IFRS PRACTICAL EXPEDIENTS

EXPLORING ANTECEDENTS OF THE PHENOMENON AND PREPARER CHOICES WHEN OFFERED SIMPLIFIED ACCOUNTING TREATMENTS

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IFRS practical expedients: Exploring antecedents of the phenomenon and preparer choices when offered simplified accounting treatments

Abstract

This study investigates so-called practical expedients, a relatively new IFRS concept offering preparers simplified accounting choices. We run two parallel tracks: one qualitative part, where we analyse the definition of and the motivation for introducing practical expedients, and one quantitative part, where we collect annual report data to examine how practical expedients are applied by preparers. In this part, we analyse large, listed firms from 18 European countries. We find cost-benefit considerations and pressure from stakeholders to be the main drivers behind the introduction of practical expedients. Thus, practical expedients can be seen as a tool to overcome political pressure in the standard-setting process. This finding complements Moscariello and Pizzo (2022), the only previous study of practical expedients, who find that the IASB uses practical expedients to manage legitimacy. We apply a broader theoretical perspective, why our findings add to their results. Further, we find preparers to apply practical expedients to a varying extent across IFRS standards. We find no strong differences between countries and industries, but German-speaking countries appear to apply practical expedients more. Also, institutional- and CEO ownership has a significant influence on applying practical expedients. The lack of strong patterns is surprising, as prior research on accounting choices finds clear country- and industry trends. The research explains that the patterns arise out of incentives from the possible effect on accounting numbers. Hence, a possible explanation of our results is that applying practical expedients do not materially affect accounting numbers, which could imply that firms are not driven by other incentives than to lower reporting costs. Thus, our discussion suggests that the IASB may have found a tool for balancing costs and benefits of accounting and handling stakeholder pressure. Our findings are strengthened by our combination of qualitative and quantitative analysis, which both point in the same direction.

Keywords:

Practical expedient, Accounting choice, Cost vs. benefit, Rules vs. principles, IFRS

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1. Introduction

In recent years, the International Accounting Standards Board (IASB) has introduced simplifying accounting choices called 'practical expedients' in International Financial Reporting Standards (IFRS), but there is limited research on this new concept. We aim to extend this field by exploring the following research question:

What are the antecedents of including practical expedients in IFRS standards, and how are they applied in practice?

To answer this question, the paper proceeds with two parallel tracks: one explorative part in which we analyse antecedents of practical expedients and infer a definition from the IASB's perspective; and one quantitative part in which we explore how preparers apply practical expedients. Through this combined approach, we create a comprehensive overview of practical expedients and conclude that both perspectives are aligned, as they indicate that practical expedients do not have a material effect on accounting numbers.

The IASB says that: "although a single economic phenomenon can be faithfully represented in multiple ways, permitting alternative accounting methods for the same economic phenomenon diminishes comparability" (IFRS Conceptual Framework § 2.29). In spite of this, the IASB has introduced practical expedients, allowing preparers to choose simplified accounting treatments. Practical expedients are referred to in IFRS 9, IFRS 13, IFRS 15 and IFRS 16. Furthermore, the IASB discusses practical expedients in their current Primary Financial Statement project to balance costs and benefits.

Practical expedients present an option to the preparer to account for an economic event in a simpler way than the main principle, and commonly require a firm to disclose if they apply the practical expedient. Below is an example from IFRS 15.

> **IFRS 15.63:** As a practical expedient, an entity need not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.
>
> **IFRS 15.129:** If an entity elects to use the practical expedient in either paragraph 63 (about the existence of a significant financing component) or paragraph 94 (about the incremental costs of obtaining a contract), the entity shall disclose that fact.

In the Basis for Conclusions (BC), the IASB often refers to practical expedients as cost-effective alternatives that should not impair comparability or accounting quality, but it has not been explored whether practical expedients achieve this objective. Moreover, the IASB published an agenda paper in 2016 where a definition of practical expedients was suggested (IASB, 2016a), but the IASB has not introduced an explicit definition yet. The term 'practical expedient' has also been described as unclear by stakeholders. Therefore,

practical expedients are interesting to investigate as: 1) they allow preparers to deviate from the main principles in the IFRS standards which could undermine the principles-based approach of the IASB, 2) standard setters, preparers and users of financial statements are affected by them and 3) no one has analysed the phenomenon before. The study by Moscariello and Pizzo (2022), the only paper studying practical expedients, also motivates a deeper analysis of expedients as they find them to be theoretically flawed, e.g. due to weaker comparability. In addition, feedback to the IASB ranges from suggestions to introduce more practical expedients to their potential negative impact on comparability. Hence, several tensions surround practical expedients.

Moscariello and Pizzo (2022) analyse the effect of the Covid-19 crisis on the IASB's standard-setting process. The study applies a qualitative process-tracing approach and organisational legitimacy theory to analyse how the IASB has changed to manage their output legitimacy over time. Moscariello and Pizzo (2022) find a causal relationship between the European public good criterion and wider use of practical expedients. They also argue that practical expedients can be used by the IASB to work both proactively and reactively with their legitimacy, as practical expedients may be used ex-ante to increase consensus on new standards, and ex-post to respond to changing circumstances.

Adding to Moscariello and Pizzo (2002), we investigate why practical expedients have been introduced in IFRS, infer a definition of the concept and analyse how preparers apply practical expedients. We use literature on cost-benefit analyses of accounting standards and literature on principles- vs. rules-based standards to understand the antecedents of practical expedients, as these theories are commonly used to evaluate accounting standards. As standard setting encompasses other aspects than legitimacy, we choose this broader perspective. Nonetheless, our analysis is related to legitimacy as we argue that managing stakeholder pressure and legitimacy are two perspectives of the same process. The IASB will lose legitimacy if stakeholders are not content and if the IASB does not fulfil their objectives. Thus, it is likely we would draw similar conclusions as Moscariello and Pizzo (2022) if we had applied the same analytical lens, as the IASB can maintain legitimacy by balancing stakeholder feedback. However, our study is broader, analysing both the IASB and preparers, and combining a qualitative and quantitative approach.

The two parts of our study complement each other, by first investigating how practical expedients are understood and applied from a standard-setting perspective, and then exploring a preparer perspective. The qualitative part of our study is relevant in the light of prior research on rules vs. principles and cost-benefit balance. Also, we extend the accounting choice research (e.g. Ball, 2006; Fields et al., 2001; Kvaal & Nobes, 2010; Noves, 2006; Stadler & Nobes, 2014) both qualitatively and quantitatively, as we explore when accounting choices may be motivated in a principles-based regime, and how established explanatory factors of how firms make accounting choices fit with practical expedients. Moreover, practical expedients share similarities with transition rules offered when adopting new standards, as transition rules also simplify the accounting. Relatedly,

our study adds to the literature on earnings management when adopting IFRS (e.g. Ahmed et al., 2013; Capkun et al., 2016; Jeanjean & Stolowy, 2008).

For the qualitative analysis, we review all documents published by the IASB on practical expedients (e.g. standards, BC, staff papers, Exposure Drafts etc.). To support the document study, we interview two standard setters, one accounting specialist and one preparer. The quantitative analysis is based on manually collected annual report data from 2021 of 447 large, listed firms in 18 European countries.

First, our analysis of the antecedents of practical expedients results in two main findings: 1) we infer the IASB's implicit definition of practical expedients to be: 'an accounting choice aimed at balancing costs and benefits of accounting treatments, that gives the preparer an option that simplifies the accounting method but that should not lead to a loss of material information' and 2) cost-benefit arguments and stakeholder pressure are the main antecedents for introducing practical expedients. Thus, we complement Moscariello and Pizzo (2022) by adding these potential motivations to the legitimacy argument. Still, cost-benefit issues and legitimacy could be two sides of the same coin, as the IASB can use cost-benefit arguments to increase legitimacy. Moreover, practical expedients are rules, thus deviating from the principles-based approach. Practical expedients appear to be a successful tool in standard setting but could threaten the principles-based regime and encourage preparers to request more simplifying options.

Second, our analysis of how firms apply practical expedients shows that these simplifications are indeed applied, and application varies across IFRS standards. We find weak country and industry patterns, which is surprising, as prior accounting choice research finds stronger patterns. However, German-speaking countries appear to apply practical expedients more. Also, ownership is significantly associated with applying practical expedients. Institutional ownership has a positive effect for four expedients (all p-values below 0.034), while CEO ownership has a negative effect for one expedient (p-value of 0.004), but the coefficients are close to zero. There are few other significant variables. The patterns in previous research are explained by incentives, as managers choose the option with a favourable effect on accounting numbers. Hence, the lack of clear patterns could suggest that practical expedients do not materially impact accounting numbers, and firms only apply them to lower reporting costs. Then, the IASB may have found a tool for balancing costs and benefits and handling political pressure. This finding is interesting as both our tracks point in this direction, increasing the strength of our conclusion.

Even if there is low country and industry variation in how firms apply practical expedients in our data, we find more variation in firm disclosures. Vague formulations and quoting the standards is relatively common, leaving room for interpretation by the user. Thus, disclosure might be a larger problem than if a preparer applies the expedient.

2. Institutional framework

The IASB is an independent institution responsible for developing IFRS standards (IFRS Foundation, 2022a) with the objective:

> **Constitution § 2A** "To develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles. These standards should require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world's capital markets and other users of financial information make economic decisions."

Further, the IASB aims to promote the standards and ensure that they support needs of different economic realities. The IASB should facilitate adoption of IFRS by supporting convergence of national standards, (IFRS Foundation, 2021) and the standards should facilitate for firms to provide investors with transparent and reliable information regarding financial performance and position. To achieve this, the standards should allow users of financial statements to compare financial statements internationally to make informed economic decisions. Therefore, comparability and relevant and reliable information in financial statements are key objectives. Furthermore, the standards are aimed at providing a global accounting language. (IFRS Foundation, 2022d) The constitution also defines how members of the IASB and its monitoring bodies should be chosen, vote and interact (IFRS Foundation, 2021). In addition to its monitoring bodies, the Due Process Oversight Committee is responsible for overseeing that the procedures in the Due Process Handbook are followed (IFRS Foundation, 2022b). The oversight of the IASB ensures global acceptance of the standards. The Due Process Handbook establishes guidelines for the standard-setting process and protects the process from "undue influence" while ensuring transparency and consideration of all stakeholder needs (IFRS Foundation, 2020).

Before initiating the standard-setting process, the IASB identifies accounting issues through their research program. After screening issues and potential solutions, they write Discussion Papers. The board then seeks feedback to assess which projects should be continued. After that, the board develops a new standard. All papers and meetings are published publicly to promote feedback and ensure transparency. The draft of a standard is published as an Exposure Draft. Furthermore, the IASB consults the advisory council which includes different organisations globally. The feedback received lay the foundation for revisions. After issuance, the IASB has post-implementation reviews to ensure a standard fulfils its objectives. (IFRS Foundation, 2022c)

The objectives of financial reporting and the process of developing standards act as a starting point to analyse the concept of practical expedients.

3. Literature review

Similar to our study as a whole, the literature review is based on our two approaches; one qualitative and one quantitative part. The qualitative part, analysing the standard-setting process, is related to the research on rules- vs. principles-based accounting regimes and costs and benefits of accounting standards. These fields relate to how accounting standards are developed, evaluated, and understood. Furthermore, the scarce research on practical expedients and research on the political process when developing standards informs us about potential motivations for the introduction of practical expedients. All in all, this literature assists us in understanding practical expedients and their antecedents.

The quantitative part of our study explores how firms apply practical expedients and is therefore closely related to the research on accounting choice and earnings management when transitioning between different sets of accounting standards. These two fields have in common that they investigate the expected behaviour of management when offered an accounting choice. The literature consists of established theory aiding us in developing research propositions and interpreting our regression results.

3.1 Literature supporting our analysis of antecedents of practical expedients

3.1.1 Research on practical expedients

The only paper we find on practical expedients is Moscariello and Pizzo (2022). They investigate the practical expedient in IFRS 16 for rent concessions during Covid-19 and how practical expedients relate to the IASB's output legitimacy. They apply a qualitative process-tracing approach to analyse the effect of the Covid-19 crisis on the standard-setting process. They find that the IASB use practical expedients to maintain legitimacy but argue that expedients are theoretically flawed, e.g as they harm comparability. Moscariello and Pizzo (2022) apply organisational legitimacy theory to analyse the standard setting, and use the legitimacy definition in Suchman (1995): "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions".

Practical expedients boost legitimacy as preparers of financial statements are given more flexibility, and thereby perceive the standards as more appropriate. Moreover, the IASB can respond to pressure from EU politicians by implementing practical expedients. (Moscariello & Pizzo, 2022) According to Moscariello and Pizzo (2022), practical expedients can reduce transition costs of adopting new standards, increase the acceptance of IFRS and abate criticism triggered by unexpected crises. One of their main contributions is that they find a causal relationship between the introduction of the European public good criterion in the EU endorsement process and the increasing number of practical expedients in IFRS. We extend the results by Moscariello and Pizzo (2022)

as we explore several practical expedients, infer a definition of practical expedients and analyse the application in practice. Our study differs as we investigate all documents published by the IASB about practical expedients, collect data manually on practical expedients from annual reports and apply a broader analytical perspective.

Besides Moscariello and Pizzo (2022), there are no papers focusing on practical expedients. However, Boujelben and Kobbi-Fakhfakh (2020) investigate the adoption of IFRS 15 in the telecom and construction sector. None of the construction companies disclose whether they apply practical expedients, which could be due to either "unintentional neglect, a misinterpretation of disclosure requirements or an intentional decision to not comply with the rules". In the telecom sector, several companies disclose their application of one of the expedients in IFRS 15. Thus, preparer choice to apply practical expedients appears to differ between industries.

3.1.2 Political pressures in accounting standard-setting

Both our study and Moscariello and Pizzo (2022) also relate to political pressure in standard-setting, which has increased since EU adoption of IFRS standards and the financial crisis. Bengtsson (2011) outlines how different stakeholders exert pressure on the IASB. Bengtsson (2011) states that users are least likely to put pressure, as they have few communication channels to influence standard setting. Furthermore, Hjelström (2005) suggests that an accounting standard-setting process can be understood from three parallel sub-processes: 1) a political process, 2) a learning process and, 3) an executive process. The political process is inevitably present as developing accounting standards requires stakeholders to accept and apply them. Hjelström (2005) also states that incorporating flexibility in accounting standards is part of the political process, and practical expedients could be an example of such flexibility. The political pressures and the stakeholders that need to form consensus means that standards must be evaluated in different ways to be passed. A common argument for certain accounting treatments in this evaluation includes cost-benefit considerations.

3.1.3 Cost-benefit arguments for accounting policies

A key part of the IASB's due process is to weigh the costs and benefits of a standard. Literature also suggests that comparing costs and benefits are a common way of assessing standards (Fox et al., 2013; Gwilliam et al., 2005). Morris, Gray, Pickering and Aisbitt (2014) find a negative perception among preparers towards IFRS when analysing the adoption of IFRS in Australia, suggesting that they were unhappy with the cost-benefit balance. Specifically, preparers were concerned about complex accounting treatments, monetary costs, and limited benefits in capital markets. These results highlight the importance of the trade-off between costs and benefits of accounting standards.

FASB's conceptual framework is based on similar principles as the IASB's – the expected benefits of financial reporting must justify the cost of producing the accounting numbers (FASB). However, Martens and Stevens (1994) find a conflict between this commitment and the FASB's practice. Considering this imbalance, simplifying rules are a tool to regulate the costs and benefits. However, the joint development of IFRS 15 together with the IASB was desirable for the FASB, as US GAAP comprised "broad revenue recognition concepts and numerous requirements for particular industries or transactions that can result in different accounting for economically similar transactions" (IASB, 2011) Thus, extensive use of detailed rules can result in undesirable complexity and diversity.

Litjens et al. (2012) find that preparers assess costs and benefits in relative terms, and that they estimate them separately. Moreover, preparers appear to have a non-linear cost-benefit analysis – showing stronger focus on costs than benefits, which the authors explain by preparer costs being more tangible, while preparer benefits are more indirect. Also, costs are positively associated with firm size, whereas benefits are not. Litjens et al. (2012) suggest that standard setters should reflect upon the preparer context when assessing costs and benefits. The nonlinear relationship could increase the complexity of introducing new standards, as preparer pressure will reflect this nonlinear relationship. Also, Giner and Arce (2012) studied lobbying in the IASB's standard-setting process and confirm that preparers are the most active group. These dynamics might be antecedents of introducing practical expedients.

According to Bertomeu and Magee (2015): "Reporting firms always have the option to disclose voluntarily, so they oppose any requirements that decrease their discretion". Preparers will always prefer disclosure to be voluntary, as they then can impact the cost of disclosure themselves by only disclosing if they perceive the benefit to be high enough. For practical expedients, firms should prefer to have the option to apply, as they can choose to apply the expedient if costs of the complicated method outweigh benefits.

3.1.4 Rules-based vs. principles-based accounting regimes

When the costs of applying a standard outweigh the benefits, preparers might ask for simplifying rules – why cost-benefit discussions could steer the IASB away from their principles-based regime. Consequently, our study of practical expedients relates to the literature on rules- vs. principles-based standards. Our research question is partly motivated to understand if the IASB is heading towards a more rules-based regime by introducing practical expedients. We see a tension as the IASB aims to be principles-based but has introduced practical expedients, which are rules.

The discussion on rules- vs. principles-based standards is partly driven by the discussions of convergence between IFRS standards and US GAAP, as IFRS standards are more principles-oriented while US GAAP are more rules-oriented (Forgeas, 2008). However,

Nelson (2003) states that all standards are based on principles, but that they can include relatively more or less rules. He further explains; "I define 'rules' broadly to include specific criteria, 'bright line' thresholds, examples, scope restrictions, exceptions, subsequent precedents, implementation guidance, etc.", and states that rules can affect precision and increase complexity. Moreover, standards tend to become more rules-based over time, as implementation guidance is added (Nelson, 2003). Practical expedients are an example of this development. Nelson (2003) underlines that there is a trade-off between few rules and vague guidelines compared to too many rules and complexity. Practical expedients are different in this aspect, as they are rules but simplify accounting processes.

