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Practical expedients – a valid
tool in IFRS Standard setting?

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Overview of comments

- Interesting and thought-provoking paper
 - reassuring that practical expedients do not seem to be associated with a lack of information
- Practical expedients and other forms of cost relief
- Relationship with materiality

Practical expedients and other forms of cost-relief

- Cost/benefit important aspect of standard-setting, established by the cost constraint in the *Conceptual Framework for Financial Reporting*
- Can take different forms:
 - determine the accounting requirement
 - IBOR reforms
 - result in an accounting policy choice, with or without conditions attached
 - without conditions, for example IFRS 3 measurement of NCI
 - with conditions, for example IFRS 17 premium allocation approach
 - result in relief relating to ‘undue cost or effort’
 - IFRS 9 and IFRS 17 limit information to be considered in specific measurements to all reasonable and supportable information available without undue cost or effort
 - IFRS 18 includes relief from classification of FX and income and gains and losses on some derivatives if the otherwise required classification would involve undue cost or effort
- Sometimes labelled ‘practical expedient’ or ‘simplification’, sometimes not

Relationship with materiality

- Requirements in IFRS Accounting Standards do not apply to immaterial information
- Some practical expedients apply if the resulting information would not differ materially from that resulting from not applying the simpler treatment
 - Strictly speaking, do not need such reliefs
 - But potentially much harder for preparers to justify simpler treatment to auditors, regulators etc
- Same question arises with presentation and disclosure requirements

Presentation and disclosure

- IFRS 18 includes principles for presentation and disclosure:
 - presentation in the primary financial statements is necessary to give an understandable structured summary
 - disclosure in the notes if information is material
- But also have specific disclosure and presentation requirements, subject to those principles
- Trying to follow a consistent approach:
 - disclosure requirements in specific Standards should be broadly comprehensive
 - presentation requirements in specific Standards should be more limited

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