STAFF PAPER

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IASB Meeting

Project	**Principles of Disclosures**
Paper topic	Comparability of disclosures

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Purpose of this paper

1. This paper discusses whether a general disclosure Standard (replacement of IAS 1) should include additional guidance on the concept of comparability. The purpose of any additional guidance would be to help entities to better understand and apply the concept of comparability to 'enhance' the usefulness of information in general purpose financial statements.

2. Therefore this paper does not discuss how the IASB should consider comparability when developing IFRS. For example, it does not address comparability in the context of whether IFRS should further prescribe the structure of financial statements, or whether IFRS should continue to include accounting options or define summary measures such as operating profit or net interest income.

3. This paper is structured as follows:

   (a) Summary of staff recommendations (see paragraphs 4-6);

   (b) Relevant background (see paragraphs 7-23);

   (c) Problem identification (see paragraphs 24-33); and

   (d) The staff analysis (see paragraphs 34-76).

Summary of staff recommendations

4. Compliance by entities with applicable IFRSs should be sufficient to achieve a fair presentation of IFRS financial statements, which would incorporate a level of appropriate comparability with other entities.

5. However, we think that the concept of comparability may not always be well understood. We therefore recommend that a general disclosure Standard should incorporate additional guidance to clarify the concept of comparability. We think that this may help entities and users to better understand and therefore apply the concept of comparability within the preparation and analysis of IFRS financial statements.

6. Disclosures which cannot be understood or are not sufficient enough for a user to identify differences and similarities in information impair comparability. We think that the communication principles developed in the Principles of Disclosure project and the practice statement of materiality already provide a good basis for helping entities to judge what information to disclose.

Background

Current guidance and research

Conceptual Framework

7. Paragraphs QC20–QC25 of the *Conceptual Framework for Financial Reporting* ('*the Conceptual Framework*') define and explain the qualitative characteristic of comparability. These paragraphs are included in Appendix A.

8. One of the most important reasons that financial reporting standards are needed is to increase the comparability of reported financial information.[1] Paragraph QC20 of the *Conceptual Framework* states that information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date.

9. Comparability is defined in the *Conceptual Framework* as follows:

[1] Paragraph BC 3.33, Conceptual Framework

> Comparability is the qualitative characteristic that enables users to identify and understand similarities in, and differences among, items. Unlike the other qualitative characteristics [verifiability, timeliness and understandability], comparability does not relate to a single item. A comparison requires at least two items. …[2]

10. The *Conceptual Framework* further explains that comparability is not the same as consistency and uniformity.

> … Consistency refers to the use of the same methods for the same items, either from period to period within a reporting entity or in a single period across entities.
>
> Comparability is not uniformity. … Comparability of financial information is not enhanced by making unlike things look alike any more than it is enhanced by making like things look different.[3]

Conceptual Framework project

11. The introduction section of the Exposure Draft *Conceptual Framework for Financial Reporting*, May 2015 (the Conceptual Framework ED) states that the *Conceptual Framework* contributes to transparency by providing the foundation for Standards that enhance the international comparability and quality of financial information, enabling investors and other market participants to make informed economic decisions.[4]

12. In addition, the Conceptual Framework ED provides that in setting presentation and disclosure requirements, an appropriate balance is needed between:

    (a) giving entities the flexibility to provide relevant information that faithfully represents the entity's assets and liabilities, and the transactions and other events of the period; and

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[2] Paragraph QC21, Conceptual Framework

[3] Paragraphs QC22 and QC23, Conceptual Framework

[4] Paragraph IN5(a) of the Conceptual Framework ED

(b) requiring information that is comparable among entities and across reporting periods.[5]

IAS 1 Presentation of Financial Statements

13. Paragraph 1 of IAS 1 *Presentation of Financial Statements* states that the objective of the Standard is to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities.

14. Paragraph 17 of IAS 1 states that in virtually all circumstances a fair presentation is achieved by compliance with applicable IFRSs. However, also it states that a fair presentation requires an entity to present information, including accounting policies, in a manner that provides relevant, reliable, **comparable** and understandable information [emphasis added] and that an entity should provide additional disclosures when necessary.

15. The Standard incorporates specific guidance so as to assure comparability of an entity's financial statements between reporting periods, namely:

    (a) a requirement to consistently present and classify items from one period to the next unless specified criteria are met (paragraphs 45-46 of IAS 1, see appendix B); and

    (b) requirements to provide disclosure in the form of comparative information, including when there has been a change in accounting policy, retrospective restatement or reclassification (paragraphs 38-44 of IAS 1).