We also complement the literature studying if rules or principles are preferred. Charles D. Niemeier, a Board Member of the Public Company Accounting Oversight Board, argues that principles-based standards require more judgment and harms comparability, and adds that principles are not appropriate in a regulatory context, as they cannot be fully enforced (Niemeier, Sep 10, 2008). Schipper (2003) also points out several benefits of a rules-based regime: 1) increased comparability as it relies less on professional judgment, 2) increased verifiability, 3) less earnings management through judgment, but more earnings management through transaction structuring (confirmed by Nelson, Elliott, and Tarpley (2002)) 4) improved enforceability through clearer guidance, 5) fewer litigations over allegedly faulty accounting and 6) less earnings volatility due to increased specificity. On the other hand, critics of rules-based standards argue that rules might encourage preparers to structure transactions to comply with the rules but not align with the intent of them (Collins et al., 2012). This could be a risk of practical expedients. McEnroe and Sullivan (2013) find that both auditors and CFOs prefer rules-based standards.

Some studies show that principles-based accounting regimes result in higher reporting quality (Folsom et al., 2017; Sundvik, 2019). However, Folsom et al. (2017) also find that principles-based standards can lead to an increase in accrual earnings management. Comparatively, Sundvik (2019) show that principles-based standards are associated with accrual earnings management, while less reliance on principles is associated with real earnings management. Wüstemann and Wüstemann (2010) advocate accounting regimes based on principles complemented by rules; stating that without clear rules, managers can use judgment differently in similar circumstances, which would impair comparability.

Altogether, the literature on rules vs. principles motivates our research question as it remains unclear which regime is preferable. Practical expedients, which give preparers a choice rather than being clear rules, may not achieve what Wüstemann and Wüstemann (2010) expect from a combined system. Furthermore, practical expedients differ from other rules as they neither reduce preparer flexibility nor increase complexity, why they might be perceived differently. Lastly, expedients could introduce both the benefits and

drawbacks of a rules-based regime found in research. These diverging perspectives add to the relevance of investigating the impact of a rules-based approach in IFRS.

Rules- vs. principles and accounting harmonisation

Rules- vs. principles-based standards also have consequences for accounting harmonisation. According to Jaafar and McLeay (2007), harmonisation is achieved when "all firms operating in similar circumstances adopt the same accounting treatment for similar transactions, regardless of their domicile". To achieve harmonisation, Carmona and Trombetta (2008) suggest principles-based standards to be better as they have the flexibility to accommodate different economic realities. On the contrary, Alali and Cao (2010) argue that principles-based standards will continue to result in different applications as countries differ in culture and financial- and legal systems and therefore will interpret principles differently. Practical expedients can be seen as a step away from harmonisation since there are more options which can be applied differently. According to Ramanna (2013), the degree of harmonisation is distorted, as national standard setters define the level of convergence with IFRS standards. In summary, Jones and Finley (2011) state that "the literature distinguishes between accounting practice harmonisation and accounting regulation harmonisation (Rahman et al., 2002). Harmonising financial practices cannot necessarily be achieved solely by aligning regulatory frameworks". Thus, accounting asymmetry might not be caused by the standard but by the application of it.

3.2 Literature supporting our analysis of how practical expedients are applied

3.2.1 Accounting choices

The quantitative part of our study primarily extends the literature on how firms make accounting choices when provided with options. The literature assists us in developing research propositions for how firms are likely to apply practical expedients. However, practical expedients differ from other choices as they offer a facilitated way of reporting, rather than a choice between equivalent options. Nonetheless, the literature on accounting choices guides us to factors that are likely to explain the application of practical expedients.

Firm-, country-, industry- and topic factors

Accounting choices have been studied for years (Fields et al., 2001) and continues to be an area of interest due to its impact on comparability and legitimacy of financial reports. Early research on accounting choices identifies firm factors as an explanation of how firms choose (Hagerman & Zmijewski, 1979; Skinner, 1993). These firm factors include size, debt covenants, compensation arrangements (Bamber et al., 2010; Hunt, 1985; Sweeney, 1994), listing status (Jaafar & McLeay, 2007) and leverage (Israeli, 2015).

Stadler and Nobes (2014) propose a framework to determine how firms make choices when presented with an accounting option. According to the framework, an accounting policy choice is explained by 1) country-, 2) industry- and 3) topic factors. Depending on the impact on accounting numbers the type of factor most likely to influence the choice differs. If there is no or only a small impact on an important accounting number, country factors have the strongest influence. Moreover, firms within an industry are often benchmarked against each other, why firms have incentives to treat similar transactions in a similar manner. Nonetheless, the default choice is to stick to the option closest to what has been applied previously, which usually is national standards. This displays some inertia which could be motivated by keeping down costs of financial reporting. Otherwise, firms choose the option where the impact on the accounting numbers is more favourable.

In line with this, Jaafar and McLeay (2007) find country factors to be a strong explanatory factor of accounting choices, and country factors are stronger than industry factors. Kvaal and Nobes (2010) also find country factors to be particularly important. They propose that firms maintain previous practices whenever possible, and present four explanations: 1) the reasons behind national differences, e.g. enforcement systems and incentives, can still affect IFRS practice, 2) IFRS consolidated financial statements are based on unconsolidated statements, why it is easier to apply the unconsolidated practices, 3) group directors might aim for consistent practices over time, even when adopting IFRS standards, and 4) group directors strive to reduce transitioning costs by minimising the number of changes when adopting IFRS.

According to Ball (2006), common country factors influencing accounting choice include the legal system, the corporate financing system and the relationship between tax and financial reporting. Country factors are often described as different institutional contexts and is suggested by a wide stream of research to explain differences in IFRS application (Ball et al., 2000; Ball, 2006; Kvaal & Nobes, 2010; Kvaal & Nobes, 2012; Nobes, 2006; Zeff, 2007). Furthermore, Nobes (1998) suggests a classification of countries into two groups to explain different accounting styles. One class concerns countries with strong equity financing and a need for comprehensive disclosures. The other class is countries with stronger credit financing where prudence and creditor protection are prioritised. These cultural styles could impact how practical expedients are applied and disclosed.

Agency costs and managerial opportunism

Moreover, Fields et al. (2001) argue that agency costs can impact accounting choices. Another potential motivation for applying practical expedients is presented by Heflin, Kwon and Wild (2002), who find the propensity for accounting opportunism to vary between managers faced with similar incentives. Other research analyses accounting choices and manager bonus scheme payments, and Healy (1985) finds a link between a choice related to accounting accruals and impact on income. The research suggests that managers act opportunistically to maximize bonus payments. In the same vein, Christie

and Zimmerman (1994) find managerial opportunism to explain accounting choices in takeover targets, and Israeli (2015) finds income smoothing to affect accounting choices.

Ownership

An accounting choice with similar characteristics as practical expedients is the choice between the fair value model and the cost model in IAS 40. Mäki, Somoza-Lopez, and Sundgren (2016) study this option related to ownership structure and suggest that financial statements are more informative when using the fair value model, and that it is more costly for the firm. Thus, the cost model is both an option and a simplification, just as practical expedients. The decision between the two models is made on an entity-wide basis. This is true for some practical expedients as well, as IFRS states that they have to be applied consistently (e.g. IFRS 15 BC235: "The boards observed that, as with the other practical expedients in IFRS 15, an entity should apply the practical expedient consistently to similar contracts in similar circumstances"). Thus, ownership could be a predictor of the choice to apply practical expedients, as Mäki et al. (2016) show that using the fair value model is positively associated with ownership dispersion.

Overt and covert options

In addition to the factors explaining how firms make accounting choices, the literature has defined two types of options: overt and covert accounting choices. Overt choices are observable in the accounting data. Thus, practical expedients with disclosure requirements are overt. Instead, covert choices give preparers vague criteria or room for interpretation. Thus, the impact on accounting numbers is not observable. Practical expedients that do not entail disclosure requirements are covert options.

3.2.2 Earnings management when transitioning from national GAAP to IFRS

Even though some studies on accounting choices introduce managerial opportunism as an explanatory factor, many papers leave out the discussion of whether preparers act in good faith or self-interest. Still, managerial incentives could explain application of practical expedients, why the literature on the transition rules firms are offered when adopting IFRS is connected to our study. Jeanjean and Stolowy (2008) find that earnings management remained when introducing IFRS in Australia and the UK, and earnings management increased in France. Hence, the authors show that management incentives and national institutional factors can influence financial reporting, even under a common set of standards. Jeanjean and Stolowy (2008) study mandatory adoption, which avoids the bias that firms voluntarily adopting IFRS are likely to be more ambitious. This might be the reason why Jeanjean and Stolowy (2008) results contradict those of Barth et al. (2008), who find a decrease in earnings management after voluntary adoption of IAS/IFRS.

There are other studies supporting that IFRS adoption results in earnings management (e.g. Ahmed et al. (2013)). Christensen et al. (2015) find no evidence of accounting quality improvements for mandatory adopters. We learn from this research that incentives might affect accounting behaviour more than having a common set of standards. According to Nobes (2006), IFRS offer greater flexibility due to the overt and covert options together with the vague criteria and subjective estimates that principles-based standards provide. This flexibility and the absence of clear guidance has resulted in an increase in earnings management (Capkun et al., 2016). Also, applying accounting standards requires judgment and use of private information, why IFRS standards results in discretion (Jeanjean & Stolowy, 2008). The severity of the discretion depends on firm characteristics such as public or private ownership, legal system, the strength of equity markets and institutional factors (Burgstahler et al., 2006), as well as legal institutions (Ball et al., 2000; Ball et al., 2003; Burgstahler et al., 2006). These results support that how preparers apply practical expedients could differ between firms.

4. Development of research propositions

In this section, we develop research propositions for our analysis of how firms apply practical expedients. To do so, we use the research on accounting choice. As practical expedients are new, we consider research propositions to be more appropriate than hypotheses, as the simplifying nature of expedients might yield differences compared to past research. We do not propose a direction of the effect either. Nonetheless, the rich research on accounting choice informs us on how firms can be expected to apply practical expedients. We use the framework in Stadler and Nobes (2014) to develop research propositions. The framework is supported by other studies showing that country-, industry- and topic factors explain accounting choices.

First, Stadler and Nobes (2014) find that country factors have the strongest influence on policy choice when the decision does not have an impact on an important accounting number. Practical expedients can affect important accounting numbers, such as revenue, why country factors might not be as influential. On the other hand, the effect on numbers should be small according to the IASB (IFRS BC), why country factors might be a stronger predictor of how practical expedients are applied. Thus, based on the framework in Stadler and Nobes (2014) and related research, our first research proposition is:

> **RP I**: Country factors influence the choice to apply practical expedients

The next part of the Stadler and Nobes (2014) framework posits that industry factors affect accounting choice. Jaafar and McLeay (2007) also find industry factors to explain accounting choices, but country effect is stronger than industry effect. Nonetheless, as practical expedients are new, we cannot disregard industry factors as less meaningful. Additionally, the following is stated in IFRS 15 BC437: "The boards expect that an entity will not elect to use this relief if it operates in an industry in which comparability across interim reporting periods is particularly important to users of financial statements". Thus, the IASB recognises that industry might affect the choice to apply practical expedients. Moreover, Stadler and Nobes (2014) argue industry factors to be stronger if the choice influences an important accounting number or if the influence differs substantially between industries. Based on this argument, we expect industry to have a greater effect on practical expedients in IFRS 15 as these expedients affect revenue and since revenue recognition differs between industries. Moreover, the results of Boujelben and Kobbi-Fakhfakh (2020) show that the application of expedients in IFRS 15 differs between the telecom and the construction sector. Thus, our second research proposition is:

> **RP II:** Industry factors influence the choice to apply practical expedients

Lastly, the Stadler and Nobes (2014) framework posits that topic factors can overturn country- and industry factors if the effect on important accounting numbers substantially changes. Furthermore, topic factors may be important as different choices have varying relevance in providing useful information in financial statements (Stadler & Nobes, 2014). Stadler and Nobes (2014) also distinguish between topic-specific firm factors, e.g. size of a pension fund for a choice relating to pension, and regular firm factors, e.g. firm size and leverage. Both Klumpes and Whittington (2003) and Morris and Gordon (2006) find topic-specific firm factors to influence accounting choice. Thus, our third proposition is:

RP III: Topic factors influence the choice to apply practical expedients

Ownership structure could also influence management decision-making. Burgstahler et al. (2006) finds that ownership can result in differences when applying IFRS standards, and Mäki et al. (2016) show that ownership dispersion has a positive effect on whether a firm applies the fair value model. If the CEO has a stake in the firm, the CEO has incentives to do what is best for the company value. Similarly, institutional ownership could affect how management reasons about applying simplifying accounting treatments. On one hand, retail investors are not as likely to read the notes, why a firm might be able to apply practical expedients unnoticed. Institutional investors are more sophisticated, and more likely to read the notes and therefore discover that the firm applies practical expedients. Institutional investors are also more likely to understand expedients, and thereby care whether a company applies them. On the other hand, retail ownership could create an incentive for management to simplify the financial statements. This could either mean that a firm applies a practical expedient, if the simpler accounting treatment is easier to understand, or that they do not apply it to avoid complicating deviations. Regardless, ownership could affect practical expedient application, and our last proposition is:

RP IV: Ownership influences the choice to apply practical expedients

5. Method

Our two parallel tracks are based on different research methods. In this section, we begin by explaining the parts of our methodology that relate to both tracks. After that, we outline the data and methodology specific for each of our two tracks.

5.1 Methodology for both tracks – Finding practical expedients

We begin by creating an overview of practical expedients. To find the expedients, we search the standards for the phrase 'practical expedient'. In addition to accounting choices explicitly phrased 'practical expedients', we look for other accounting options permitting a simplifying accounting treatment by reading through all IFRS standards. We exclude IAS standards as the phrase practical expedient is a new concept within IFRS standards. We also search the IFRS website for other documents, such as Exposure Drafts, that could contain practical expedients. The practical expedients we find are listed in Table 6.1.

5.2 Methodology for our analysis of the antecedents of practical expedients

5.2.1 Document analysis

The primary data we use for answering the first part of our research question is a comprehensive number of documents about practical expedients that we collect manually. We search the IASB website and IFRS standards to find material about practical expedients. Thus, our empirical material consists of the standards themselves, the BC and other IASB articles, e.g. staff papers, agenda papers, Discussion Papers and Exposure Drafts. Our material ranges from 2008 to 2023. As no one has gathered material on practical expedients before to make a comprehensive analysis, we contribute to the research by analysing this exhaustive material. When searching for 'practical expedient' on the IFRS website, we get 549 results that we go through.

Flick (2014) writes that documents used for document analysis can include a wide range of materials, covering e.g. official records, everyday documents, and websites. Documents can be used to understand organisational practices and decision making, as they provide evidence of how institutions and people account for themselves (Flick, 2014), which we do when trying to understand the motivations for introducing practical expedients. We look at pre-existing documents for our research (Flick, 2014).

5.2.2 Interviews

To complement our understanding of practical expedients from the document study, we conduct four interviews. Our interviewees comprise two interviewees representing a standard-setting perspective, one preparer, and one accounting specialist. The standard-

setting perspective is represented by EFRAG and the IASB. EFRAG is a private organisation representing the European perspective in the development of IFRS standards. EFRAG provides feedback to the IASB and are responsible for developing sustainability reporting standards for the EU. (EFRAG, n.d.) The preparer perspective is represented by the Head of Accounting in a large Swedish group. Lastly, the accounting specialist perspective is represented by an accounting specialist from a Big Four accounting firm. The quotes from the interviews should be interpreted as personal reflections and not official statements of the organisations that the interviewees represent.

We send the interview question to the interviewees beforehand, and the questions are wide and open-ended to facilitate discussions. The questions for our first interview are based on our draft definition of a practical expedient: "a rules-based choice in the standard that gives the preparer an option that simplifies the accounting treatment". Hence, the questions centre around what we find in the document study, and they are adapted to the perspective each interviewee represent. Thus, we utilise an unstructured interview method. As we conduct our interviews, we consider what we learn and include new perspectives and clarifying questions. As such, the questions ensure that we cover desired areas but are not strict manuscripts. The interviews last for 40-60 minutes.

We record three out of four interviews and transcribe them immediately after. One interviewee did not want us to record, therefore we took notes and summarised them directly afterwards. We crosschecked the summary between us to ensure that we interpret the answers in a similar way. Once we choose quotes to include in our study, we e-mail the interviewees our excerpts from their interviews to confirm they agree with the statements. When referring to our interviewees we use the titles Standard setter 1, Standard setter 2, Preparer and Accounting specialist.

Lastly, we analyse all material from the document study and interviews. This analysis act determines the practical expedients we focus on in the quantitative analysis. The following section describes our methodology for exploring how firms apply expedients.

5.3 Methodology for our analysis of how preparers apply practical expedients

5.3.1 Quantitative research design

To test our research propositions, we use manually collected data from annual reports and firm-level data from the database Capital IQ. From the annual reports, we collect information about if and how firms disclose how they apply practical expedients. The data is aggregated to analyse to what extent expedients are applied. The data collection is based on specified search criteria described in section 5.3.3, and the data is analysed both descriptively and quantitatively. The manual data is combined with data from Capital IQ to run regressions to find explanatory factors for how firms apply practical expedients. Our data is cross-sectional, and we analyse the financial year of 2021.

