

Discussion: Practical Expedients – a Valid Tool in IFRS Setting ABACUS Forum

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Summary of the paper

- Examines whether practical expedients in some IFRS Standards are a valid tool for IFRS Standard setting
- Detailed list of practical expedient disclosures and these are well described
- Focus is on 17 Practical Expedients (IFRS9[2], IFRS15[7], IFRS16[7], IAS24[1])
- Tension in this practice: will impair comparability and accounting quality
- Main argument for use of practical expedients is that it would be too costly to apply IFRS for preparers that are small and less affected by the standard
- Research topic is under researched with only one identified study on practical expedients (Moscariello and Pizzo, 2022)

Data and Methods

428 largest companies in 18 European markets during 2018 – 2022 (EU + Norway and Switzerland)

Determinants of use - Multivariate OLS regression (Firm level characteristics, Year FE, Industry FE and Country FE)

Information Quality:

- ABNACC (Kothari et al 1995, Hope et al 2017) estimated accruals for each industry then residuals is equal to discretionary accruals
- Analyst Forecast Accuracy and Dispersion

Value relevance – Ohlson Model (1995)

Findings and Conclusion

- Use of Practical Expedients (PEs) vary across industry and country and there are firm level variations suggesting practice is driven by cost-benefit considerations, but we don't know much about the latter save for the 4 interviews.
- No indication that PEs are related to lower accounting quality, lower analyst forecast accuracy and dispersion although lower value relevance is observed to those who disclose that they do not use PEs but no information on those that use PE and did not disclose
- There are other well-known measures to capture earnings manipulation (e.g. conservatism, earnings predictability)
- Caveat: Many PEs do not have disclosure requirements, so hence these are not observable. Perhaps a survey will be uncover some of these practices.

Comments

- Use of PEs are concentrated on IFRS 15 and IFRS 16 but no discussion on why this is so. Perhaps discuss the complexity of these standards that make PEs attractive to the preparers and also compare this with other complicated standards (e.g. IAS 39, IFRS 9/IFRS 13) with no PEs.
 - Why were PEs introduced in these standards?
 - Was this necessary as a compromise with lobbyists?
- Country specific results suggests that some countries adopt more PEs than others (e.g. Germany, Austria and Poland) – more discussion on this needed and further disaggregation to look at the strength of regulatory system (e.g. legal and enforcement)
- How do results compare to existing literature? (Moscariello and Pizzo, 2022)

Comments

- Do the use of PEs have implications to IFRS standard setting process with what we now observe with the fast tracking of sustainability standards (if there are concessions provided such PEs) and will this affect on the role of the IFRIC committee?
- Some variables need further discussion CEO ownership and institutional ownership. There is also no examination of executive compensation contract or volatility of institutional ownership.
- Auditor practices and culture within a country may also influence uptake of PEs.
- The literature review could be more comprehensive. Example of missing discussion is an SSRN paper by Teixeira (2023 on IFRS Accounting Standards and Comparability of Information)
- p. 4 Drawing on prior literature need to be supported and the findings need to be verified with the exiting literature