16. The relevant extracts of IAS1 referred to above can be found in Appendix B of this paper.

IAS8 Accounting Policies, Changes in Accounting Estimates and Errors

17. Paragraph 1 of IAS 8 explains that the Standard is intended to enhance the relevance and reliability of an entity's financial statements and the comparability of those financial statements over time and with the financial statements of other entities.

18. The Standard incorporates specific guidance so as to assure comparability between periods of an entity's financial statements, namely:

[5] Paragraph 7.7 of the Conceptual Framework ED

(a) the importance of an entity consistently applying and selecting its accounting policies (paragraph 13, see appendix C);

(b) specifying the circumstances that permit an entity to change its accounting policies (paragraphs 14-15, see appendix C) or its accounting estimates (paragraphs 32-35); and

(c) stipulating the required disclosures that can compensate for reduced comparability when an entity selects a new accounting policy (paragraphs 28-31) or changes an accounting estimate (paragraphs 39-40).

19. The relevant extracts of IAS7 referred to above can be found in appendix C of this paper.

Disclosure Initiative research

20. The Principles of Disclosure project has directly discussed topics dealing with comparability, namely:

(a) clarification of the role of the primary financial statements (see paragraph 21 below); and

(b) principles of communication relating to comparability (see paragraphs 22-23 below).

21. At its March 2015 meeting the IASB tentatively agreed that the role of the primary financial statements is to provide information that is necessary to give an overview of the financial position and performance of an entity that is useful for making rudimentary comparisons between entities and reporting periods.[6]

22. At its October 2014 meeting the IASB also discussed communication principles that could be included in a general disclosure Standard.[7] At that meeting the IASB tentatively agreed to include a communication principle similar to that being proposed for the Conceptual Framework Project, namely that:

[6] Agenda Paper 11B, IASB meeting March 2015, paragraph 31(b).

[7] Meeting Agenda Paper 11A(b), IASB meeting October 2014. The IASB tentatively decided that the Principles of Disclosure Discussion Paper should discuss the principles for the good communication of financial information. The IASB also tentatively decided to include a question in that Discussion Paper about whether it should provide educational material or authorative requirements relating to communication principles

> Disclosures should also help make it easier to compare financial reports, without compromising useful information.[8]

23. The October Agenda Paper also discussed further specific guidance relating to comparability namely that an entity should aim to use consistent labelling, terms and presentations where possible. When moving away from enhancing industry comparability the reasons to do so would be relevant and should be provided ie:

> Giving due prominence and explanations to major changes to the reporting structure or to other changes that would impair comparability.[9]

What is the problem?

24. We think there is a concern by some that the 'flexibility' of IFRS is adversely impacting the comparability of information between the financial statements of different entities. We think this concern is exacerbated by the fact that different people have different views about what makes information in a set of financial statements comparable.

25. We also have heard concerns about comparability of information in financial statements across periods when there has been a change in accounting policy or estimate. Some of these concerns are being addressed by the work we are undertaking with the OIC on changes in accounting policies and transition provisions (see agenda paper 11D of this meeting and Agenda Paper 11B of the May 2015 IASB meeting).

26. It is generally recognised that the use of IFRS results in a level of standardisation that enhances comparability between entities at an international level but also to some extent at a country level. In fact improved international comparability is often stated as the reason why countries or companies adopt IFRS.[10]

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[8] Paragraph 34 of that paper refers.

[9] Paragraph 34 of that paper refers.

[10] For example, the Japanese Financial Services Authority (FSA) conducted a fact-finding survey to study the reasons why Japanese companies have voluntary adopted IFRS. Enhanced comparability with competitors and better communication with international investors was quoted by the Japanese companies as a deciding reason to voluntarily adopt IFRS

27. However IFRS also needs to be sufficiently flexible to apply across a wide range of entities and jurisdictions. This flexibility mainly relates to:

    (a) the presentation and classification of line items and subtotals in the primary financial statements and then how it is further disaggregated in the notes; and

    (b) the terminology and definitions used to identify and describe key items.[11]

28. Some have expressed concerns that this flexibility does not sufficiently maximise the comparability of information across entities. For example the ESMA report published in November 2013 on the *Review of Accounting Practices – Comparability of IFRS financial statements of Financial Institutions in Europe* stated that the significant diversity in practice in the composition of interest income and interest expense resulted in limited comparability of net interest income (and net interest margin) reported by financial institutions.