5.3.2 Selection of practical expedients for regressions

For our quantitative analysis, we analyse practical expedients with disclosure requirements. Disclosure is necessary to be able to observe if a firm applies a practical expedient. The practical expedients with disclosure requirements we focus on are IFRS 15.63, IFRS 15.94, IFRS 15.121, IFRS 16.5 and IFRS 16.46A. However, we find IFRS 16.15 in several reports in the pilot search (see section 5.3.3) even though the expedient does not have a disclosure requirement. Therefore, we include this expedient too. The results relating to IFRS 16.15 should be interpreted with caution, as we cannot be certain if a company that does not disclose that they apply the expedient applies the expedient or not. We also record if we find information regarding other practical expedients being applied in the annual reports. The data on other practical expedients is used to create an estimate of how many practical expedients a firm applies in total and understand to what extent firms disclose such expedients. We use this data in a regression attempting to find explanatory factors for what drives the application of more practical expedients.

Even when a practical expedient has an explicit disclosure requirement, there is a risk that some firms apply the expedient but ignore or misinterpret the disclosure requirement and therefore do not write about it. In such cases, we would have a type I error. Nonetheless, we assume most companies follow the disclosure requirements. We do not analyse transition practical expedients in the regressions. Transition practical expedients only apply when adopting IFRS standards for the first time or when a new standard has been issued, and no new standards were adopted in 2021.

We also search for the option in IAS 24.25, which allows a firm not to disclose transactions with related parties that are government entities. However, we decide not to include this choice. Not all firms have governmental entities as related parties, and we cannot know if a firm does not apply IAS 24.25 due to them not having any governmental entities as related parties, or for other reasons. As we could not filter which firms that have governmental entities as related parties, we do not analyse IAS 24.25.

5.3.3 Selection of search words

Next, we define search criteria to apply when scanning annual reports for practical expedients. We choose the criteria to maximize the probability of finding if the firm applies practical expedients, while being specific enough to find it efficiently. Too broad terms would require too much time to go through the annual reports, while too narrow terms imply a risk of not finding the expedients in the notes. We base the choice of words on the formulations in the standards, as it is likely that firms use similar expressions. This approach is supported by a Discussion Paper by the IASB where the board highlights that a source of ineffective communication is the "use of generic or 'boilerplate' descriptions", e.g. "copying requirements directly from IFRS Standards without tailoring them to explain how the entity applies those requirements to its own circumstances" (IASB,

2017). However, firms do not necessarily use the phrase ‘practical expedient’ explicitly, why we also include broader terms.

Prior to finalising the choice of search terms, we perform a pilot search. The pilot test is performed on the 25 largest, stock-listed companies in Sweden, Spain, Germany, and Belgium. Following the pilot search, we modify some search terms to become broader, e.g. ‘related parties’ is shortened to ‘related part’ to include different conjugations. We exclude some terms as they appear redundant or do not generate any hits. Among the excluded terms are e.g. ‘option’, ‘voluntary’ and ‘accounting policy’. When going through the annual reports of Switzerland and Norway, we also search for ‘IFRS’ to discern whether they apply IFRS standards, as Swiss and Norwegian listed companies have the option to choose which standards to apply. Table 5.1 lists the final search terms, the motivation for inclusion and which practical expedient they relate to.

Table 5.1 Search words

Search term	**Motivation**	**Practical expedient**
Expedient	To find explicitly stated practical expedients.	All
Practical	To find synonyms to expedient but with practical before, e.g. some firms use the term ‘practical solution’.	All
Exemption	A synonym to expedient commonly used.	All (primarily IFRS 16.5)
Exception	Synonym to exemption.	All
Optional	Since the practical expedients are optional, firms could refer to it as a an ‘optional choice’ or similar.	All
Simplif	As practical expedients are simplifications, firms can use the words simplify, simplifying or simplification in conjunction with the disclosure of practical expedients.	All
Relief	Practical expedients offer a relief for the company.	All
Financing component	IFRS 15.63 offers a practical expedient relating to financing components.	IFRS 15.63
Leases	To find practical expedients from IFRS 16. We also go through the note relating to leases.	IFRS 16
Non-lease	To find if the company separates non-lease components from lease components or not.	IFRS 16.15
Lease component	To find if the company separates non-lease components from lease components or not.	IFRS 16.15
Go through revenue section	We go through the note relating to revenue.	IFRS 15
Incremental cost	IFRS 15.94 provides a practical expedient relating to the incremental cost of obtaining a contract, why we search for that phrase.	IFRS 15.94

Rent concession	To find disclosures relating to IFRS 16.46A relating to Covid-19 rent concessions.	IFRS 16.46A
12 months/ Twelve months/ One year	IFRS 15.63, IFRS 15.94 and IFRS 16.5 offer facilitations when the financing component, the incremental cost of obtaining the contract or short-term or low-value leases are shorter than one year. We search for both '12 months', 'twelve months' and 'one year' to increase the likelihood of finding the disclosure, as companies can use either phrase.	IFRS 15.63 IFRS 15.94 IFRS 16.5
Related part	To find companies applying IAS 24.25 to not disclose information on related parties that are government entities. The phrase covers both party and parties.	IAS 24.25
IAS 24	To find companies who apply IAS 24.25.	IAS 24.25

5.3.4 Selection of countries and companies

We include 16 countries within the EU to investigate our research proposition that country may be an explanatory factor for practical expedient application. The EU is a good research subject for our purpose as the EU introduced mandatory application of IFRS for public companies in 2005. By including a broad set of countries, it is also possible to create groups of countries with similar characteristics (Gray, 1988), and inclusion of several countries mitigates the risk of finding country-specific results. In addition, we include Norway and Switzerland, yielding a total sample of 18 countries. We include Norway and Switzerland to increase the sample size and since most public firms within these jurisdictions apply IFRS. We aimed to include Luxembourg, but Luxembourg is excluded as no companies was both listed and with their country of incorporation in Luxembourg, which is a condition we require to ensure any country effects are as clean as possible. We exclude other EU countries because: 1) they have smaller stock markets, 2) they do not represent the countries with the strongest influence within the EU, 3) we already capture different regulatory and business environments, why the marginal utility of adding more countries is lower relative to the time that we would have to spend collecting the data.

As a robustness test, we group countries found to be similar in their style of accounting in research (Doupnik & Tsakumis, 2004; Gray, 1988; Nobes, 1998). How we group these countries is described in Appendix I. The country groups are shown in Table 5.2 below.

Table 5.2 Country groups

The table presents which countries that were merged to form groups for the robustness test. The groups are partly based on the framework developed by Gray (1988) and complemented with comparisons on Hofstede's cultural dimensions. See the detailed description in Appendix I.

Nordics	Latin	Germanic	Anglosax	Less developed latin	Eastern
Denmark	Belgium	Austria	Netherlands	Greece	Croatia

Finland	France	Germany	UK	Portugal	Hungary
Norway	Italy	Switzerland			Poland
Sweden	Spain				

To find the 25 largest companies within each country we use the database Capital IQ. We filter by 'Country of incorporation' and 'Country of listing' to ensure a company is not only listed in the country, but also operates there. Then, the effect of country should be cleaner, as both investor pressure and local norms are more likely to be country-specific. We also filter by 'Market capitalisation' as of December 31, 2021. If a company belongs to a group that also is among the 25 largest firms within a country, we exclude the company if the operations are similar to the parent to avoid including the same firm twice. We choose to look at the largest firms in each country as 1) they usually have higher accounting quality, which increases the likelihood to find the annual report in English and to find disclosures on practical expedients, 2) they are covered by more analysts, increasing incentives to report correctly and 3) there is no previous research on practical expedients, why we choose a sample that is readily available and relevant for investors. Both institutional and retail investors are interested in large, listed firms. Additionally, it could be more relevant for the IASB to know how large firms apply practical expedients, as these firms are role models, and accounting treatments have a greater effect due to their size. Nonetheless, small firms could be more inclined to apply practical expedients, e.g. if they have simpler transactions that fit better with the criteria. As accounting complexity normally is proxied by size, one could argue that the lower complexity of smaller firms makes them more suitable for applying practical expedients. Smaller firms could also have less complex accounting systems, why simplifying accounting treatments could be preferred. These contradicting views increase the relevance of our study, and future studies could explore the same topic but in smaller firms.

5.3.5 Selecting the year of analysis

We collect data from annual reports for the financial year of 2021 as IFRS 16.46A became applicable in this year, and since the reports of 2021 are the latest available when conducting the study. If a firm's financial year is not the calendar year, we choose the annual report of the year with most months in 2021. For example, if the financial year is May 2021 to May 2022, the annual report from 2021/2022 is chosen. If the financial year ends in June, the latest report is chosen (i.e. 2021/2022). When we cannot find an annual report, either due to the report not being available in English or simply not found publicly, additional firms are added from the list ordered by size. We include 25 firms for all countries except for Hungary which only has 22 companies with available annual reports.

We deem it enough to analyse one year as accounting choices are sticky and it is costly to change accounting policies (Stadler & Nobes, 2014). Moreover, the relevance of the practical expedients we analyse is highly dependent on the business model of a firm,

which rarely changes from year to year. For example, if a company has incremental costs of obtaining contracts this usually does not change between years. Analysing only one year is also in line with the approach of Kvaal and Nobes (2012). The stickiness of accounting choices is confirmed by the preparer interviewee, as they reason that it is likely that a firm chooses which practical expedients to apply when adopting a standard, and then maintain those choices. The preparer adds that changing reporting practices can create issues with historical comparability and send undesired signals to external stakeholders. Hence, one year of data is deemed to be enough.

5.3.6 Data collection and interpretation

After having selected companies from each country, we list all tickers and company names in an Excel spreadsheet, with one sheet per country. We then download each annual report from the company website, Capital IQ or other websites gathering annual reports. To construct our dataset, we search each annual report using our search terms. When we find disclosures on practical expedients, we copy the formulation into the spreadsheet and list what practical expedient the excerpt relates to. Thus, the final product is a spreadsheet divided into countries, showing excerpts of practical expedients applied on a firm level. If we are unsure whether a practical expedient is applied, we mark the excerpt in orange, and discuss it after finalising the manual data collection. When we have screened all annual reports, we go through the spreadsheet and interpret the excerpts marked in orange to agree on whether a practical expedient is applied. In most cases it is evident, but some companies use vague formulations requiring us to take a stand. These situations are described in Appendix II. In total, we collect data for 447 companies.

We download the other firm-level data from Capital IQ. The process and the data points are described in Appendix III. We base industry belonging on primary SIC codes that we download from Capital IQ. We interpret the SIC code in bold as the primary industry of operations. The industries are listed in Table 5.3 below.

Table 5.3 Primary industry codes

SIC-code	Industry Title	Our code
01-09	Agriculture, Forestry, and Fishing	AFF
10-14	Mining	MINI
15-17	Construction	CONS
20-39	Manufacturing	MANU
40-49	Transportation, Communications, Electric, Gas, and Sanitary Services	TCEGS
50-51	Wholesale Trade	WHOL
52-59	Retail Trade	RETA
60-67	Finance, Insurance, and Real Estate	FIRE
70-89	Services	SERV
90-99	Public Administration	PUBL

5.3.7 Statistical model

We look at descriptive statistics and perform regressions to analyse our collected data. Descriptive statistics are relevant as the concept is new and there is little research on the topic. We define each practical expedient as a binary, dependent variable – either the firm applies the practical expedient, or the firm does not apply it. We use ordinary least squares (OLS) regressions. We could also have used a logit model, as researchers commonly use logit or probit models when the outcome variable is binary. However, we use OLS regressions as the model is more flexible and as we do not predict outcomes. Therefore, the interpretation of the coefficients is not for estimating the absolute magnitude of effects. More recent research also uses linear regressions for binary dependent variables as the coefficients and statistical significance are in line with the binary outcome models (Chatla & Shmueli, 2017; Gomila, 2021). Furthermore, Gomila (2021) finds linear regression models to be best for estimating causal effects of treatments on binary outcomes (Gomila, 2021). We present logistic regressions results as a robustness test in Appendix VII.

5.3.8 Dependent variables

Our main dependent variables include the practical expedients with disclosure requirements: IFRS 15.63, IFRS 15.94, IFRS 15.121, IFRS 16.5, IFRS 16.15 and IFRS 16.46A. In addition, we sum the number of practical expedients applied by a firm. First, we create one variable where we sum the number of expedients with disclosure requirements (a maximum of six). Then, as we find disclosures of other practical expedients during our manual data collection, we also sum all practical expedients applied by a firm. We find ten different expedients, thus a firm can apply ten practical expedients at most. We use these last two dependent variables to discern if we can find explanatory variables for which firms apply relatively more practical expedients. We use a Poisson regression to model the likelihood of a firm applying an additional practical expedient.

We also create two groups based on firms not applying any practical expedients, and firms applying at least one. In our data only 22 firms out of 447 do not apply any practical expedient, including those without disclosure requirements. This limits the variation in the sample. As 392 out of 447 firms apply the expedient in IFRS 16.5, we exclude IFRS 16.5 for this variable. The exclusion of IFRS 16.5 results in 106 firms not applying any practical expedient and 341 firms applying at least one. This regression tests if there any differences between firms applying no practical expedient and those applying at least one.

We also find that some firms disclose a limit for what is considered a low-value lease related to IFRS 16.5, and we test if our control variables can explain which firms disclose a limit. Therefore, we create one more binary dependent variable, capturing if a firm discloses a limit. This variable only includes the firms applying IFRS 16.5, i.e. 392 firms.

5.3.9 Choice of independent variables

We include the following control variables in all regressions: country, industry, size (SIZE), income smoothing (INCSMO), CEO ownership (CEOOWN), institutional ownership (INSTOWN), US listing (USLIST), market-to-book ratio (MB), analyst coverage (ANALYST) and leverage (LEV). These variables are commonly included in prior research. Detailed motivations and explanations of how we compute the variables are described in Appendix IV.

Other factors that we exclude could be relevant for explaining how firms apply practical expedients. For example, accounting-based compensation plans, corporate governance issues, board independence and poison pills could affect management when choosing to apply a practical expedient. As mentioned in the literature review, there is research on how accounting choices are affected by bonus schemes, and how managerial opportunism can explain accounting decisions (Christie & Zimmerman, 1994). However, this data is not available. Also, we believe our control variables capture similar incentives. Moreover, we try to find a variable capturing more specific country effects, such as depth of capital markets or how developed the reporting is, but we find no measure readily available. Thus, more specific country characteristics could drive differences between countries.

5.3.10 Financial statement effects and topic factors

The last variables we include are topic factors, based on Stadler and Nobes (2014). We add these where we find suitable proxies based on the effect on the financial statements from applying an expedient. Table 5.4 shows our main practical expedients, their financial statement impact and the topic factors we include in the regressions. A description of the impact of applying each practical expedients is detailed in Appendix V.

Table 5.4 Financial statement impact of practical expedients

The table presents the practical expedients we focus on, a description of how they simplify the reporting, their financial statement impact and the topic factor that we include in the regressions.

Practical expedient	Description	Financial statement impact	Which firms apply?	Topic factor
IFRS 15.63	An entity need not adjust for a significant financing component if the period between when transfer of a good or service and the customer pays is one year or less	- Revenue (IS) - Financing income (IS) - Asset structure (BS)	Firms offering short-term financing, e.g. car producers, travel agencies Firms with medium-term contracts	Accounts receivable days
IFRS 15.94	An entity may expense the incremental costs of obtaining a contract if	- Operating expenses (IS)	Firms with higher customer acquisition costs, e.g. telecom,	

	amortisation period is one year or less	- Asset structure (BS)	utility, and construction	
IFRS 15.121	An entity need not disclose the information in paragraph 120 for a performance obligation	No direct impact		
IFRS 16.5	A lessee may elect not to apply the requirements in para. 22-49 to short-term and low-value leases	- Operating expenses (IS) - Asset structure (BS)	Firms with leases	Size of lease liability
IFRS 16.15	A lessee may elect, by class of underlying asset, not to separate non-lease components from lease components	- IS expense structure - Asset structure (BS)	Firms with non-lease components in their leases	Size of lease liability
IFRS 16.46A	A lessee may elect not to assess whether a rent concession that meets the conditions in paragraph 46B is a lease modification.	- Operating expenses (IS) - No change of recognised right-of-use asset and lease liability	Firms in countries offering rent concessions Firms with rents affected by the pandemic	Size of lease liability

5.3.11 Regressions

We present our primary regression models below. The regressions for expedients related to IFRS 15 exclude firms in the finance, insurance and real estate industry, as their business models yield a different income structure, and we cannot ensure that IFRS 15 is applicable. On similar grounds, the three last regressions on the sum of practical expedients also exclude financial firms. As we include country and industry dummies, we do fixed effects to handle part of the endogeneity problem, as fixed effects absorbs unobservable variables that do not have within-country or within-industry variation. The regression below shows the model for our OLS regressions on IFRS 15.94, IFRS 15.121 and firms applying at least one practical expedient, as well as the two Poisson regressions with overt and all expedients as the dependent variable:

$$y = \alpha + \beta_1 Country_1 + \cdots + \beta_{18} Country_{18} + \beta_{19} Industry_1 + \cdots + \beta_{28} Industry_{10} + \beta_{39} SIZE + \beta_{30} INCSMO + \beta_{31} CEOOWN + \beta_{32} INSTOWN + \beta_{33} MB + \beta_{34} USLIST + \beta_{35} ANALYST + \beta_{36} LEV$$

The regression for IFRS 15.63 adds accounts receivables days (ARDAYS):

$$IFRS1563 = \alpha + \beta_1 Country_1 + \cdots + \beta_{18} Country_{18} + \beta_{19} Industry_1 + \cdots + \beta_{28} Industry_{10} + \boldsymbol{\beta_{29} ARDAYS} + \beta_{30} SIZE + \beta_{31} INCSMO + \beta_{32} CEOOWN + \beta_{33} INSTOWN + \beta_{34} MB + \beta_{35} USLIST + \beta_{36} ANALYST + \beta_{37} LEV$$

And lastly, the regressions for IFRS 16.5, firms with a low-value limit for IFRS 16.5, IFRS 16.15 and IFRS 16.46A include the lease liability (LL) instead:

$$IFRS16.X = \alpha + \beta_1 Country_1 + \cdots + \beta_{18} Country_{18} + \beta_{19} Industry_1 + \cdots + \beta_{28} Industry_{10} + \boldsymbol{\beta_{29} LL} + \beta_{30} SIZE + \beta_{31} INCSMO + \beta_{32} CEOOWN + \beta_{33} INSTOWN + \beta_{34} MB + \beta_{35} USLIST + \beta_{36} ANALYST + \beta_{37} LEV$$

5.3.12 Marginal effects

To interpret the coefficients in the Poisson regressions, we compute marginal effects. We compute average marginal effects (AME), which means we take the average marginal effect of all observations. AME is more common, and often deemed more appropriate than marginal effects at the mean (MEM), since AME computes the average of all observations, while MEM calculates the average of each variable and then compute marginal effects. Thus, MEM describes the marginal effect of a hypothetical observation that is at the mean of all variables. AME is more representative as it accounts for how variables correlate with each other and is more reasonable for variables where all observations are in the two tails, which is the case for our binary dependent variables.

