of assets measured at cost, including unquoted equity instruments that are not carried at fair value because their fair value cannot be reliably determined, or derivatives that are related and must be settled by delivery of such an unquoted equity instrument have been presented in terms of impairment by 36.36% of companies. All companies presented only the method of determining the amount of the write-down as "the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted using the current market rate of return for similar financial assets." Only one company indicated that it is forbidden to reverse the impairment losses on unquoted equity instruments that are measured at cost.

Regarding available-for-sale financial assets, 37.88% of companies presented the amount of the write-down as "the difference between the purchase price of this asset (less any principal repayments and depreciation) and its current fair value, less any impairment losses on this asset previously recognized. in profit or loss. " The amount determined in this way should be derecognized from equity and reclassified to profit or loss. In the case of this category of financial assets, information on the reversal of an impairment loss is important as there are two possible solutions: a) in the case of debt instruments available for sale - the reversal of an impairment loss is possible as a result of an increase in the fair value, which may increase be objectively connected with an event following the recognition of an impairment loss (42.42%); b) with regard to available-for-sale equity instruments - there is an absolute prohibition to make reversed write-downs, if 40.90% of companies informed.

The last verified issue in the accounting policy of listed companies was hedge accounting. It is emphasized here that hedge accounting is characterized by a multitude of principles, complexity and, above all, different from the accounting and book-keeping point of view, compared to the accounting of financial instruments not subject to the principles of hedge accounting. The verification of whether listed companies inform about the use of hedge accounting in their accounting policies and whether they disclose the hedge accounting principles used by them revealed that one third of the analyzed companies provide such information. Hedge accounting is used by 19.70% of companies. These companies also present the principles of recognizing financial instruments included in hedge accounting. In the accounting policy, 15.15% of companies declare that they do not apply hedge accounting.

On the other hand, 65% of companies do not include in their accounting policies information about the use of the privilege of applying hedge accounting. These are mainly entities that do not provide information on the application and principles of accounting (71.43%), as well as entities that do not contain information on the

application of hedge accounting in the accounting policy, however, inform about its failure to apply in the explanatory notes on financial instruments or risk management (16.67%) and which present the principles of hedge accounting, but do not provide specific information about its application (11.90%).

4.2 Discussion and Interpretation of Results Obtained

The conducted research on the scope of disclosure of information about financial instruments shows that the requirements concerning the disclosure of accounting principles (policy) are very liberal. Indication in the accounting policy of the basis (bases) of the valuation used in the preparation of the financial statements is the only directly indicated and obligatory disclosure required by international standards. This information is related to the valuation of financial instruments, as in many companies they are the only components measured at fair value. Their appearance in the balance sheet means an obligatory measurement at fair value, therefore the company should distinguish and indicate which balance sheet components are measured at historical cost and which at fair value. In the audited sample, there were entities that did not present both the general basis (bases) of the measurement used in the preparation of the financial statements, and did not present the principles of measurement (initial and balance sheet) for specific categories of financial instruments, despite the fact that the entities had financial assets or financial liabilities that should be measured at fair value (financial assets at fair value through profit or loss, financial assets available for sale or financial liabilities at fair value through profit or loss).

The method of presenting the accounting principles (policy) relating to financial instruments, in most companies, makes it difficult for the recipient to obtain a complete picture about financial instruments. Moreover, the way in which financial instruments are presented in the accounting principles is surprising. The assets present in most companies are presented separately, according to the balance sheet categories, with the simultaneous presentation of the accounting principles according to the IAS 39 category for financial assets. The note on financial assets contains all necessary information on their classification, recognition and measurement, presentation of profits and losses related to individual categories of these assets and information on the derecognition of financial assets from the balance sheet. In the case of accounting principles relating to sources of financing, the principles are presented in the notes on balance sheet items. The notes usually related to interest bearing bank loans and trade liabilities and other liabilities.

Regarding loans, an initial recognition and measurement at amortized cost are presented. As a rule, the second of these notes presents the measurement according to IAS 39. Presenting liabilities according to the balance sheet items which include the measurement guidelines in accordance with IAS 39 prevents the recipient of the information from knowing what liabilities are considered financial. The provision "financial liabilities other than financial instruments measured at fair value through

profit or loss are measured at amortized cost using the effective interest rate method" makes it impossible to obtain specific information on this category. A more convenient form of presenting the accounting principles for financial instruments is to include them in one note, without a breakdown into financial assets and liabilities, presented according to balance sheet items.

Accounting principles for the measurement of financial instruments are not consistent with the guidelines presented in international standards. There is much controversy about the accounting for transaction costs. The most common discrepancies in this matter consisted in: a) increasing the initial value of all financial instruments, and with regard to financial instruments carried at fair value through profit or loss, transaction costs should not be allocated to the acquisition or issuance of a financial asset or liability; b) in the case of financial assets available for sale - some companies presented the initial recognition at fair value increased by transaction costs (which is in line with IAS 39), while as at the balance sheet date they were measured at fair value increased by costs (with the standard stating that these assets should be measured at fair value without deducting transaction costs); in the author's opinion, such recognition of assets available for sale overstates the value of individual components of this category; at the balance sheet date, assets available for sale are recognized at fair value, and the commissions incurred during the purchase (increasing the initial value of the asset) should usually be recognized in equity; c) recognizing, at the end of the reporting period, available-for-sale financial assets at fair value without disclosing transaction costs; and (d) loans, borrowings and debt securities included in the measurement at amortized cost are initially recognized at fair value less transaction costs, while the standard requires a fair value increase with transaction costs that are directly attributable to the purchase or issue of the liability.