29. In addition, in May 2014, the IFRS Interpretations Committee published a decision not to add an issue relating to the application of IAS 1 onto its agenda. The May 2014 IFRIC Update states the following:

> … The submitter expressed a concern that the absence of definitions in IAS 1 and the lack of implementation guidance give significant flexibility that may impair the comparability and understandability of financial statements. ... It [the Interpretations Committee] also noted that while IAS 1 does permit flexibility in presentation, it also includes various principles for the presentation and content of financial statements as well as more detailed requirements. These principles and more detailed requirements are intended to limit the flexibility such that financial statements present information that is relevant, reliable, comparable and understandable. …

30. Others think that diversity of information and the way it is presented or disclosed does not necessarily impair the comparability of information in financial statements. However, they think comparability is impaired when there is insufficient disclosure to

[11] The existence of permitted IFRS accounting options is also a concern, but as stated in paragraph 2, this is not within the scope of this paper.

enable users to clearly identify and assess (without undue cost or effort) whether information in financial statements is comparable or not. That is, there is insufficient disclosure (disaggregation or other explanations) that makes it difficult or even impossible to understand whether:

(a) things that appear uniform (eg similarly labelled) are indeed the same; or

(b) things that appear different are indeed not the same.

31. For example, in developing common practice elements for the IFRS Taxonomy, staff observed that the term 'programming assets' is commonly presented as a line item in the statement of financial position of entities engaged within media-related activities. It was noted that programming assets could be defined differently ie could include or exclude inventories, but entities did not always provide sufficient accounting policy explanations for staff to understand what had or had not been included.

32. We have also heard that the costs to access and process the information may constrain some users, specifically when performing systematic or benchmark analysis on a large set of companies and periods. Information costs may affect how users perceive flexibility and experience comparability within IFRS financial statements. Often those users rely on normalised data provided by third parties such as data aggregators. Some stakeholders have asserted that the use of digital reporting and the IFRS Taxonomy has the potential to change this, expressing the view that technology will enhance the comparability of IFRS financial statements.

33. Finally, our research and our experience have also indicated to us that the term comparability, as it is defined in the *Conceptual Framework* (see paragraph 9) may not always be commonly understood in practice. In particular, it suggests that there is confusion arising from the fact that comparable information:

(a) enables users to identify and understand both similarities <u>and</u> differences;

(b) is not the same as information that is consistently presented or disclosed; and

(c) has multiple facets and different people may have different views on what facet is more important.

Staff Analysis

34. On the basis of the problems described in paragraphs 24–33 we have split our staff analysis into the following sections:

    (a) What is comparability (paragraphs 35-49);

    (b) The role of digital reporting and technology (paragraphs 50-53);

    (c) Sufficient and clear disclosures (paragraphs 54-60);

    (d) How should the IASB respond (paragraphs 61-76).

What is comparability?

35. Because we understand that the concept of comparability may sometimes be misunderstood, in this section of our staff analysis we discuss some of the different aspects of what is comparability.

Similarities and differences, but not uniformity

36. It seems that comparability is generally more closely associated with similarities (and even uniformity) rather than differences among items. In line with the definition of comparability in the *Conceptual Framework*, we think that both flexibility and a level of standardisation that leads to some consistency (but not uniformity) in the presentation of IFRS financial statements can contribute to comparability.

37. For example, similarities in information can be highlighted through ‘standardisation’ when entities engaged in air transport related activities present and disclose the item ‘aircraft’ as a class of property, plant and equipment within their statement of financial position. This does not necessarily imply that comparability is achieved. The physical resource ‘aircraft’ may not be economically comparable because it may be employed differently across entities. Aircraft could be used to carry freight or passengers or alternatively it may be employed for long or short haul distances. The intended usage of aircraft will impact for instance the depreciation rate (and costs) of aircraft and the operating and financial measures used to evaluate and compare an entity’s performance. To obtain comparability, a user requires not only information to

be able to identify and understand the similarities ('aircraft') but also the differences ('freight versus cargo' or 'long haul versus short haul').

38. We also think that the term uniformity may not always be well understood and may sometimes be directly associated with comparability. For the purpose of this paper, we adhere to the meaning which we think is inferred within the *Conceptual Framework* namely uniformity is standardisation irrespective of whether items are the same or not. Uniformity ignores warranted differences. Consequently, uniformity risks being misleading, implying comparability although there is insufficient disclosures for a user to identify or understand this.