5.3.13 Clustering

Clustering standard errors is desirable to account for violations of the assumption that observations are independent. This is a key assumption, but it is not as realistic in an accounting setting, where there might be correlation e.g. within countries or industries. Clustering by a group allows for correlation within that group and corrects standard errors. We cluster standard errors by country and by industry as a robustness test to account for within-country and within-industry correlation. As mentioned earlier, it is reasonable to assume that practical expedient application might be correlated within countries and industries, as their relevance depends on where the firm operates and the business model. However, we do not choose the regressions with clustered standard errors as our main models, as the test statistics are not reported in Stata, suggesting that we have too few clusters and that the sample is too small. Nonetheless, the clustered regressions confirm our main results.

6. Results and discussion

6.1 Explorative results – Antecedents and definition of practical expedients

6.1.1 Practical expedients in the standards

We begin by analysing the first part of our research question – the antecedents of introducing practical expedients. The starting point is the IFRS standards, where we search for practical expedients and similar options that are not called practical expedients. One of the standard setter interviewees mentioned that they do not know why some simplifications are labelled practical expedients. For this reason, we adopt a broader view. We find no explicit definition of practical expedients in the standards, complementary material or in other IFRS documentation. However, in the footnote on page 12 of an agenda paper from 2016 we find the following (IASB, 2016b):

> **Agenda paper:** "IFRS Standards use the term 'practical expedient' when referring to a specific simplified accounting treatment explicitly permitted by an IFRS Standard for cost benefit reasons."

This description is in line with the frequent argument of costs and benefits in BC and Discussion Papers. However, it is not an explicit definition, implying that there might be discrepancies in the interpretation of the concept. Also, this paper is from 2016, and no definition has been formulated since, even though new expedients have been added.

Next, we present accounting treatments with similarities to explicit practical expedients, but which the IASB does not refer to as expedients. One such example is the option in IFRS 16.5, allowing a preparer to disregard paragraph 22-49 for short-term and low-value leases. Like explicit expedients, the preparer is given an option to choose a simplified approach. Furthermore, IFRS 16.60 states that a firm is required to disclose if they apply IFRS 16.5, which is a requirement for some practical expedients as well. Another example of an option with practical expedient traits is the disclosure relief in IAS 24.25 for entities who have related-party transactions with governments, which also comes with a disclosure requirement.

A recent optional simplifying accounting treatment is the premium allocation approach in IFRS 17. The premium allocation approach offers a simplified approach for measuring insurance premiums. Notably, one of the standard setters consider this approach to be a practical expedient. Furthermore, the BC reveals that the IASB considers it to be simpler than the general requirements (IFRS 17 BC291). We also discover that the IASB considers a treatment of administration costs in IAS 19.130 a practical expedient:

> **Staff paper:** "We also searched the IFRS Standards to identify other examples of practical expedients. Among the examples we identified was one in IAS 19 Employee Benefits in relation

> to the accounting for pension plan administration costs. […] This is a cost-benefit expedient decision taken by the Board in the development of the Standard […]" (IASB, 2016a)

As the quote shows, this treatment is the result of a cost-benefit issue. The last sentence of the paragraph in 19.130 describes the facilitated treatment – "Other administration costs are not deducted from the return on plan assets". However, this is different to practical expedients, since it is not an option, but an exception for other administration costs. Hence, there seems to be a lack of consensus with regards to what a practical expedient is. The IASB appears to agree, as they write:

> **Staff paper:** "We propose that the final Practice Statement includes a description of materiality practical expedients, together with examples that identify what the objective of the materiality practical expedient is in each case, eg recognition, measurement, presentation." (IASB, 2016a)

These findings motivate a broader definition of practical expedients.

6.1.2 Overview and classification of practical expedients

The literature on accounting choices divides the choices into categories, such as: 1) presentation (e.g. cost by nature vs. function) (Kvaal & Nobes, 2010) 2) measurement or valuation (e.g. fair value or cost), 3) recognition (e.g. of intangible assets in the balance sheet), 4) classification (e.g. current vs. non-current assets) and 5) disclosure (Nobes, 2006). Similarly, practical expedients can be classified into groups. We identify practical expedients related to recognition, measurement, disclosure, transition, and presentation. Moreover, we identify a new category: temporary choices. The practical expedient for Covid-19 related to rent concessions in IFRS 16.46A is a temporary choice as it could only be applied until June 30, 2022. The expedient is similar to transition rules, but temporary expedients specify a date when it no longer can be used.

Further, the IASB has started to classify expedients into materiality-, presentation-, recognition-, measurement-, cost-benefit- and book-keeping expedients. Materiality practical expedients depart from the main accounting policy but are argued to be in line with the conceptual framework, as they are only introduced when the effect should not be material. (IASB, 2016a) Table 6.1 below presents all practical expedients we find, and which category we classify them into.

Table 6.1 Overview of practical expedients

The table presents all practical expedients we find, and the formulation in the standards for the expedients we focus on. All formulations can be found in Appendix VI. If the practical expedient has a disclosure requirement, the corresponding paragraph is listed in the column Disclosure.

Category	Practical expedient	Disclosure
Recognition	IFRS 15.94: As a practical expedient, an entity may recognise the incremental costs of obtaining a contract as an expense	15.129

	when incurred if the amortisation period of the asset that the entity otherwise would have recognised is one year or less.	
Recognition	IFRS 15.B16	
Recognition	IFRS 16.5: A lessee may elect not to apply the requirements in paragraphs 22-49 to: a) short-term leases, b) leases for which the underlying asset is of low value.	16.60
Recognition	IFRS 16.15: As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.	
Recognition	Exposure Draft ED/2015/8 IFRS Practice Statement: Application of Materiality to Financial Statements § 64	
Recognition/ Measurement	IFRS 15.4	
Recognition/ Measurement	IFRS 16.B1	
Measurement Temporary	IFRS 16.46A: As a practical expedient, a lessee may elect not to assess whether a rent concession that meets the conditions in paragraph 46B is a lease modification.	16.60A
Measurement	IFRS 16.105	
Measurement	IFRS 9.5.4.7	
Measurement	IFRS 9.B5.5.35	
Measurement	IFRS 15.63: As a practical expedient, an entity need not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.	15.129
Measurement	IFRS 13.71	
Measurement	IFRS 13.79(a)	
Measurement	IFRS 17.53-59	17.97
Disclosure	IFRS 15.121: As a practical expedient, an entity need not disclose the information in paragraph 120 for a performance obligation if either of the following conditions is met: a) the performance obligation is part of a contract that has an original expected duration of one year or less; or b) the entity recognises revenue from the satisfaction of the performance obligation in accordance with paragraph B16.	15.122
Disclosure	IAS 24.25	24.26
Transition	IFRS 15.C5	15.C6
Transition	IFRS 15.C7a	15.C6
Transition	IFRS 16.C3	16.C4
Transition	IFRS 16.C10	16.C13

Presentation	Exposure Draft ED/2015/8 IFRS Practice Statement: Application of Materiality to Financial Statements § 65
Presentation	Exposure Draft ED/2015/8 IFRS Practice Statement: Application of Materiality to Financial Statements § 63
Presentation	Exposure Draft ED/2015/8 IFRS Practice Statement: Application of Materiality to Financial Statements § 66

Recognition practical expedients relate to whether an entity must recognise an asset or liability on the balance sheet. Thus, they affect the balance sheet, turnover- and profitability ratios, why there could be incentives to apply such expedients to affect these figures. Items commonly do not have to be recognised if they are due within one year.

Measurement practical expedients facilitate the measurement or valuation of an asset, liability, or income statement item. Thus, these practical expedients can be used to shuffle amounts between line items and periods.

Disclosure practical expedients are binary – a firm discloses something in their annual reports or not. They do not have any effect on any financial statement figures but can affect the information usefulness of annual reports. Relatedly, **presentation** practical expedients facilitate how an issue is presented in financial reports. In Exposure Draft ED/2015/8, the IASB calls these expedients for book-keeping expedients, which conveys that they simplify book-keeping processes.

Transition practical expedients can only be applied when adopting a new standard or when first applying IFRS standards, thereby directly affecting the implementation cost and information usefulness. The main effect is on comparability, as they determine how similar new accounts are to previous years. Transition expedients can be deviations from the rule in IAS 8 advocating full retrospective application, which could create an opportunity for earnings management. **Temporary** practical expedients are also only available for a limited time. Therefore, they come with an inherent problem of comparability. Still, temporary practical expedients are useful for the IASB to alleviate the costs of external shocks that would result in unreasonable reporting requirements.

Altogether, the categories have in common that they facilitate accounting treatments, and that they aim to balance costs and benefits without significantly affecting comparability (e.g. BC IFRS 15.BC297, IFRS 15.BC445O and 16.BC136(b)).

6.1.3 Definition of practical expedients

Now when we have reviewed all practical expedients and their classification, we present the definition we infer from our document study and interviews:

> An accounting choice aimed at balancing costs and benefits of accounting treatments, that gives the preparer an option that simplifies the accounting method but that should not lead to a loss of material information.

Thus, cost-benefit literature appears to be more apparent than our other related research – i.e. Moscariello and Pizzo (2022) and principles vs. rules. On the other hand, it is unlikely that the IASB would express publicly that practical expedients are a tool to maintain legitimacy. Since we infer the definition from IFRS documents, it captures how the IASB views practical expedients, but they can still be used in the political process to manage legitimacy. Either way, practical expedients can further be divided into categories, and our presented categories of practical expedients all fit into the above definition. Next, we explore antecedents for introducing practical expedients.

6.1.4 Antecedents of practical expedients in IFRS documents

From all available IFRS material relating to practical expedients, we initially find three potential antecedents of practical expedients; 1) costs vs. benefits of accounting treatments, 2) stakeholder pressures and, 3) aligning with the FASB (IFRS, BC 16.135B, 15.297, 15.352, 10.225). However, even though the FASB often is mentioned in the BC, the IASB does not always choose the same practice (IFRS 15 BC1A, BC 188C-D, A1A(h); (IASB, 2023a). This antecedent is also rejected by our standard-setter interviewees, why we exclude this motivation from our final definition and do not focus on document findings related to this.

With regards to costs and benefits, the BC often refer to cost-benefit discussions when practical expedients are mentioned (e.g. IFRS 15.BC297, IFRS 15.BC445O and 16.BC136(b)), and the IASB's agenda- and Discussion Papers reveal that this discussion is present in the development and feedback processes as well. For example, the Exposure Draft of IFRS 9 highlights that the informational benefits of reporting on an expected loss basis outweigh its challenges. But in response to the difficulties brought up by preparers, the IASB introduced the provision matrix for estimating expected credit losses to simplify the process. (IASB, 2013) The expedient illustrates how the IASB attempts to balance user needs with preparer costs. Similarly, it is discussed in the Disclosure project that some useful disaggregated information might be unduly costly to provide, and it is suggested to allow firms to only provide an explanation of their approach (IASB, 2021a). Thus, the IASB again attempts to balance benefits and costs by suggesting a simplified process.

In a similar vein, agenda paper 18D about goodwill presents cost-benefit discussions regarding a suggested simplified impairment testing. The arguments are based on that the benefits do not justify the costs, and the paper discusses suggestions to reduce costs while maintaining informational value. However, many of the simplifications are not optional,

why we consider them to differ from practical expedients. Nonetheless, such discussions could be antecedents of practical expedients. (IASB, 2021b)

Cost-benefit discussions are also prevalent in the Primary Financial Statements project. This project reviews whether the income statement should be presented by nature or by function. In response to requests from users, a framework requiring entities to disclose certain cost items by nature is developed. The cost-benefit discussion has influenced the process and led to a suggested solution of a simpler and more rules-based application to balance costs related to increased requirements. (IASB, 2018). This development appears similar to how practical expedients have been introduced. The discussions also illustrate the continuous dialogue with stakeholders during the standard-setting process.

In addition to cost-related feedback, it is evident that the IASB receives feedback about practical expedients. For example, the term 'practical expedient' is described as confusing (IASB, 2016a). Further, some stakeholders argue that practical expedients could harm comparability when entities are allowed to account for similar transactions differently. At the same time, practical expedients have been suggested to improve comparability and facilitate reporting. Thus, the feedback varies. The extensive feedback illustrates how practical expedients can trigger amendments to standards, which could move them away from the desired accounting treatment. Some feedback is presented below:

> **IASB Staff paper, agenda reference 21, Primary financial statements § B13:** "Some respondents suggest that, to improve comparability between entities, the accounting policy choice should be restricted or replaced with a practical expedient." (IASB, 2023b)

> **IASB Staff paper, agenda reference 32A, IFRS 16 and covid-19, §15**: "…many investors noted that they do not like accounting policy choices and would prefer the practical expedient to be mandatory, rather than optional. In particular, investors were concerned about profit or loss comparability between lessees that apply the practical expedient and those that do not. However, investors also understood the Board's rationale for making the practical expedient optional and agreed that a mandatory practical expedient would not be as helpful to lessees." (IASB, 2020)

> **IASB Staff paper, agenda reference 32A, IFRS 16 and covid-19, § 21:** "The few respondents that disagreed with the proposed practical expedient did so because they would prefer the Board **to consider a broader principles-based approach**, rather than focusing the amendment only on Covid-19-related rent concessions. These respondents identified other significant events that might also give rise to rent concessions and, in their view, should **warrant a similar practical expedient**. Examples included an earthquake, an oil crisis or the recent economic unrest in Hong Kong." (IASB, 2020)

Lastly, an agenda paper regarding IFRS 15 reveals that preparers have requested more practical expedients:

> **IASB Staff paper, agenda reference 6C, Post-implementation Review of IFRS 15, § 30:** "A few preparers expressed concern that in some cases the costs of identifying and accounting for separate performance obligations exceed the benefits of doing so. [...] A few **preparers suggested** the IASB should **consider providing a practical expedient** for insignificant components of contracts." (IASB, 2023a)

Such feedback could be a result of practical expedients as stakeholders understand how simplifying accounting treatments are viewed by the IASB. However, the view of the staff on the above suggestion is that such a policy choice could harm comparability (Staff paper 6C §34A). Nonetheless, §35 states that the IASB would be better equipped to understand the pervasiveness of potential cost issues if similar patterns would be gathered. Thus, they invite feedback supporting that these requirements impose costs.

Altogether, this section shows that feedback from stakeholders and cost-benefit discussions are likely antecedents of practical expedients.

6.1.5 Interview insights on definition and antecedents

To complement the academic literature and the IFRS document review, we conduct interviews with two standard setters, one accounting specialist and one preparer.

Definition of practical expedients

No interviewee knows of any definition of practical expedients. Standard setter 1 states that the label 'practical expedients' might just be a new way of speaking about simplifying choices, allowing for more transparent communication on accounting challenges.

> "I don't think there's been any particular thought into why some simplifications are labelled as practical expedients and why some are not." – Standard setter 1

> "We have not established a general view of them [practical expedients], but I would think that a practical expedient is something that is introduced to make it easier for preparers to prepare financial statements, and which does not follow the main principles in the standards." – Standard setter 2

Cost-benefit arguments for introducing practical expedients

We are surprised that, despite the lack of a definition, all interviewees agree that practical expedients are introduced to balance the costs and benefits of the standards, and that they are a tool for the IASB in developing the standards:

> "It's a way of reducing the costs with the intention of maintaining as much as possible of the benefits of the information. So, they are simplifications that lead either to outcomes that are meant to be almost the same or outcomes that are a compromise between what is being asked for and what it is possible for entities to give without undue cost or effort." – Standard setter 1

As such, practical expedients appear to be a tool for communicating about accounting challenges, where standard setters must find a solution both operationally viable and that ensures users can make informed decisions. This illustrates how reaching a consensus is a political process, where standard setters must find a solution accepted both internally and externally (Hjelström, 2005). According to Litjens et al. (2012), preparers tend to focus more on costs, and standard setters therefore need to consider the context of preparers. The solid argumentation for practical expedients indicates that the due process has indeed considered the preparer context. Also, the way practical expedients are based on feedback on costs and benefits indicates that practical expedients are a result of the learning process of standard setting, as described in Hjelström (2005). Nonetheless, even though practical expedients might be relevant, they expose the standard-setting process. If this is desirable might be too early to tell.

Standard setter 1 also mentioned that the cost-benefit issue has been present longer than the term 'practical expedient'. This supports that there could be additional simplifying options which could be considered practical expedients. Standard setter 2 highlighted that IFRS 15 and 16 include more requirements than the standards they replaced, which could be a reason for the need of practical expedients. Moreover, the preparer explains that practical expedients and materiality are closely intertwined:

> "The materiality principle is always there in the background, and materiality, as a concept, is actually very similar to practical expedients, even if they might be applied differently. The materiality principle can be used in different ways, either to save costs if an accounting treatment is cumbersome to apply or if there are large costs for very little additional benefit, or to simplify because of different reasons." – Preparer

From this perspective, practical expedients can assist firms in applying the materiality principle. Further, Standard setter 2 reasoned that there ought to be a material effect from applying practical expedients, since they otherwise could be disregarded based on the materiality principle. Thus, we see a tension with regards to materiality – the IASB argues that practical expedients should not affect financial statements, while the preparer and Standard setter 2 argue that the effect must be material for preparers to disclose them. Furthermore, this relates to the IASB's suggested classification of practical expedients, where they say that materiality practical expedients should not lead to a material impact on accounting numbers (IASB, 2016a).