Accounting principles relating to fair value are reluctantly presented by listed companies - less than half of the analyzed companies present information strictly concerning fair value. Ensuring the greatest possible credibility and comprehensibility of the financial statements is possible by: using in business practice only financial instruments whose fair value comes from an active market - which is an abstract and impossible situation, and enriching the numerical value of a given financial instrument with information on the applied calculation procedures, enabling better understanding of the economic content of individual financial instruments (indication of the valuation techniques used together with the calculation methodology and parameters used in the selected technique).

The accounting principles presented by the companies constitute, in most cases, faithfully reproduced, non-individualized requirements of IAS 39. Such presentation of the accounting policy does not contribute to increasing the understandability of the financial statements. It is more important for the recipient of information to indicate solutions in the accounting policy that require the company to independently decide on the accounting principles for financial instruments (for example: specific indication of balance sheet components included in individual categories of financial

instruments, the moment of recognition of transactions in the accounting books, method of determining the fair value, indication of the specific cost incurred in connection with an impairment loss on financial assets, the method of recognizing income tax related to components of other comprehensive income - including financial assets available for sale - in net or gross amounts, etc.) rather than presenting copied, often difficult to understand fragments of international standards.

The companies do not present with due diligence the principles related to the impairment of financial assets. The issue of impairment of assets (including financial assets) is complex and complicated. Information in this area is an important source of information regarding the impact of financial instruments on the financial result, as the write-downs made by an entity contribute (often radically, in the case of groups of assets) to its reduction. The balance sheet total is also reduced. Moreover, to assess the impact of financial instruments on the result, it is extremely important to indicate the cost burdened with the write-down, because, according to the audit, companies often present revenues and costs as well as profits and losses from the financial level only. The statements presented by listed companies regarding the impact of financial instruments on the financial result, taking into account only financial costs and revenues, constitute incomplete information and do not reflect the full impact of financial instruments on the profit/loss of the current period - because, as indicated in the accounting principles of the audited companies, the impairment loss relating to financial assets (especially assets measured at amortized cost) is charged to various cost groups, in particular operating costs.

The companies in the research sample, as mentioned earlier, present all income/costs and profits/losses related to financial instruments - however, it should be realized that this group only accounts for slightly more than 25% of the "initial research sample", which means that the recipients of the information derived from the financial statements of companies outside the research sample receive incomplete information on the impact of financial instruments on the result (in particular about costs related to financial instruments), or they do not receive it at all.

The audited financial statements show a lack of compatibility between the accounting principles (policy) and the notes on financial instruments - the figures on financial instruments presented in the notes are concise and specific. To distinguish in detail, the financial instruments included in individual categories of instruments, it is necessary to read the financial statements very carefully, which is usually very time-consuming. The accounting policy does not provide guidance on identifying individual instruments in a specific category.

Over 20% of the verified companies have fully met the reporting obligation regarding the impact of financial instruments on the financial result. Some companies present financial income and costs in great detail; however, it should be remembered that financial instruments have an impact not only on the financial level of an economic

entity, but transactions in many financial instruments also contributed to the formation of exchange rate differences, which were often recognized in operating activities. Moreover, the effects of the measurement or realization of financial instruments (including derivatives) were recognized in operating activities. The created or terminated write-downs similarly - not only in terms of financial costs and revenues - influenced many times other operating activities. It is necessary to present separately the influence of financial instruments on the financial result.

The form of presenting the carrying number of financial instruments in companies is varied, often making it difficult to identify them, often making it impossible to indicate the full list of financial instruments owned by the company. This is because companies used to indicate only the carrying amount for a given category of financial instruments, the financial instruments listed under the category were too general to be identified in the balance sheet within the balance sheet classes and vice versa, and the differences in nomenclature used in the case of the list financial instruments and in the case of specifying individual elements of balance sheet classes.

5. Conclusion

Legal regulations and guidelines of the International Financial Reporting Standards define the general accounting principles. Accounting principles (policy) are specific and individualized rules and practices applied in a specific entity, according to which the accounting is kept in each entity. The following conclusions can be drawn from the research on disclosure practices on the principles (policy) of accounting for financial instruments by non-financial companies listed on the Warsaw Stock Exchange:

• requirements regarding the disclosure of information about the principles (policy) of accounting for financial instruments compared to other obligatory disclosures about financial instruments in the remaining parts of the financial statements do not allow obtaining knowledge about the individual accounting principles of financial instruments used in the entity,
• dispersion of information on accounting principles (policy) in the field of financial instruments between individual balance sheet categories containing financial instruments makes it difficult to obtain complete information in this field,
• companies comply with their accounting policy disclosure obligations by copying the guidelines rather than presenting significant principles to help the information useful.

To increase the usefulness of information presented in the accounting principles (policy) on financial instruments, apart from the obligation to disclose information on the valuation of financial instruments, an effective solution may be to create a disclosure list on the accounting principles (policy). The list would provide an explanation of the financial instrument information presented and disclosed in the financial statements relating to the identification of: (a) financial instruments used by

the entity; b) the risk associated with financial instruments; c) the effect of financial instruments on the property, financial position and results of the economic entity; d) the valuation principles used; e) the reasons for the differences between the carrying amount and the fair value of each class of financial instrument; and f) rules relating to the impairment of financial assets. Such a list of obligatory disclosures on the accounting principles of financial instruments makes it possible to standardize financial statements in this respect and increase the comparability of financial statements in the space (between companies).

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