The multiple facets of comparability

39. Comparability has multiple facets. It can relate to inter-entity comparability and inter-period comparability.[12] Inter-entity comparability can refer to 'peers' belonging to a particular activity, country, region, world, index or refer to a group of entities that share similar investment characteristics using criteria such as market liquidity, dividend yields or forecasted growth.

40. Different users and preparers may have different views on what facet is more important. For example, some may find inter-period comparability of the same entity more useful than inter-entity comparability. Those who think inter-entity comparability is more important may place more weight on comparability between entities in a single jurisdiction or industry, whilst others may prefer global comparability.

41. We think that demands for comparable information from different perspectives are not always achievable in a single set of financial statements.

Comparability and consistency

42. We also think that the concept of consistency may not always be well understood and may in practice sometimes be confused with or used interchangeable with the concept of comparability.

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[12] First time adoption of IFRSs brings another dimension to comparability. The Board decided that it is more important to achieve comparability over time within a first-time adopter's first IFRS financial statements and between entities adopting IFRSs for the first time at a given date. Achieving comparability between first time adopters and entities that already apply IFRSs is a secondary objective (BC 10, IFRS1 *First Time Adoption of International Financial Reporting Standards*).

43. As stated in paragraph 15, IAS 1 incorporates specific guidance as regards the consistency of presentation of IFRS financial statements from one period to the next. However, this paragraph does not explain how consistency of presentation achieves or enhances comparability. This is made clear within the *Conceptual Framework* where it is explained that consistency relates to but is not the same as comparability. Consistency refers to the use of the same methods for the same items across items, either from period to period within a reporting entity or in single period across entities.[13] Although the *Conceptual Framework* definition refers to the same 'methods' we think IAS 1 makes it clear that consistency also applies to presentation and disclosure.

44. As stated in paragraph 39 above, entities may need to balance different facets of comparability. For example, inter-period comparability and comparability across entities may need to be balanced when selecting a permitted IFRS accounting option. An entity may decide to make a voluntary accounting change when this will result in more relevant information for its primary users. External economic happenings, an analysis of the profile of its current and potential shareholdings and review of IFRS global industry practice are examples of new evidence an entity may consider when making this judgement.

45. It could be argued that the wording of IAS 1 and IAS 8 may encourage entities to consider consistency of presentation from one period to the next to be an objective of higher importance than comparability across entities. We do not agree with this statement. Paragraph 45 of IAS1 permits a voluntary change when an entity judges another presentation or clarification to be more appropriate. Paragraph 14 of IAS 8 permits a voluntary change in accounting policies when this results in information providing more relevant information.

[13] Paragraph QC22, Conceptual Framework

Balancing comparability with the other qualitative characteristics

46. Even if it is not readily comparable, relevant and faithfully represented information is still useful. Comparable information, however, is not useful if it is not relevant and may mislead if it is not faithfully represented. [14]

47. Paragraphs QC33 and QC34 of the *Conceptual Framework* explains that the enhancing characteristics should be maximised to the extent possible, and provides an example of where a balance may need to be struck.

> … Sometimes, one enhancing qualitative characteristic may have to be diminished to maximise another qualitative characteristic. For example, a temporary reduction in comparability as a result of prospectively applying a new financial reporting standard may be worthwhile to improve relevance or faithful representation in the longer term. Appropriate disclosures may partially compensate for non-comparability.

48. Because the characteristic of comparability relates to both similarities and differences, we think that information that is relevant, faithfully represented and understandable will in most circumstances also be comparable.

49. We think that the main exceptions to this are the example mentioned in paragraph 47 above, the existence of permitted IFRS accounting options and/or specific areas not yet addressed by IFRSs.

The role of digital reporting and technology

50. Digital reporting can include a range of physical formats such as for example PDF and HTML web-based filings or structured reports in XBRL. We do not think the physical format of a set of financial statements enhances or impacts its comparability. We do however think electronic reporting of information in financial statements facilitates access (reduces information costs) and therefore potentially can make it easier for a user to identify differences and similarities in information. The extent to which these potential benefits are realized will depend on the functional attributes

[14] Paragraph BC3.33, Conceptual Framework

(such as for instance easy searching, document comparison functionalities or structured tagging) being present within a digital report. We therefore hold the view that data information costs, and as such the physical format of information, can influence users' preferences for the degree of standardisation or flexibility within IFRS financial statements.