Stakeholder pressure

Standard setter 1 insinuates that being a global standard-setting body inevitably results in political pressures. The accounting specialist and the preparer also state that practical expedients likely are a result of feedback from preparers. Thus, the interviews confirm that preparers are an active lobbying group, as found in Giner and Arce (2012).

> "...issuing a standard is a question of bringing people together, forming a consensus. Where can we land on this topic? Are we going to get support from enough people to allow us to issue a standard?" – Standard setter 1

We ask if preparers might use the transparency and the way of speaking about balance in the standards to exert more pressure on the IASB for additional simplifications. According to Standard setter 1, this pressure has always been present. Rather, the IASB is now better at articulating their arguments, which also could encourage preparers to state their motivations more clearly. Thus, by transparently communicating about simplifications, some political problems can be overcome. Altogether, these findings are in line with the description of standard setting as a political process in Hjelström (2005). The accounting specialist and Standard setter 2 do not see a risk of preparers requiring more expedients either.

Rules vs. principles and practical expedients

We ask the interviewees how practical expedients fit with the principles-based approach of IFRS, as the expedients are similar to rules. Standard setter 1 considers practical expedients to be in line with the principles-based approach, but highlights that whether a standard should be interpreted as principles- or rules-based depends on the level of detail provided. The more the standard is developed over time, the more challenging it is not to provide specific guidance, and this guidance might be interpreted as rules. This is in line with Nelson (2003), who states that standards tend to become more rules-based as guidance is added. Practical expedients can be seen as an example of this, as they match Nelson's (2003) definition of rules – "specific criteria, 'bright line' thresholds, examples, scope restrictions, exceptions, subsequent precedents, implementation guidance, etc.". This argument contradicts Standard setter 1, as practical expedients then make the standards more rules-based. The accounting specialist also interprets practical expedients as more rules-based:

> "Sometimes it feels like it's very specific rules for how to report or disclose about something. So, in that sense, the relief rules could be very specific and not principles-based." – Accounting specialist

The preparer also appears to identify a struggle for the IASB to remain principles-based, and states that the IASB has started to answer questions more clearly through Agenda Decisions. Before, the IASB aimed not to answer questions but stick to the principles.

> "Now they [the IASB] have started with something that is kind of in between, and that is the so called Agenda Decisions, where you say that 'we are not going to answer the question, but you should do it like this' and then everybody is supposed to follow that 'no answer'" – Preparer

Thus, there seems to be a tension in how practical expedients fit in a principles-based regime. The question remains whether a principles-based regime can include practical expedients and still be considered principles-based. However, the inclusion of rules-like

accounting treatments is not new within IFRS, as e.g. transition rules and IAS 38.48 are more rules-like.

FASB influence on practical expedients

Further, we ask if the FASB has influenced the introduction of practical expedients since we find references to the FASB in the BC. However, the idea of IFRS standards aligning with US GAAP is cast aside by both standard setters. The lack of new joint projects and the failure to develop IFRS 16 together supports this direction. Nonetheless, the two bodies influence each other as comparability is desired by stakeholders. Many firms are listed both in the US and in another country and want similar practices within both standard-setting frameworks. Standard setter 2 adds:

> "I don't think that it would be a direct link. If the US has some practical expedients that IFRS hasn't, that would not mean that IFRSs will also introduce it. […] But there could be an indirect effect if companies reporting under IFRS think that something is costly, then they can point and say 'see, in the US they have this practical expedient and that is something that could also work in an IFRS environment'." – Standard setter 2

Practical expedients are seen as successful, but come with drawbacks

According to Standard setter 1, practical expedients are successful as they enable standard setters to balance different needs of stakeholders. Standard setter 2 adds that practical expedients are preferable to other accounting options, as the preferred accounting treatment is clear but practical expedients allow a simplified way. When we ask Standard setter 2 if they believe practical expedients could result in a loss of important information, they mention IFRS 15.63 and explains that users do not believe that excluding the financing component is important. This would support that the practical expedient reduces costs without harming information usefulness.

The accounting specialist also believes that practical expedients are well-grounded and should not result in reduced comparability or a loss of essential information. Overall, the simplifications are seen as useful. Similarly, the preparer states that practical expedients are helpful, as they clearly define how the entity can simplify the accounting process if needed. The preparer underscores that the transition practical expedients in IFRS 16 were particularly helpful for the company:

> "We applied the practical expedients in IFRS 16 relating to applying the standard retrospectively, because that would have been immensely complex, costly and perhaps even impossible, actually [...] [the transition practical expedients] were immensely important expedients […] We benefited very, very much from them" – Preparer

Nonetheless, Standard setter 2 underscores that practical expedients come with drawbacks:

> "Of course, there are some issues with practical expedients. They do make financial statements less comparable if some entities use them and some entities don't. And, if they're not following the principles in the standards, and they [practical expedients] are deviations from the principles, then the financial statements and the information included can be less understandable" – Standard setter 2

Also, the accounting specialist states that practical expedients can be difficult to understand if you do not have experience within accounting. However, the accounting specialist does not see a risk of practical expedients resulting in lower quality of financial statements, as they argue that expedients should not have a material impact on numbers. When we ask if there is a risk that preparers exploit practical expedients to smooth earnings, the accounting specialist answers that this risk should not be significant, as preparers should not change their policies arbitrarily. In general, the accounting specialist believes preparers act in good faith, and that it is in the interest of preparers to report correctly. Altogether, these findings add to the research on whether rules- vs. principles are preferred by complementing the benefits of rules-based regimes presented by Schipper (2003). Perhaps, practical expedients could exploit the benefits of principles while also allowing for simplifying rules.

Standard setter 2 points out that even if a firm discloses that they apply practical expedients, users must still read the notes to acquire this information. Thus, disclosure might not be enough to justify practical expedients, since users who do not read the notes might believe that numbers are comparable. Standard setter 2 continued by stating that practical expedients should only be maintained if they are applied and add value to preparers, since they still make financial statements less understandable. This viewpoint shows that it is not known how widespread the use of practical expedients is in practice is, underscoring the relevance of our quantitative analysis.

Preparer considerations when applying practical expedients

The preparer explains that they only consider practical expedients when applying a standard for the first time. During the implementation, the preparer considers what options are most appropriate, and then those practices are maintained. Thus, practical expedients do not seem to be a major consideration. Moreover, competitors do not influence their choices, but they could influence indirectly through requests from users. Also, the preparer highlighted that internal acceptance is equally important as external. The practices should be understandable to employees and assist them in their everyday work. Hence, another motivation for applying practical expedients could be if it facilitates internal accounting. Whether all preparers view practical expedients in this manner is left open to confirm in future research.

6.1.6 Summary of antecedents of practical expedients

To summarise, we find the main drivers of practical expedients to be cost-benefit considerations and stakeholder pressures. This is in line with Moscariello and Pizzo (2022), as we find support for a political process underpinning practical expedients. Moscariello and Pizzo (2022) argue that practical expedients help the IASB to maintain legitimacy, which our findings confirm, as we see that practical expedients are a tool to balance costs and benefits. The cost-benefit argument is used to gain acceptance in the political process, which aligns with the definition of legitimacy by Suchman (1995) applied in Moscariello and Pizzo (2022).

Despite the lack of an official definition, the interviewees share surprisingly similar views of practical expedients. The interviewees do not seem to be worried about practical expedients, as they are perceived as justified. Additionally, convergence with the FASB does not seem to be a driver; if any, the FASB would have an indirect effect on the introduction of practical expedients. However, it remains unclear whether practical expedients are in line with a principles-based regime. Standard setter 1 says yes, while the accounting specialist and the preparer lean towards no. Also, Standard setter 1 contradicts themselves when stating that being rules-based is merely about the amount of detail. Since practical expedients provide more details, are they not more rules-based?

Thus, our findings suggest that practical expedients are deviations from the standards but are still seen as successful. As our interviews cover a broad range of stakeholders, it does seem safe to conclude that practical expedients are not a major issue. This conclusion is supported by no interviewee being concerned about risks with practical expedients. Nonetheless, one of the standard setters and the preparer think practical expedients should have a material effect. Thus, practical expedients seem to be perceived as well-motivated, as stakeholders are not worried even though they believe practical expedients should have a material effect.

The untroubled view raises the question whether a definition of practical expedients is needed. Since practical expedients are viewed as successful, why would the IASB bother to define them? However, some staff papers reveal that there has been confusion about practical expedients. Also, there is a lack of consensus on when the term is used within the IASB, illustrated by the treatment in IAS 19 where a facilitation that is not an option is called a practical expedient. Thus, even though the simplifications appear well-grounded, they have developed rather ad hoc. Additionally, if practical expedients are a new way of communicating about accounting challenges, a common understanding of the concept among stakeholders might further facilitate communication.

Further, the different categories of practical expedients have varying implications, why the classification can help the IASB in assessing the practical expedients. The preparer emphasised that the transition practical expedients were helpful, but recognition and measurement expedients could be considered more important as they are not one-off.

Moreover, temporary practical expedients are likely to harm comparability more since they can only be applied for a limited time. Thus, the cost argument might be more justified for some categories of practical expedients, while harmed benefits might be stronger for others.

Either way, practical expedients are perceived as helpful, as preparers seem to prefer clear guidelines. As Bertomeu and Magee (2015) highlight, preparers will always prefer to be offered alternatives, as they can choose the option with the best cost-benefit balance for their situation. However, practical expedients might be better, as they also define a preferred way of reporting, which makes it simpler for preparers to decide. Furthermore, this seems to align with the findings of McEnroe and Sullivan (2013) that a rules-based approach is preferred by external stakeholders. This could pose a threat to the principles-based approach in case lobbying for more simplifying choices increases.

No interviewee expresses a concern about preparers asking for more practical expedients, despite one post implementation review showing that preparers want more reliefs. However, one of the standard setters point out that there could be increased pressure if the demands in future standards cannot be accommodated by current accounting systems. Moreover, Litjens et al. (2012) state that preparers have non-linear cost-benefit analyses when assessing standards, why more transparent communication about the costs could create incentives to increase lobbying activities. It might be too early to say whether the introduction of practical expedients will increase requests for simplifications as the first post-implementation reviews of the standards have just started. Thus, it could be beneficial to monitor the development and be aware of the risk of increased pressure.

6.2 Quantitative results – Analysing how preparers apply practical expedients

6.2.1 Main findings regarding how preparers apply practical expedients

This section moves on to the results from our regressions regarding how preparers apply practical expedients. We conclude that there are only some country and industry patterns. This finding is surprising, as previous research on accounting options finds strong country and industry effects on accounting choice. The lack of clear patterns could mean that practical expedients successfully reduce costs without impacting the benefits to the users of financial statements. In that case, the IASB has found a tool to balance requests from preparers and needs of users. The patterns we do find show that German-speaking countries tend to apply practical expedients more. Also, the few coefficients that are significant in our regressions relate to ownership. In the next sections, we go through the descriptive statistics, the key regression results and revisit our research propositions.

6.2.2 Descriptive statistics

As can be seen in Table 6.2, the number of companies in each industry varies. Most of the companies belong to the manufacturing (MANU) or finance, insurance and real estate (FIRE) industry. The uneven distribution makes it difficult to draw implications for the industries with few observations, and we only compute the percentage application for the industries with more than 20 observations. These numbers should be interpreted with caution as the sample size is small, and since we only analyse the descriptive statistics.

Table 6.2 Descriptive statistics of practical expedients applied by industry

The industries are: agriculture, forestry and fishing (AFF), construction (CONS), finance, insurance and real estate (FIRE), manufacturing (MANU), mining (MINI), public administration (PUBL), retail trade (RETA), services (SERV), transportation, communication, electric, gas and sanitary services (TCEGS) and wholesale trade (WHOL). OPE is the sum of all overt practical expedients found, i.e. practical expedients with disclosure requirements. APE is the sum of all practical expedients found.

Industry	N	15.63	15.94	15.121	16.5	16.15	16. 46A	15.B16	16.B1	15.4	OPE	APE
AFF	**1**	0	0	0	1	0	0	0	0	0	1	1
CONS	**13**	3	2	0	11	0	5	0	0	0	21	21
FIRE	**110**	9	8	3	92	9	52	1	1	0	164	177
		8%	7%	3%	84%	8%	47%	0%	0%	0%	1.5	1.6
MANU	**174**	66	21	25	161	42	71	10	10	0	344	404
		38%	12%	14%	93%	24%	41%	6%	6%	0%	2.0	2.3
MINI	**7**	4	1	3	6	1	4	1	1	0	18	24
PUBL	**8**	3	1	0	8	1	4	0	0	0	16	18
RETA	**20**	3	1	1	19	1	15	1	1	0	39	43
		15%	5%	5%	95%	5%	75%	5%	5%	0%	1.95	2.15
SERV	**38**	13	9	8	36	9	17	0	0	0	83	95
		34%	24%	21%	95%	24%	45%	0%	0%	0%	2.2	2.5
TCEGS	**69**	20	12	13	52	16	40	6	6	5	137	173
		29%	17%	19%	75%	23%	58%	9%	9%	7%	2.0	2.5
WHOL	**7**	1	0	0	6	0	2	0	0	0	9	10
Total	**447**	**122**	**55**	**53**	**392**	**79**	**210**	**19**	**19**	**5**	**832**	**966**

There are weak patterns. First, IFRS 16.5 – which offers simplifications for short-term and low-value leases – is applied by most companies across industries. 392 out of 447 firms apply this expedient, corresponding to 88% of the sample. Second, IFRS 16.46A is relatively common across industries, as 41-75% of the companies apply it. Nonetheless, retail trade (RETA) is the industry applying IFRS 16.46A the most. This is reasonable as IFRS 16.46A allows the entity not to account for Covid-19-related rent concessions as lease modifications, and the retail industry was severely affected by the pandemic and commonly enters lease contracts. Further, IFRS 15.63 is the third most common practical expedient, allowing entities not to separate financing component from revenue. Approximately one third of the firms in MANU, services (SERV) and transportation, communication, electric, gas and sanitary services (TCEGS) apply this expedient.

When looking at the average number of practical expedients applied per firm, SERV applies the most overt practical expedients (2.2 per firm), and SERV and TCEGS apply

the most expedients overall (2.5 per firm). Naturally, the FIRE industry does not apply as many practical expedients (1.6 per firm overall), as the practical expedients in IFRS 15 are not as relevant for their business model. If we disregard the FIRE industry, the average number of practical expedients applied per firm is similar across industries, ranging from 2.15 to 2.5 when including all practical expedients.

Table 6.3 Descriptive statistics of practical expedients applied by country

The countries are: Austria (AUS), Belgium (BEL), Croatia (CRO), Denmark (DEN), Finland (FIN), France (FRA), Germany (GER), Greece (GRE), Hungary (HUN), Italy (ITA), The Netherlands (NET), Norway (NOR), Poland (POL), Portugal (POR), Spain (SPA), Sweden (SWE), Switzerland (SWI) and United Kingdom (UK). OPE is the sum of all overt practical expedients found, i.e. practical expedients with disclosure requirements. APE is the sum of all practical expedients found.

Country	N	15.63	15.94	15.121	16.5	16.15	16.46A	15.B16	16.B1	15.4	OPE	APE
AUS	**25**	9	4	7	23	3	16	3	1	2	59	69
BEL	**25**	2	4	1	19	4	16	0	2	0	42	48
CRO	**25**	8	1	2	25	3	11	2	0	1	47	53
DEN	**25**	8	3	3	21	0	7	0	4	0	42	47
FIN	**25**	8	2	1	23	7	1	0	0	0	35	43
FRA	**25**	8	2	1	23	2	16	1	0	0	50	53
GER	**25**	16	10	9	24	9	9	1	2	1	68	81
GRE	**25**	4	0	0	20	5	24	0	2	1	48	56
HUN	**22**	3	1	1	18	4	20	0	1	0	43	49
ITA	**25**	8	2	1	19	5	6	0	1	0	36	43
NET	**25**	6	4	3	22	9	14	1	3	0	49	63
NOR	**25**	9	4	5	24	5	1	3	0	0	43	51
POL	**25**	7	4	4	24	2	17	5	1	0	56	66
POR	**25**	5	1	0	21	6	24	0	0	0	51	57
SPA	**25**	5	2	0	18	2	8	0	0	0	33	37
SWE	**25**	5	7	6	24	6	2	3	1	0	44	54
SWI	**25**	4	2	5	23	4	12	0	0	0	46	50
UK	**25**	7	2	4	21	3	6	2	1	0	40	46
Total	**447**	**122**	**55**	**53**	**392**	**79**	**210**	**21**	**19**	**5**	**832**	**966**

Here, we show the practical expedients applied by country. As we have 25 observations for all countries except for Hungary (22 observations), we compare the numbers directly. Overall, Table 6.3 shows slight between-country variation. Again, IFRS 16.5 is the most common practical expedient, applied by most companies in all countries. However, the application of IFRS 16.46A appears to differ more between countries. This is reasonable, as different countries were hit to a varying degree by the pandemic, and the possibility to receive rent concessions is likely to differ between countries.

Notably, Germany seems to apply practical expedients more than other countries, as we find 68 disclosures on overt practical expedients and 81 disclosures in total. Particularly, German companies apply the expedients in IFRS 15 to a greater extent. Austria also applies practical expedients more. The country with the lowest number of overt and total expedients is Spain. The country effect could potentially be explained by the fact that the

largest 25 companies in different countries consist of different industries. Some practical expedients, such as those in IFRS 15, are less applicable to e.g. banks, why it is reasonable to expect that countries where many of the largest companies belong to the FIRE industry do not apply as many expedients. For example, Spain has seven companies belonging to the FIRE sector, while Germany only has three.

Even if we find disclosures about practical expedients in the annual reports, we do not know how many firms that apply practical expedients but do not disclose it. Thus, it is important to be aware of this potential false negative result.

6.2.3 Overview of regression results

We perform seven OLS regressions and two Poisson regressions. The regressions confirm that there are no strong patterns, as few variables are significant. The only significant explanatory factor in several regressions is institutional ownership (INSTOWN), suggesting that ownership could influence the choice to apply practical expedients. However, the coefficients are close to zero, indicating that the effect is small.

Table 6.4 Summary of results from main regressions

The table presents the results from our main regressions. As most independent variables are insignificant, detailed tables with model statistics can be found in Appendix VII.

Dependent variable	Significant results
IFRS 15.63 – significant financing component	No significant coefficients
IFRS 15.94 – incremental cost of obtaining a contract	INSTOWN significant but small coefficient (coefficient 0.01, p = 0.004)
IFRS 15.121 – disclosure of performance obligations	INSTOWN significant but small coefficient (coefficient 0.00, p = 0.034)
IFRS 16.5 – short-term and low-value leases	CEOOWN significant but small coefficient (coefficient -0.01, p = 0.004)
IFRS 16.5 low-value limit	USLIST significant (coefficient -0.31, p = 0.006)
IFRS 16.15 – non-lease components	ANALYST significant but small coefficient (coefficient -0.01, p = 0.026)
IFRS 16.46A – Covid-19-related rent concessions	INSTOWN significant but small coefficient (coefficient 0.00, p = 0.032)
Overt practical expedients	INSTOWN significant but small coefficient (coefficient 0.02, p = 0.020)
All practical expedients	No significant coefficients

We are surprised that we see no clear patterns, as previous research shows that country, industry, and topic factors influence accounting choice. Therefore, it is interesting to delve deeper into potential explanations for the lack of patterns in this section. First, we conclude that practical expedients are indeed used by firms. Thus, it seems as if the IASB

has succeeded in providing preparers with reliefs. This knowledge can be useful to the IASB when developing standards – since practical expedients are used, it is even more important that they are justified and not affect financial statement users negatively. This result also encourages future research of the impact on value relevance. Additionally, our findings show some variation depending on the practical expedient. The most common one is IFRS 16.5, followed by IFRS 16.46A, but many firms state that this practical expedient has no material impact on financial statements.

Research proposition I: Country influences practical expedient application

There is only some between-country variation in our sample, but application of IFRS 16.46A varies more. Also, German-speaking countries seem to apply practical expedients more, especially within IFRS 15. Still, the overall variation is weak, in contrast to what previous research predicts. If practical expedients have a small impact on accounting numbers, Stadler and Nobes (2014) suggest that country factors should have the strongest influence, which is not evident in our results. Perhaps, their framework is not as suitable for these simplifying rules, which should have a small impact according to the BC in most cases. Thus, practical expedients might not affect financial statements enough to induce country patterns. If practical expedients would have a material effect on accounting numbers, we should see patterns, as the effect would have created incentives for some preparers to apply them. If there is no effect on numbers, there are no other clear incentives to apply practical expedients except to lower costs.

Nonetheless, if German-speaking countries apply practical expedients more, these users will have to understand the effects of practical expedients and take that into account when comparing companies. Stadler and Nobes (2014) would argue that the higher application in German-speaking countries could be due to national accounting standards. The national accounting standards might allow for similar simplifications, why those companies are more prone to opt for the practical expedients. Another potential explanation could be that practical expedients make the reporting more similar to tax rules, thus facilitating tax accounting, in line with Ball (2006) showing that the relationship between tax- and financial reporting influences accounting choice. German-speaking countries have been found to have financial accounting rules that are closer to tax accounting rules than other countries (Black & White, 2003). Still, we only observe this pattern descriptively, and it could be due to the industry composition in Germany.

Research proposition II: Industry influences practical expedient application

There are no clear industry patterns either, which also contradicts previous research on accounting choices. We see descriptively that the application of IFRS 16.46A varies between industries, and that this expedient is most common in the RETA sector. In total, the average number of practical expedients in the FIRE industry is lower, which is expected as the expedients in IFRS 15 are not as relevant for their business model. When looking at the average number of practical expedients applied per firm in other industries,

there are only slight differences. The overall weak variation contradicts the framework by Stadler and Nobes (2014), which would predict an industry effect by referring to the desire to be similar to industry peers or that the choice impacts an important accounting number in that industry. Just as for country effects, our results might be due to practical expedients not affecting the financial statements enough for industry to have an influence. If practical expedients would have been like other accounting choices, incentives and earnings management would have induced patterns. Thus, the lack of patterns indicates a lack of incentives. The lack of industry variation might also be explained by the preparer statement that they do not base their practical expedient usage on peers, but on how it would affect decision usefulness for users and internal employees.

Research proposition III: Topic factors influence practical expedient application

Further, no topic factor is significant in the regressions, suggesting that practical expedients are not material enough to induce patterns for topic factors either. There are only a few other significant variables. In the regression investigating what factors affect if a firm has a specified low-value limit for IFRS 16.5, being listed in the US is significantly negatively associated with having a limit. This is one of the largest coefficients in our results at -0.31 ($p = 0.006$). Besides that, the number of analysts has a negative effect on applying IFRS 16.15 (-0.01, $p = 0.026$). Since these variables only are significant in one regression each, we cannot draw any inferences about their effect on practical expedient application in general. Moreover, we find no significant results for our income smoothing variables, further pointing towards that practical expedients do not have a material effect on financial statement numbers.

Research proposition IV: Ownership influences practical expedient application

The results suggest that ownership influences how preparers apply practical expedients, even if the magnitude is small. Thus, our results are in line with Burgstahler et al. (2006) and Mäki et al. (2016) who show that ownership affects accounting choice. Since institutional ownership shows a positive effect on practical expedient application, firms with institutional owners might feel more confident that the investors, who are more sophisticated than retail investors, will understand practical expedients, and therefore they do not induce information asymmetry by applying them. On the other hand, the negative effect of CEO ownership suggests that when a CEO has incentives in the firm, they do not apply IFRS 16.5, suggesting that applying the practical expedient could be negative for the future value of the company. Either way, ownership appears to have an effect.

Our sample suffers from collinearity, which likely is due to too few observations or low variation. Since we have quite many variables – especially with all country and industry dummy variables – it is likely that some coefficients are significant by chance. When it comes to the problem of endogeneity, we have accounted for part of this problem by using country and industry fixed effects, and by including control variables that reduce omitted variables bias. Still, a potential source of endogeneity could be the measurement error

that arises when we include control variables that are proxies for what we want to capture. The difference between the proxy and the true value is captured by the error term, which then correlates with one of our control variables.

6.2.4 Robustness tests

We do the following robustness tests: 1) cluster standard errors by country and industry, 2) perform a regression with a binary variable capturing if a firm applies at least one practical expedient, 3) create country groups, 4) create size groups, 5) use an alternative income smoothing metric and 6) include financial firms in the regressions where they are excluded. The results confirm our main results, as we still find no clear patterns, and institutional ownership remains significant in some regressions. However, the country groups Eastern, Latin, German and Less-developed latin have a positive effect on applying IFRS 16.46A, confirming that there is a larger country effect for that expedient. More detailed results of our robustness tests are available in Appendix VIII.

6.3 Disclosure-related findings

We have now investigated the antecedents of practical expedients and how preparers apply them in practice. The findings suggest that practical expedients have been introduced for cost-benefit reasons and from stakeholder pressure, and that there are no strong patterns for how firms apply them. Next, we analyse disclosures from the annual reports to find potential explanations for why we only find weak patterns.

6.3.1 Variation in clarity of disclosures

Our disclosure-related findings indicate that firms from different countries and industries disclose their application differently. Even though most firms use clear formulations – e.g. Sandvik's formulation below – some firms are ambiguous. Thus, even if the application did not vary in our quantitative analysis, it could be more difficult for users to determine if an expedient is applied from the disclosures. This is especially true for users without accounting knowledge.

> "Sandvik uses the practical expedient to not calculate and account for significant financing component if the period between the transfer of a good or service to a customer and payment is 12 months or less." – Sandvik, Sweden

Our general impression is that it is more common with clear disclosures in the Nordics, German-speaking countries and the Netherlands. Further, Nordic firms appear to include references to the specific IFRS paragraph more often. In some countries, it appears more common to include a limit for low-value assets in lease accounting, e.g. in Italy. Altogether, we experience variation in disclosures. Thus, the country and industry variation that is expected based on previous research could appear in the disclosures rather

in the binary application patterns. If there is more variation in the disclosure, users will be affected differently even if there is little variation in how many firms apply expedients.

Many firms writing clear formulations use phrases such as 'practical expedient', 'exemption', or 'practical solution' or refer to the paragraph when disclosing whether they apply an expedient. In contrast, the ambiguous disclosures leave the reader to question how a transaction is treated. A common theme is the unclear word 'generally'. In other cases, firms only state what the standards allow but not how the firm applies it. The IASB identified this problem as they highlighted in a Discussion Paper that many firms write generically or copy the formulation from the standards, rather than explaining how the entity applies it (IASB, 2017). Some examples of vague formulations are listed below, and other common disclosures for each expedient are listed in Appendix IX.

Table 6.5 Vague disclosures

Firm	Country	Excerpt
Firms that write "generally"		
Sartorius	Germany	"The lease payments do generally not include any payments in relation to non-lease components."
Reply	Italy	"Any component relating to the services included in the leasing fees is generally excluded from IFRS 16."
Diageo	UK	"Generally, payment of the transaction price is due within credit terms that are consistent with industry practices, with no element of financing."
Safran	France	"On rare occasions, the impact of a financing component will also be taken into account in recognizing revenue, when the component is significant relative to the contract transaction price."
Firms that state the rule but not the treatment		
Cellnex	Spain	"As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement."
Tomra	Norway	"Very few contracts are sold with payments terms exceeding one year, and the finance component of these contracts is considered immaterial."
Other vague formulations		
LVMH	France	"For leases not required to be capitalized, there is little difference between the expense recognized and the payments made."

These excerpts highlight the difficulty users face when discerning which accounting treatment is applied. With regards to IFRS 16.5, some firms do not explicitly explain if low-value and short-term leases have been excluded, but they show tables of expenses relating to such leases, implying that they use the exemption. Thus, the user must be quite knowledgeable about accounting to be able to make this interference from the notes. Moreover, some firms call other simplifying accounting treatments practical expedients

even though the standard does not label them as such. One such example is IFRS 7.29 relating to fair value disclosure reliefs. This ad hoc labelling could render more confusion. Paragraph 6.6 in the IASB Discussion Paper on disclosures highlights that the usefulness of disclosures might not always be satisfied due to e.g. entities not distinguishing which accounting policies that are necessary to understand the financial statements or when a choice between alternative policies are allowed in IFRS (IASB, 2017).

Additionally, there might be a tension between the disclosure requirements and the materiality principle, relating to the close relationship with the materiality principle brought up in IASB documentation and our interviews. There is a risk that firms ignore the requirement with reference to materiality. This relates to the finding by Boujelben and Kobbi-Fakhfakh (2020) that no construction company disclosed that they apply practical expedients, which the authors highlight can be due to "unintentional neglect, a misinterpretation of disclosure requirements or an intentional decision to not comply with the rules". The variation in disclosures also creates a risk of practical expedients reducing international comparability, which is one of the main objectives of the IASB (IFRS Foundation, 2022d). Thus, even though they lower costs and facilitate the political process, practical expedients could be problematic for accounting harmonisation. This would result in lack of accounting practice harmonisation and illustrates that accounting regulation harmonisation does not necessarily lead to harmonisation in practice, as argued by Jones and Finley (2011). It might have implications for information usefulness as well.

We also find disclosures relating to practical expedients without disclosure requirements. Firms have likely chosen to disclose this information as it has a material impact on their financial statements. Perhaps, even though practical expedients with disclosure requirements do not appear to be a problem, practical expedients without disclosure requirement could introduce confusion. Without disclosure requirements, there is a larger risk that firms do not disclose their application even though it is material.

Altogether, the disclosures shed new light on our findings. Even though the analysis of the standard-setting process suggests that practical expedients can reduce costs without harming benefits, and even though we do not find strong patterns in how firms apply practical expedients, the disclosures reveal that practical expedients still could entail problems. We find variation in how clearly firms disclose that they apply practical expedients, why users could experience difficulties in understanding annual reports. Thus, a potential explanation for the lack of country and industry patterns in application of practical expedients could be that the patterns appear in the disclosures instead, in the form of varying ambiguity. This explanation relates to the classification in Nobes (1998) that countries with strong equity financing have a need for comprehensive disclosures, while countries with strong credit financing focus on creditor protection. The differences in the disclosures could potentially be explained by this distinction, which motivates clear disclosure requirements to promote international comparability. Also, this argument

would support that ownership structure influences how preparers apply practical expedients.

6.3.2 Limitations of our results

All our results should be read in the light of the limitations of this study. One limitation is that we collect data on practical expedient application manually, as hand-collected data is more subjective and there is a risk of missing data. Further, we have only analysed one year. Even though we argue that application of practical expedients is sticky, there is a risk that 2021 is not representative for other years. A firm might also have fewer transactions fulfilling the criteria for applying a practical expedient in a certain year, why the effect might differ between years. Another limitation is the disclosure problem, as there is a possibility that firms apply practical expedients but do not write about them. Focusing on 2021 also implies that we cannot look at transition practical expedients, since no new standard was released in this year. Future research could investigate the application of transition practical expedients, as the preparer underscored how important they are.

7. Concluding remarks

Our study contributes with both qualitative and quantitative results. Through this combined approach, we create a comprehensive overview of practical expedients, and we find that both analyses support the same conclusion from different angles.

First, our qualitative analysis shows that cost-benefit considerations and stakeholder pressure are the two main antecedents of practical expedients. We complement the findings by Moscariello and Pizzo (2022), as we find support for their conclusion that practical expedients are a tool to manage legitimacy, but we add that practical expedients can be used to manage the cost-benefit balance. We argue that handling stakeholder pressure and maintaining legitimacy are two perspectives of the same process, as the IASB will lose legitimacy if stakeholders are not content. As practical expedients address costs and benefits of alternative accounting treatment, they do align with the conceptual framework of the IASB, but they are still rules that are introduced in a principles-based regime. Whether practical expedients threaten the principles-based approach and the independency of the IASB is still open for discussion and could depend on how the IASB manages to balance stakeholder pressures with their standard-setting objectives. For example, there is a risk that preparers request more practical expedients, moving IFRS further from principles-based accounting.

Second, our quantitative analysis shows that practical expedients are indeed applied in practice, but there is variation across IFRS standards. We find no strong country or industry patterns, but German-speaking countries appear to apply practical expedients to a greater extent. Also, ownership has a significant influence on expedient application, as institutional ownership has a positive effect on four expedients, and CEO ownership had a negative effect on one expedient. Still, the lack of stronger patterns is surprising, as country and industry factors have been found to influence accounting choices. According to past research, the effect is due to the possible impact of the choice on accounting numbers, which creates incentives that vary between countries and industries. Thus, a possible explanation of our results is that practical expedients do not materially influence accounting numbers, as suggested in several BC relating to practical expedients. Thereby, the only incentive for firms to apply expedients appears to be to lower accounting costs, indicating that practical expedients indeed lower the costs of reporting without decreasing accounting quality. However, two interviewees suggest that practical expedients ought to have some material effect, as the preparers otherwise could choose not to disclose with reference to the materiality principle. Future research is therefore needed to confirm our results.

Another explanation for the lack of clear patterns could be that practical expedients are different from other accounting options as they are explicit simplifications that present a preferred way of reporting and a simplified way of reporting. This logic contradicts the

usual reasoning of the IASB, who often argue that complex situations require complex reporting. The simplifying characteristic of practical expedients might dilute any patterns as any firm fulfilling the criteria of the expedient may apply it. Even though we do not see any clear country, industry or topic factor trends in the application of practical expedients, we discern patterns in how firms disclose their application, as some preparers use vague formulations. This complicates for users to distinguish how a transaction has been accounted for, why the varying quality of disclosure might become a problem.

Altogether, our findings are novel. If practical expedients in fact do not materially impact accounting numbers, preparers benefit from reduced accounting costs without affecting accounting quality and the IASB has a new tool for developing well-balanced standards in line with their due process. We contribute to the knowledge about practical expedients by investigating the motivations behind and how preparers apply practical expedients. Critically, we link these aspects together, which strengthens our conclusions, as we combine a qualitative and quantitative approach and the implications from both analyses point in the same direction. The only previous study on practical expedients by Moscariello and Pizzo (2022) focuses on the Covid-19-related practical expedient in IFRS 16 and is based on legitimacy theory, where we add the literature on accounting choice, cost-benefit considerations, and principles- vs. rules-based accounting standards.

As this is the first paper studying practical expedients in depth, much remains to be confirmed. First, future studies should explore the lack of clear country-, industry- and topic factor patterns further. To corroborate that practical expedients reduce costs without harming benefits, future research should also study whether value relevance is affected by practical expedients. Moreover, one could perform a case study that investigates where in the political process that practical expedients are most prevalent, or if practical expedients are useful in the learning- or executive process, building on Hjelström (2005). Future research should also look at other countries and smaller firms, as we do not know if these firms are more inclined to apply practical expedients or not. Also, as our topic factors are proxies, there is a risk that the proxy is not suitable to capture the effects of practical expedients. Future research should test other topic variables, and if possible, construct more detailed ones.

Nevertheless, our findings are useful for the IASB, preparers, users of financial statements, and researchers, as we now know more about the antecedents of practical expedients and how practical expedients are applied in practice.