51. However, electronic reporting amplifies problems where items are not comparable. For example, tagging of items labelled similarly as 'finance costs' with the same IFRS Taxonomy element across entities does not necessarily mean that comparability is obtained. Isolating the tagged facts in a database without considering its reporting context or relationships may hide differences in definitions and mislead.

52. Another example could be a badly implemented electronic filing system where uniformity in the presentation of IFRS financial statement is used to solve challenges that may exist with tagging information. We need to note though that this example is hypothetical as we are not aware of the existence of such a filing system for IFRS disclosures.

53. We think that the IASB (or the IFRS Foundation) can help to mitigate any such risks by contributing to the current debate on good electronic reporting and the role of the IFRS Taxonomy within this. However, we also think that any such guidance should be outside the scope of a general disclosure Standard as IFRSs should be neutral as regards the use of a specific technology or physical format. As such, we do not further explore this topic within the context of this paper.

Sufficient and clear disclosures

54. As discussed in paragraph 30 above some users are of the view that comparability is impaired because there is not sufficient or clear enough disclosures to enable them to understand whether the observed variety (or similarity) in IFRS financial statements is comparable or not. This variety (or similarity) mainly relates to the way entities:

    (a) Disaggregate line items in the notes; and

    (b) Use entity-specific terminology.

55. Aggregating, classifying and summarising information in IFRS financial statements involves a degree of judgement and therefore differences between entities may arise. Disclosure of disaggregation of line items in the notes can help users to identify and understand those differences.

56. For example, the allocation of expenses relating to the occupancy of retail premises within a functional breakdown is not specified in IFRS and is therefore a matter of judgement. We understand that there is no industry standard and valid differences in treatment between entities can exist. An entity can make their allocation of occupancy expenses comparable by disclosing separately occupancy expenses and describing how it has been classified in the IFRS financial statements. An entity could also explain to its users that differences in how occupancy expenses is classified may exist amongst its peers.

57. We think that terminology may impair inter-entity comparability when;

    (a) alternative not well-known terms are used across entities for items that have the same economic meaning ('unwarranted flexibility'); or

    (b) similar not well-known terms are used for items that have a different economic meaning ('unwarranted standardisation or uniformity'); and

    (c) no clear explanations are provided to signal this to users.

58. For example, see paragraph 31 above on our example on 'programming assets'.

59. We therefore think that clear explanations can help to compensate for this flexibility in terminology. A disaggregation or reconciliation may be sufficient in some circumstances. In other cases – for single economic transactions – a logical definition may be all that is required. And sometimes a narrative commentary signalling a difference and explaining how the term used may be different from terms used by its peers may be more appropriate. A glossary of terms may also be useful in some circumstances.

60. We noted in paragraph 44 that an entity can make a voluntary change in its accounting policies (including presentation), and that enhanced global comparability may be one of the factors an entity considers when making this judgement. The topic of sufficient disclosures in the case an entity makes a voluntary change in its accounting policies is

already being discussed within the Disclosure Initiative (see paragraph 25). Agenda Paper 11D of this meeting touches briefly on this topic. Of specific interest is that this paper states that CMAC members expressed the view that entities should continue to use retrospective application with the restatement of comparative information for voluntary changes and that the impracticability threshold for voluntary changes in accounting policies by entities should be very high. Therefore, we do not further explore this within the context of this paper.

How should the IASB respond to the problem?

61. On the basis of the staff analysis of problems we described in paragraphs 34-60, we considered whether a general disclosure Standard should include guidance on comparability (in addition to what is currently included in IAS 1 and IAS 8). We have identified three choices:

    (a) No additional guidance (paragraphs 62-66);

    (b) Guidance on what is meant by the term comparability (paragraphs 67-70); and/or

    (c) Guidance on how to apply the concept of comparability (paragraphs 71-76).

No additional guidance on comparability

62. Compliance by entities with applicable IFRSs should be sufficient to achieve a fair presentation of IFRS financial statements, which would incorporate a level of appropriate comparability with other entities.

63. This is the view expressed by the Interpretations Committee (see paragraph 29 above). IAS1 promotes comparability across entities by providing general principles and by setting a broad framework on the content and the layout of IFRS financial statements, whilst at the same time permitting but also constraining management judgement and flexibility.