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Appendix

Appendix I: Country groups

Gray (1988) groups countries based on the Hofstede cultural dimensions. We also use the Hofstede framework to assign countries not covered in Gray's (1988) framework so that each group consists of at least two countries. The countries not covered by Gray's (1988) framework are Hungary, Poland and Croatia. For these countries, we retrieve the scores on Hofstede's cultural dimensions and assign them to groups with similar countries. Moreover, Greece and Portugal belong to separate groups in Gray's (1988) framework, but we group them together based on Hofstede's cultural dimensions. We choose the dimensions individualism, power distance, uncertainty avoidance and masculinity as the most important as previous accounting studies have found them to be influential for accounting choices (Nobes, 1998). The Netherlands was grouped with the Nordics by Gray, but we merge the Netherlands with the United Kingdom based on the Hofstede dimensions, geographical proximity, and similarities in language.

Appendix II: Interpreting disclosures in annual reports

With regards to IFRS 16.46A, some companies only disclose that the amendments related to this practical expedient are effective as of January 1, 2021, and state that they are implemented. They often state that the amendments have no material impact. In cases where they have not used the term 'practical expedient' or 'rent concession' in relation to 16.46A, we interpret it as if the expedient has not been applied, as we would not be able to find such disclosures from our search terms. Also, when a firm does not state anything else than that the amendment has become effective, it is ambiguous whether they have applied the expedient. However, if the company explicitly mentions the Covid-19 related rent concession, we assume that they apply the practical expedient unless stated otherwise. Moreover, it is not always clear whether a company applies IFRS 15.63. We decide to interpret expressions like the one below as a firm applying IFRS 15.63:

> "All receivables – as in the previous year – have a due date of less than one year. There is no exchangeable securitization issued in connection with receivables." – CA Immobilien Anlagen, Austria

When the firm uses the terms 'one year', '12 months' or 'twelve months' in connection to writing about significant financing components, we assume they apply the practical expedient, unless explicitly stated that they do not. Also, if the company writes that their payment terms are longer than 30 days, we assume that they apply the practical expedient, since that means they both can have a significant financing component and can apply the practical expedient. However, we interpret the following statements as if the company does not apply IFRS 15.63:

> "Due to the agreed terms of payment, there is no financial component." – Mayr-Melnhof Karton, Austria

> "Generally, payment of the transaction price is due within credit terms that are consistent with industry practices, with no element of financing." – Diageo, UK

The difference in the latter example is that the firm explicitly states that there is no financing component. Thus, there is no financing component to apply the practical expedient to, why we assume that IFRS 15.63 is not being applied. When analysing if IFRS 16.5 is applied, we assume that a firm applies the exemption to short-term leases and leases of low-value assets if they have line items called 'Expenses relating to short-term leases' or 'Expenses relating to leases of low-value assets', even if they do not explicitly write that they apply the exemption.

Appendix III: Downloaded data

To download data for our independent variables, we create a watch list in Capital IQ based on the tickers for the selected companies. We upload a Csv-file with all tickers. Capital IQ only finds 387 of the 447 tickers, and some of the companies added are not firms in our sample but have the same ticker. Therefore, the list of firms in is manually adjusted to add the right companies. We download the following data: 1) market capitalisation as of December 31, 2021, 2) country of exchange, 3) primary SIC code, 4) total assets, 5) total debt, 6) total lease liability, 7) total revenue, 8) accounts receivable, 9) number of analysts following the firm, 10) share of CEO ownership status as of December 31, 2021, 11) share of institutional ownership as of December 31, 2021, 12) US listing status as of December 31, 2021 and, 13) total equity. For total assets, debt, and total lease liability, we use opening balance data, and thereby download the items for the financial year of 2020.

In addition, we download total revenue for the financial years 2015-2021, total assets for 2014-2021, net income for 2015-2021, gross property, plant, and equipment for 2015-2021, unusual items for 2015-2021 and cash flows from operations for 2015-2021. These datapoints are required to construct one of our income smoothing variables. For our other income smoothing variable used in our robustness check, we download data on net income for the last 20 quarters, i.e. Q1 2017 – Q4 2021, cash flows from operation Q1 2017 – Q4 2021, and total assets for Q4 2016 – Q3 2021.

Capital IQ automatically drops companies that do not have data if adding desired data points as criteria. Therefore, we use the function 'display' rather than 'criteria'. Not all data points are needed for all regressions, so we do not want Capital IQ to exclude companies, despite missing a number for one regression.

Appendix IV: Motivation and computation of independent variables

Country and industry

As country has been found to influence accounting choices, country dummy variables are included in all regressions. The variable is defined as the country of domicile and the country of exchange – they must be the same for the company to be included. Similarly, industry dummy variables are included. Industry is modelled by one-digit SIC codes. A more granular industry classification could be desirable but due to our limited sample size, one-digit SIC codes are more appropriate. Five firms in our sample do not have any industry code reported in Capital IQ. We manually go through these firms (DM-KER NMR, Lifco AB, Umicore S.A, Amplifon S.p.A and Autohellas S.A) to determine their industry classification using stock exchange information or information on the firm website and annual reports. DM-KER is classified as wholesale trade, Lifco AB as finance, insurance, and real estate, Umicore as manufacturing, Amplifon as retail trade and Autohellas as services. For all other firms the one-digit primary SIC-code was used for industry.

Ownership

To test our proposition that ownership affects practical expedient usage, we include two variables: CEO ownership and institutional ownership. With these variables, we aim to capture managerial incentives as the ownership structure could influence management decision-making.

Size

Moreover, firm size can be relevant in explaining the usage of practical expedients. Even though our sample includes the 25 largest firms from 18 countries, the size of these firms varies substantially. Depending on the firm size, there might be different incentives for exploiting practical expedients, as: 1) larger firms might avoid larger costs if applying the practical expedients, as they have complex and more transactions, 2) the effect of applying practical expedients might be greater in larger firms, 3) the users of financial statements might have different expectations depending on the firm size, and 4) smaller firms might have less knowledge about available practical expedients. On the other hand, larger companies might already have structured data and systems for reporting purposes, making the relative cost of each reporting requirement lower. Based on that argument, smaller companies might be more inclined to exploit practical expedients, as the cost saving has a greater relative impact. Either way, size is a relevant factor to include. Size is measured as the natural logarithm of the market capitalisation as of December 31, 2021. We use the natural logarithm to normalise the size measure.

Market-to-book ratio

We use market-to-book ratio as a proxy for information asymmetry in line with Quagli and Avallone (2010). They argue that accounting choices can be made based on how it affects information asymmetry. We aim to capture how the market shapes management decision making. If there is more information asymmetry, the firm might be more likely

to apply a practical expedient, since there already is an information gap. However, the opposite could happen as well – if there is less information asymmetry, a firm might be more likely to apply a practical expedient since investors understand what happens in the company. Thus, the effect could go in either direction – either the firm aims to reduce information asymmetry through practical expedients or increase it. We calculate the market-to-book ratio as the market capitalisation December 31, 2021 divided by total equity, closing balance 2021.

Leverage

We include leverage in all regression as a proxy for the reliance on equity versus debt financing. Literature suggests that this reliance could influence accounting choices, why it could be relevant for practical expedients. Markets with strong equity financing have a need for more detailed disclosures, while markets with strong credit financing value prudence (Nobes, 1998). Leverage could capture these different incentives. Moreover, Burgstahler et al. (2006) write that the strength of equity markets affects how a firm applies IFRS standards. Leverage is measured as the ratio between total debt to total assets, opening balances.

Analysts

The number of analysts is included as a control variable as a higher analyst following might imply greater incentives to report in line with the preferred accounting treatment in the standards.

Income smoothing

Furthermore, as the application of the practical expedients has the potential to impact earnings, we include a variable for income smoothing. Income smoothing is measured in line with Tucker and Zarowin (2006), Yu, Hagigi and Stewart (2018) as well as Jeanjean and Stolowy (2008). In our primary models we use the measure developed by Tucker and Zarowin, but for our robustness tests we use an alternative measure also used by Yu et al. (2018) and Ahmed et al. (2013). We find that the income smoothing measure used by Tucker and Zarowin (2006) has been widely used in research (Dhole et al., 2016; Luo et al., 2022; Yu et al., 2018). We mimic the approach by Yu et al. (2018). The measure is based on six years of data ending in 2021. Yu et al. (2018) use quarterly data whereas we use annual data, like Tucker and Zarowin (2006). Using annual or quarterly data is a trade-off between having a long time series for the measure and including as many observations as possible. Following the approach by Tucker and Zarowin (2006), we use annual data, as firms tend to smooth annual earnings, and as reporting of fourth-quarter earnings tend to be different from other quarters.

The measure is based on the correlation between the change in discretionary accruals proxy (dDAP) and the change in pre-discretionary income (dPDI). The discretionary accruals are estimated using the Jones model, which has been modified by researchers over the years (Kothari et al., 2005; Tucker & Zarowin, 2006).

$$\frac{ACC_t}{TA_{t-1}} = \beta_1 \frac{1}{TA_{t-1}} + \frac{\beta_2 \Delta t\_rev_t}{TA_t} - 1 + \beta_3 \frac{PPE_t}{TA_t} - 1 + \beta 4 \frac{ROA_t}{TA_t} + \varepsilon_t$$

ACC_t
$= total\ accruals\ in\ period\ t, defined\ as\ the\ difference\ between\ net\ income\ before\ unusual\ items\ and\ cash\ flows\ from\ operations$
$TA_{t-1} = total\ assets\ in\ the\ end\ of\ period\ t-1$
$\Delta t_{rev_t} = change\ in\ total\ revenue\ between\ period\ t\ and\ t-1$
$gPPE_t = gross\ property, plant\ and\ equipment\ at\ end\ of\ period\ t$
$ROA_t = return\ on\ asset, calculated\ as\ net\ income\ before\ unusual\ items\ divided\ by\ total\ assets\ in\ period\ t-1$

This model is estimated for the total sample in each year. The fitted values of the model are the non-discretionary accruals, and the discretionary accruals are calculated as the difference between non-discretionary accruals and actual accruals. The pre-discretionary income is then estimated as net income less discretionary accruals (PDI = NI – DAP). The final income smoothing measure is the correlation between the change in discretionary accruals and the change in pre-discretionary income. We use the Pearson correlation based on six years of data. We use six years as longer time series is not available.

In many research papers on earnings management, authors use more than one measure for income smoothing. Different measures are argued to capture different nuances of earnings management. We add another measure of income smoothing as a robustness test to all our regressions. The second income smoothing variable (ISVOL) is calculated by taking the standard deviation of net income scaled by total assets and dividing it with the standard deviation of cash flows from operations scaled by total assets. The standard deviations are based on observations from 20 quarters where the last observation is the fourth quarter in 2021. The approach is in line with the one used by Yu et al. (2018) and Jeanjean and Stolowy (2008) According to prior research, this measure makes it possible to separate non-smoothing firms from smoothing firms (Bao & Bao, 2004; Yu et al., 2018). If ISVOL is more than 1, a firm is classified as non-smoothing and vice versa (Bao & Bao, 2004; Yu et al., 2018). We are however not interested in classifying firms as smoothing or non-smoothing and therefore do not use this interpretation. We interpret the measure as when it is lower, it indicates a higher degree of income smoothing. This implies that when the standard deviation is smaller for income than for cash flows, a firm might engage in income smoothing using accruals. For this alternative measure, we lose 28 observations within the financial industry due to missing data.

The two measures constructed for income smoothing show somewhat different directions for income smoothing for some firms. Thereby, they are not fully equivalent in our case, which could be due to them capturing different aspects of income smoothing. Nonetheless, we use both, as we include the latter as a robustness test.

US listing

Lastly, US listing captures if a firm has a primary listing in the United States, besides their listing in Europe. This is a binary variable (one if the firm is listed in the US, zero if the firm is not listed in the US). US listing could affect the use of practical expedients, as US GAAP is more rules-based than IFRS. Moreover, some practical expedients are inspired by US GAAP, why firms that are listed in the US are more likely to pursue the same practices in IFRS. When constructing the dummy, we only include firms listed on primary exchanges in the US, and therefore do not include those who only have pink papers listed on US markets.

Appendix V: Financial statement effects of practical expedients

IFRS 15.63: Not exclude significant financing component

IFRS 15.63 relates to the option to not separate a significant financing component from revenue if the contract is expected to have a duration of less than one year at contract inception. This choice will have an impact on revenue as the financing component would be financial income rather than revenue. Thus, there is an impact on revenue, asset structure of the balance sheet and the financing portion of the income statement. Hence, this practical expedient can have a substantial effect on key figures for firms that have medium-term customer contracts, why industry factors might be an important for explaining the application of the expedient. IFRS 15.63 is an attractive option for industries that offer their customers short-term financing, e.g. car producers or travel agencies. As banks, insurance and real estate companies have a different income structure, these firms are excluded from the regression. However, we run a regression including these firms as a robustness test as some firms classified into the industry apply IFRS 15 expedients. Furthermore, we expect the effect of income smoothing to be more notable as the expedient can change revenue. Moreover, we include accounts receivable days (ARDAYS) as a topic factor. This ratio should capture whether an entity has shorter or longer customer contracts on average, which affects the likelihood of applying the practical expedient. We use total revenue for 2021, rather than revenue, as there is data available on total revenue for more firms in our sample in Capital IQ. The measure is calculated as accounts receivable divided by total revenue and then multiplied with 365.

IFRS 15.94: Incremental cost of obtaining contract expensed

IFRS 15.94 is related to recognised assets, expenses, and thereby income. The expedient allows entities to immediately expense contract costs of obtaining a customer contract if the resulting asset would have an amortisation period of one year or less. The expedient results in less assets recognised on the balance sheet, and the income figure is reduced in that period. Industry could explain the choice to apply the expedient as some industries have more customer acquisition costs, e.g. telecom, utility, and construction firms. Similarly, income smoothing could explain the usage as the financial statement impact has the potential to shift income between periods. With that said, an entity must have substantial customer acquisition costs for this expedient to have a material effect. The

expedient also provides a relief for entities as they do not have to determine an interest rate for the capitalisation of an asset.

IFRS 15.121: Not disclose performance obligations

IFRS 15.121 is a practical expedient related to disclosure requirements. Thereby, it does not have a direct impact on the financial statements. We run the regression with the same overall independent variables as IFRS 15.94.

IFRS 16.5: Short-term and low-value leases

IFRS 16.5 is not explicitly labelled a practical expedient but still provides entities with a choice not to capitalise short-term and low-value leases. The impact is on the size of the balance sheet and operating expenses. Due to the impact on expenses, we include income smoothing as a topic factor. Size of the lease liability is also included as a topic factor. We compute this measure as the natural logarithm of the size of total leases. We use the sum of the opening balances of total financial leases and total operating leases from Capital IQ. The natural logarithm of total leases is used to normalise the measure. IFRS 16.5 is likely to be applied by many industries, as every entity that has a lease contract can apply it. It would have been useful to include a variable capturing the average useful life of lease liabilities, as the lease term affects an entity's ability to apply IFRS 16.5. However, we found no data to be able to compute such a ratio. Furthermore, a measure proxying the average acquisition cost of different long-term assets could have been a more granular measure for the opportunity to use the exemption for low-value leases. However, data restriction limited our ability to use this measure as well.

IFRS 16.5 Subsample

During the manual data collection, we find that some firms disclose what limit they use for determining what is to be considered a low-value lease. Such a limit is reported by 71 firms out of the 392 firms applying the expedient. Furthermore, 16 firms only applied the simplification for short-term leases but not for low-value leases. A dummy variable is created for those applying the low-value exemption and having a specified limit as we wanted to compare if there were any differences between the firms reporting a limit and not. This dummy variable is run as a separate regression to analyse whether firms reporting a limit differ from firms who do not. We also provide descriptive statistics for these two groups to determine if we can observe any empirical differences.

IFRS 16.15: Not separate non-lease components

This practical expedient does not have an explicit disclosure requirement, but the use of the practical expedient could still be disclosed by firms if the impact on financial statements is material. We include the size of the lease liability as a proxy for the likelihood of applying the expedient. Firms with a larger lease liability should be more likely to have more material non-lease components which they can choose to separate.

The expedient affects the asset structure, and depending on the type of non-lease component it can impact the income statement as well. Based on this argument, income smoothing is included as a topic factor. It should be noted that an entity has the discretion to apply the practical expedient by class of assets and can therefore choose on a more detailed level how their financial statements will look.

IFRS 16.46A: Not treat rent concession as lease modification

The practical expedient related to rent concessions differs from the other ones as it is temporary. Also, IFRS 16.46A is likely applied differently between countries as the impact of Covid-19 differed between countries. Some countries had more lockdowns and government support packages which might influence how much rent concessions that were offered. Thus, the effect of country is likely to be pronounced for IFRS 16.46A. The size of the lease liability is also included as the expedient is more attractive for firms with more or larger leases. Industry can also provide explanatory power as the pandemic had varying effect on different industries. For example, the retail industry is likely to benefit more from Covid-19-related rent concessions, as retail actors commonly rent premises while also being negatively affected by lockdowns. Applying the practical expedient also impacts the expenses, why income smoothing is included as a topic factor. It would have been interesting to include a variable that captures how severe the Covid-19 lockdown was in each country, or a variable for how much rent concessions that were offered, but we could find no data on this. This variable is less important in 2021 compared to 2020, as many countries relieved some of the restrictions during 2021. A report by PWC from 2021 shows that few countries offered tenant reliefs for commercial real estate, supporting that the rent concessions might not be as relevant in 2021 (PWC, 2021).

Appendix VI: Practical expedients

Table A1 Overview of all practical expedients

This table shows all the practical expedients we find. The columns show how we categorise them, how the practical expedient is formulated in the standard and if there is a disclosure requirement when applying the practical expedient.