64. In addition, it can be argued that any additional guidance on comparability would only reflect what is already working well in practice, namely:

    (a) entities are already consider comparability when undertaking peer review and when responding to information requests from users;

(b) users, including data aggregators, are already handling the diversity of information in financial statements by making (when appropriate) necessary adjustments to obtain a level comparability reflecting their reasoned views of acceptable comparability.

65. Finally, fair presentation involves complying with applicable IFRS as well as presenting (amongst other things) information in a manner that provides relevant, reliable, comparable and understandable information. These characteristics of information are inter-related and providing guidance on comparability in isolation ignores that fact.

66. However our analysis of the problems suggest that our Standards are not as helpful as they could be about what is meant by comparability or how comparability can be enhanced by presentation or disclosure. We are swayed by these problems, and therefore recommend that the *Principles of Disclosure* Discussion Paper should discuss whether a general disclosure standard should include additional guidance on comparability. The nature of that discussion is discussed in response to guidance on what is meant by the term comparability (paragraphs 67-70) and guidance on how to apply the concept of comparability (paragraphs 71-76) below.

Guidance on what is meant by the term comparability

67. As we discussed in paragraphs 36–49 of this paper, we think the term comparability is not as well understood as it could be. Even amongst ourselves we found that we often referred to comparability in terms of presenting or disclosing information in a similar, consistent or uniform way. Such a view of comparability ignores the fact that highlighting differences can also make information comparable.

68. We think confusion about comparability means there is a risk that an entity may present or disclose information on the basis of consistency with prior periods or with peers, rather than disclosure of sufficient information to enable a user to understand any material differences. It follows that we think that clarifying what comparability is by bringing the definition in the *Conceptual Framework* into a general disclosure Standard would be helpful for entities when preparing financial statements.

69. On the basis of our thinking in paragraph 68, we think that it would be useful for a general disclosure Standard (or paragraphs 45 and 46 of IAS1 to be expanded) to incorporate:

(a) a definition of comparability to highlight that this concept not only encompasses similarities but also differences ('flexibility of presentation') where it signals to users warranted dissimilarities in the nature of an entity and/or the way it manages its resources: and

(b) an explanation that consistency contributes but is not the same as comparability.

70. For example we have illustrated our proposals by drafting a possible amendment to IAS 1 as follows (proposed amendments underlined):

IAS1 Presentation of Financial Statements

Consistency <u>and comparability</u> of presentation

45A <u>Information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period</u>. <u>Comparability is an enhancing characteristic of useful information that enables users to identify and understand similarities, and differences among items. Comparability is not uniformity. When applying paragraph 17 of this Standard, an entity considers factors including materiality and the nature and function of its assets, liabilities, income and expenses. Both standardisation and flexibility in the presentation of financial statements contribute to comparability</u>. <u>Consistency of presentation, although related to comparability, is not the same.</u>

Guidance on how to apply the concept of comparability

71. As we stated in our staff analysis (see paragraphs 54–59 of this paper), we think that the lack of sufficient disaggregation and explanation of information in financial statements may impact their comparability.

72. A possible response would be for the IASB develop additional guidance in a general disclosure Standard that provides further explanations about how to enhance the comparability of information in financial statements, particularly for comparisons

between entities. Specific topics could include how an entity should consider comparability when:

(a) determining the level of aggregation/disaggregation,

(b) describing how items have been classified; and

(c) determining what terminology to use.

73. However we note that the topic of disaggregation was discussed at the May Board meeting.[15] At that meeting the staff expressed the view that IAS 1 already incorporates sufficient guidance relating to disaggregation (and aggregations) of recognised items by:

(a) requiring an entity to disaggregate information if such presentation is relevant to the understanding of an entity's financial position and performance:

(b) stating that aggregation and disaggregation decisions are based on the size, nature, function or measurement basis of the items being assessed: and

(c) requiring an entity to present separately each material class of similar items.

74. In addition:

(a) paragraphs 15-17 of IAS 1 require that an entity provide sufficient disclosure to ensure that its financial statements are fairly presented, including presenting information in a manner that provides relevant, reliable, comparable and understandable information;

(b) we understand that the upcoming Exposure Draft IFRS Practice Statement *Application of materiality to financial statements* suggests that an entity may consider what its peers are disclosing to help it determine what information could be relevant for its financial statements;[16] and

(c) as discussed in paragraphs 22–23 of this paper, the staff already suggested to the IASB that the communication principles to be developed within the Principles of Disclosure project should include guidance referring to the use

[15] Agenda Paper 11C, IASB May 2015 meeting

[16] Agenda Paper 11A, IASB meeting March 2015, paragraph 29 of the Appendix

of consistent terminology and that an entity should provide explanations when moving away from peer comparability.

75. As described in paragraphs 73–74 we think that the current guidance in IAS 1 and our proposals regarding the communication principles are sufficient for an entity to determine how it should apply the concept of comparability when preparing its financial statements. In particular, we think that the communication principles and the practice statement of on materiality help provide a good basis for helping entities apply the concept of comparability.

76. Therefore except for further guidance about what is meant by the term comparability (see paragraphs 67–70 above), we do not recommend that a general disclosure Standard (replacement of IAS 1) should include any additional guidance on the concept of comparability.

Questions 1 for the IASB?
Do you agree that a general disclosure Standard should include additional guidance on comparability?

Question 2 for the IASB
If so, do you agree with our proposed wording in paragraph 70?

Question 3 for the IASB
If you do not agree that a general disclosure Standard should include additional guidance on comparability, do you consider that any such guidance would be best addressed in another way, for instance through the publication of a Practice Statement on Comparability or additional educational materials?

A1. Appendix A – The Conceptual Framework for Financial Reporting

Comparability

QC20 Users' decisions involve choosing between alternatives, for example, selling or holding an investment, or investing in one reporting entity or another. Consequently, information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date.

QC21 Comparability is the qualitative characteristic that enables users to identify and understand similarities in, and differences among, items. Unlike the other qualitative characteristics, comparability does not relate to a single item. A comparison requires at least two items.

QC22 Consistency, although related to comparability, is not the same. Consistency refers to the use of the same methods for the same items, either from period to period within a reporting entity or in a single period across entities. Comparability is the goal; consistency helps to achieve that goal.

QC23 Comparability is not uniformity. For information to be comparable, like things must look alike and different things must look different. Comparability of financial information is not enhanced by making unlike things look alike any more than it is enhanced by making like things look different.

QC24 Some degree of comparability is likely to be attained by satisfying the fundamental qualitative characteristics. A faithful representation of a relevant economic phenomenon should naturally possess some degree of comparability with a faithful representation of a similar relevant economic phenomenon by another reporting entity.

QC25 Although a single economic phenomenon can be faithfully represented in multiple ways, permitting alternative accounting methods for the same economic phenomenon diminishes comparability.

A2. Appendix B – Extracts from IAS1

…..

1 This Standard prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

15 Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *Framework*.[4] The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.

[4] Paragraphs 15–24 contain references to the objective of financial statements set out in the *Framework [for the Preparation and Presentation of Financial Statements]*. In September 2010 the IASB replaced the *Framework* with the *Conceptual Framework for Financial Reporting*, which replaced the objective of financial statements with the objective of general purpose financial reporting: see Chapter 1 of the *Conceptual Framework*.

17 In virtually all circumstances, an entity achieves a fair presentation by compliance with applicable IFRSs. A fair presentation also requires an entity:

(a) to select and apply accounting policies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. IAS 8 sets out a hierarchy of authoritative guidance that management considers in the absence of an IFRS that specifically applies to an item.

(b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.

(c) to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

45 An entity shall retain the presentation and classification of items in the financial statements from one period to the next unless:

(a) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in IAS 8; or

(b) an IFRS requires a change in presentation**.**

46 For example, a significant acquisition or disposal, or a review of the presentation of the financial statements, might suggest that the financial statements need to be presented differently. An entity changes the presentation of its financial statements only if the changed presentation provides information that is reliable and more relevant to users of the financial statements and the revised structure is likely to continue, so that comparability is not impaired. When making such changes in presentation, an entity reclassifies its comparative information in accordance with paragraphs 41 and 42.

A3. Appendix C – extracts from IAS8

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1 The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. The Standard is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.

13 An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless an IFRS specifically requires or permits categorisation of items for which different policies may be appropriate. If an IFRS requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.

14 An entity shall change an accounting policy only if the change:

(a) is required by an IFRS; or

(b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

15 Users of financial statements need to be able to compare the financial statements of an entity over time to identify trends in its financial position, financial performance and cash flows. Therefore, the same accounting policies are applied within each period and from one period to the next unless a change in accounting policy meets one of the criteria in paragraph.