Category	Practical expedient	Disclosure requirement
Recognition	IFRS 15.94: As a practical expedient, an entity may recognise the incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset that the entity otherwise would have recognised is one year or less.	15.129
Recognition	IFRS 15.B16: As a practical expedient, if an entity has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date (for example, a service contract in which an entity bills a fixed amount for each hour of service provided), the entity may recognise revenue in the amount to which the entity has a right to invoice.	
Recognition	IFRS 16.5: A lessee may elect not to apply the requirements in paragraphs 22-49 to: a) short-term leases	16.60

	b) leases for which the underlying asset is of low value (as described in paragraphs B3-B8)	
Recognition	IFRS 16.15: As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component. A lessee shall not apply this practical expedient to embedded derivatives that meet the criteria in paragraph 4.3.3 of IFRS 9 *Financial Instruments*.	
Recognition	Exposure Draft ED/2015/8 IFRS Practice Statement: Application of Materiality to Financial Statements Practical expedients § 64 An entity might have an internal policy of capitalising capital expenditures only in excess of a specified threshold and recognising smaller amounts as an expense, because any smaller amounts are considered to be clearly immaterial. Management has assessed that this departure from IFRS is unlikely to have a material effect both on the current financial statements and in future financial statements, because it is clear such expenditure could not reasonably be expected to influence decisions made by the primary users. Such a policy should nevertheless be reassessed periodically to ensure that these assumptions remain appropriate. Provided that such a practice does not have a material effect on the financial statements, it would not prevent the entity's financial statements from complying with IFRS (see also paragraphs 77–79).	
Recognition Measurement	IFRS 15.4: This Standard specifies the accounting for an individual contract with a customer. However, as a practical expedient, an entity may apply this Standard to a portfolio of contracts (or performance obligations) with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this Standard to the portfolio would not differ materially from applying this Standard to the individual contracts (or performance obligations) within that portfolio. When accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.	
Recognition Measurement	IFRS 16.B1: This Standard specifies the accounting for an individual lease. However, as a practical expedient, an entity may apply this Standard to a portfolio of leases with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this Standard to the portfolio would not differ materially from applying this Standard to the individual leases within that portfolio. If accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.	
Measurement Temporary	IFRS 16.46A: As a practical expedient, a lessee may elect not to assess whether a rent concession that meets the conditions in paragraph 46B is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the rent concession the same way it would account for the change applying this Standard if the change were not a lease modification.	16.60A
Measurement	IFRS 16.105: As a practical expedient, a lessee shall apply paragraph 42 to account for a lease modification required by interest rate benchmark reform. This practical expedient applies only to such modifications. For this purpose, a lease modification is required by interest rate benchmark reform if, and only if, both of these conditions are met:	

	the modification is necessary as a direct consequence of interest rate benchmark reform; and the new basis for determining the lease payments is economically equivalent to the previous basis (i.e. the basis immediately preceding the modification).	
Measurement	IFRS 9.5.4.7: As a practical expedient, an entity shall apply paragraph B5.4.5 to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform. This practical expedient applies only to such changes and only to the extent the change is required by interest rate benchmark reform (see also paragraph 5.4.9). For this purpose, a change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if, and only if, both these conditions are met: the change is necessary as a direct consequence of interest rate benchmark reform; and the new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e. the basis immediately preceding the change).	
Measurement	IFRS 9.B5.5.35: An entity may use practical expedients when measuring expected credit losses if they are consistent with the principles in paragraph 5.5.17. An example of a practical expedient is the calculation of the expected credit losses on trade receivables using a provision matrix. The entity would use its historical credit loss experience (adjusted as appropriate in accordance with paragraphs B5.5.51–B5.5.52) for trade receivables to estimate the 12-month expected credit losses or the lifetime expected credit losses on the financial assets as relevant. A provision matrix might, for example, specify fixed provision rates depending on the number of days that a trade receivable is past due (for example, 1 per cent if not past due, 2 per cent if less than 30 days past due, 3 per cent if more than 30 days but less than 90 days past due, 20 per cent if 90–180 days past due etc.). Depending on the diversity of its customer base, the entity would use appropriate groupings if its historical credit loss experience shows significantly different loss patterns for different customer segments. Examples of criteria that might be used to group assets include geographical region, product type, customer rating, collateral or trade credit insurance and type of customer (such as wholesale or retail).	
Measurement	IFRS 15.63: As a practical expedient, an entity need not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.	15.129
Measurement	IFRS 13.71: This IFRS does not preclude the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread.	
Measurement	IFRS 13.79(a): when an entity holds a large number of similar (but not identical) assets or liabilities (eg debt securities) that are measured at fair value and a quoted price in an active market is available but not readily accessible for each of those assets or liabilities individually (ie given the large number of similar assets or liabilities held by the entity, it would be difficult to obtain pricing information for each individual asset or liability at the measurement date). In that case, as a practical expedient, an entity may measure fair value using an alternative pricing method that does not rely	

	exclusively on quoted prices (eg matrix pricing). However, the use of an alternative pricing method results in a fair value measurement categorised within a lower level of the fair value hierarchy.	
Measurement	IFRS 17.53-59 53 An entity may simplify the measurement of a group of insurance contracts using the premium allocation approach set out in paragraphs 55–59 if, and only if, at the inception of the group: the entity reasonably expects that such simplification would produce a measurement of the liability for remaining coverage for the group that would not differ materially from the one that would be produced applying the requirements in paragraphs 32–52; or the coverage period of each contract in the group (including insurance contract services arising from all premiums within the contract boundary determined at that date applying paragraph 34) is one year or less. 54 The criterion in paragraph 53(a) is not met if at the inception of the group an entity expects significant variability in the fulfilment cash flows that would affect the measurement of the liability for remaining coverage during the period before a claim is incurred. Variability in the fulfilment cash flows increases with, for example: the extent of future cash flows relating to any derivatives embedded in the contracts; and the length of the coverage period of the group of contracts. 55 Using the premium allocation approach, an entity shall measure the liability for remaining coverage as follows: on initial recognition, the carrying amount of the liability is: the premiums, if any, received at initial recognition; minus any insurance acquisition cash flows at that date, unless the entity chooses to recognise the payments as an expense applying paragraph 59(a); and plus or minus any amount arising from the derecognition at that date of: any asset for insurance acquisition cash flows applying paragraph 28C; and any other asset or liability previously recognised for cash flows related to the group of contracts as specified in paragraph B66A. at the end of each subsequent reporting period, the carrying amount of the liability is the carrying amount at the start of the reporting period: plus the premiums received in the period; minus insurance acquisition cash flows; unless the entity chooses to recognise the payments as an expense applying paragraph 59(a); plus any amounts relating to the amortisation of insurance acquisition cash flows recognised as an expense in the reporting period; unless the entity chooses to recognise insurance acquisition cash flows as an expense applying paragraph 59(a); plus any adjustment to a financing component, applying paragraph 56; minus the amount recognised as insurance revenue for services provided in that period (see paragraph B126); and minus any investment component paid or transferred to the liability for incurred claims. 56 If insurance contracts in the group have a significant financing component, an entity shall adjust the carrying amount of the liability for remaining coverage to reflect the time value of money and the	17.97

	effect of financial risk using the discount rates specified in paragraph 36, as determined on initial recognition. The entity is not required to adjust the carrying amount of the liability for remaining coverage to reflect the time value of money and the effect of financial risk if, at initial recognition, the entity expects that the time between providing each part of the services and the related premium due date is no more than a year. 57 If at any time during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, an entity shall calculate the difference between: the carrying amount of the liability for remaining coverage determined applying paragraph 55; and the fulfilment cash flows that relate to remaining coverage of the group, applying paragraphs 33–37 and B36–B92. However, if, in applying paragraph 59(b), the entity does not adjust the liability for incurred claims for the time value of money and the effect of financial risk, it shall not include in the fulfilment cash flows any such adjustment. 58 To the extent that the fulfilment cash flows described in paragraph 57(b) exceed the carrying amount described in paragraph 57(a), the entity shall recognise a loss in profit or loss and increase the liability for remaining coverage. 59 In applying the premium allocation approach, an entity: may choose to recognise any insurance acquisition cash flows as expenses when it incurs those costs, provided that the coverage period of each contract in the group at initial recognition is no more than one year. shall measure the liability for incurred claims for the group of insurance contracts at the fulfilment cash flows relating to incurred claims, applying paragraphs 33–37 and B36–B92. However, the entity is not required to adjust future cash flows for the time value of money and the effect of financial risk if those cash flows are expected to be paid or received in one year or less from the date the claims are incurred.	
Disclosure	IFRS 15.121: As a practical expedient, an entity need not disclose the information in paragraph 120 for a performance obligation if either of the following conditions is met: a) the performance obligation is part of a contract that has an original expected duration of one year or less; or b) the entity recognises revenue from the satisfaction of the performance obligation in accordance with paragraph B16.	15.122
Disclosure	IAS 24.25: A reporting entity is exempt from the disclosure requirements of paragraph 18 in relation to related party transactions and outstanding balances, including commitments, with: a government that has control or joint control of, or significant influence over, the reporting entity; and another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity.	24.26
Transition	IFRS 15.C5: An entity may use one or more of the following practical expedients when applying this Standard retrospectively in accordance with paragraph C3(a): (a) for completed contracts, [Refer: paragraph C2(b)] an entity need not restate contracts that: (i) begin and end within the same annual reporting period; or	15.C6

	(ii) are completed contracts at the beginning of the earliest period presented. (b) for completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods. (c) for contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract for those contract modifications in accordance with paragraphs 20–21. Instead, an entity shall reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when: (i) identifying the satisfied and unsatisfied performance obligations; (ii) determining the transaction price; and (iii) allocating the transaction price to the satisfied and unsatisfied performance obligations. (d) for all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognise that amount as revenue (see paragraph 120).	
Transition	IFRS 15.C7a: An entity applying this Standard retrospectively in accordance with paragraph C3(b) may also use the practical expedient described in paragraph C5(c), either: (a) for all contract modifications that occur before the beginning of the earliest period presented; or (b) for all contract modifications that occur before the date of initial application. If an entity uses this practical expedient, the entity shall apply the expedient consistently to all contracts and disclose the information required by paragraph C6.	15.C6
Transition	IFRS 16.C3: As a practical expedient, an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, the entity is permitted: to apply this Standard to contracts that were previously identified as leases applying IAS 17 Leases and IFRIC 4 Determining whether an Arrangement contains a Lease. The entity shall apply the transition requirements in paragraphs C5–C18 to those leases. not to apply this Standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.	16.C4
Transition	IFRS 16.C10: A lessee may use one or more of the following practical expedients when applying this Standard retrospectively in accordance with paragraph C5(b) to leases previously classified as operating leases applying IAS 17. A lessee is permitted to apply these practical expedients on a lease-by-lease basis: a lessee may apply a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment). a lessee may rely on its assessment of whether leases are onerous applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* immediately before the date of initial application as an alternative to performing an impairment review. If a lessee chooses this practical expedient, the lessee shall adjust the right-of-use asset at the date of initial application by the amount of any provision for onerous leases recognised in the statement of financial position immediately before the date of initial application.	16.C13

	a lessee may elect not to apply the requirements in paragraph C8 to leases for which the lease term ends within 12 months of the date of initial application. In this case, a lessee shall: account for those leases in the same way as short-term leases as described in paragraph 6; and include the cost associated with those leases within the disclosure of short-term lease expense in the annual reporting period that includes the date of initial application. a lessee may exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application. a lessee may use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.
Presentation	Exposure Draft ED/2015/8 IFRS Practice Statement: Application of Materiality to Financial Statements Practical expedients § 65 It is also conventional for entities to select a monetary unit, for example CU1,00021, and to round to the nearest unit when preparing the financial statements. The chosen unit is set sufficiently low to ensure that the resulting loss of precision and detail is immaterial.
Presentation	Exposure Draft ED/2015/8 IFRS Practice Statement: Application of Materiality to Financial Statements Practical expedients § 63: IFRS does not specify requirements for an entity's internal record keeping procedures. Consequently, management might decide not to apply a requirement in a Standard when it records a particular item, provided it later makes an adjustment to ensure the information is in accordance with IFRS for financial reporting purposes. For example, an entity might maintain a periodic inventory system and then later adjust amounts for the purchases and inventory for financial reporting purposes based on physical stock counts.
Presentation	Exposure Draft ED/2015/8 IFRS Practice Statement: Application of Materiality to Financial Statements Practical expedients § 66 Provided information is fairly presented in accordance with IFRS in the financial statements, it is beyond the scope of IFRS to specify how that information is recorded internally. Nevertheless, there may be legal requirements in an entity's jurisdiction that prescribe requirements for an entity's internal record-keeping procedures.

Appendix VII: Regression results

We show the results from our OLS regressions, but also show the results from running the same regressions using the logit model, to confirm that they generate the same conclusions.

Regression for IFRS 15.63

The regressions for IFRS 15.63 exclude the FIRE sector as IFRS 15 is less relevant for their financial reporting. We include financial firms as a robustness test. The agriculture industry was omitted by Stata due to collinearity, as this industry only included one

observation. No regressors were statistically significant, hence no conclusions can be drawn.

Table A2 Linear regression statistics for IFRS 15.63

OLS linear regression with dropped constant. The finance, insurance and real estate industry is excluded. Dummy variables for country and industries are included in the regression to account for fixed effects and analyse the influence of country and industry, but they are not included in the table for brevity. SIZE is the natural logarithm of market capitalisation, LEV is debt to assets, ARDAYS is the accounts receivable days, ANALYST is the number of analysts following a firm, INCSMO is the Tucker and Zarowin measure of income smoothing, USLIST is a dummy variable capturing whether the firm is listed in the US or not, MB is the market-to-book ratio, CEOOWN is CEO ownership and INSTOWN is institutional ownership.

N	F(35, 129)	Prob>F	Adj. R2	
164	2.88	0.000	0.286	
IFRS1563	**Coefficient**	**Std. err.**	**t**	**P>|t|**
SIZE	-.04	.08	-0.48	0.630
LEV	-.19	.36	-0.53	0.597
ARDAYS	.00	.00	1.22	0.224
ANALYST	.00	.01	0.55	0.584
INCSMO	.14	.12	1.15	0.251
USLIST	-.01	.15	-0.08	0.935
MB	.00	.01	0.21	0.832
CEOOWN	-.00	.01	-0.37	0.713
INSTOWN	.00	.00	0.06	0.951

Table A3 Logistic regression statistics for IFRS 15.63

Logistic regression with dropped constant. Marginal effects are presented in the table.

N	LR $chi^2(28)$	$Prob>chi^2$	Pseudo R^2	
148	14.48	0.9834	0.0755	
IFRS1563	**dy/dx**	**Delta-method std. err.**	**z**	**P>|z|**
SIZE	-.03	.08	-0.35	0.723
LEV	-.14	.37	-0.37	0.714
ARDAYS	.00	.00	1.53	0.125
ANALYST	.00	.01	0.50	0.619
INCSMO	.17	.13	1.35	0.178
USLIST	-.02	.15	-0.13	0.895
MB	.00	.01	0.25	0.804
CEOOWN	-.01	.04	-0.14	0.886
INSTOWN	.00	.00	0.06	0.950

Regression for IFRS 15.94

Croatia was omitted by Stata due to collinearity. Institutional ownership is a significant control variable at a 0.05 level ($p = 0.004$), with a positive coefficient. The coefficient is however below 0.01, thus suggesting that the magnitude of the effect is small. Leverage is significant at a 0.1 level ($p = 0.094$), which could indicate that a higher leverage is an

incentive to use IFRS 15.94, but no strong conclusions can be drawn as the significance level is low.

Table A4 OLS linear regression statistics for IFRS 15.94

OLS linear regression with dropped constant.
The finance, insurance and real estate industry is excluded. Dummy variables for country and industries are included in the regression to account for fixed effects and analyse the influence of country and industry, but they are not included in the table for brevity. SIZE is the natural logarithm of market capitalisation, LEV is debt to assets, ANALYST is the number of analysts following a firm, INCSMO is the Tucker and Zarowin measure of income smoothing, USLIST is a dummy variable capturing whether the firm is listed in the US or not, MB is the market-to-book ratio, CEOOWN is CEO ownership and INSTOWN is institutional ownership.

N	F(34, 131)	Prob>F	Adj. R2	
165	2.36	0.0003	0.219	
IFRS1594	**Coefficient**	**Std. err.**	**t**	**P>|t|**
SIZE	-.04	.05	-0.92	0.359
LEV	.37	.22	1.69	0.094
ANALYST	.01	.01	1.31	0.193
INCSMO	-.00	.08	-0.03	0.972
USLIST	-.08	.10	-0.76	0.448
MB	-.00	.01	-0.40	0.690
CEOOWN	.06	.01	0.71	0.477
INSTOWN	.01	.00	2.92	0.004**

Table A5 Logistic regression statistics for IFRS 15.94

Logistic regression with dropped constant. Marginal effects are presented in the table.

N	LR $chi^2(19)$	Prob>chi^2	Pseudo R^2		
109	31.45	0.0360	0.2944		
IFRS1594	**dy/dx**	**Delta-method std. err.**		**z**	**P>|z|**
SIZE	-.07	.08		-0.91	0.365
LEV	.35	.29		1.20	0.230
ANALYST	.01	.01		1.68	0.093
INCSMO	.08	.13		0.66	0.512
USLIST	-.17	.16		-1.04	0.300
MB	-.01	.01		-0.46	0.643
CEOOWN	-.01	.03		-0.35	0.729
INSTOWN	.01	.00		2.65	0.008**

Regression for IFRS 15.121

Croatia is dropped due to collinearity. INSTOWN is the only significant control variable (p = 0.034), but the coefficient is smaller than 0.01, suggesting that the magnitude of the effect is small.

Table A6 OLS linear regression statistics for IFRS 15.121

OLS linear regression with dropped constant.
The finance, insurance and real estate industry is excluded. Dummy variables for country and industries are included in the regression to account for fixed effects and analyse the influence of country and industry, but they are not included in the table for brevity. SIZE is the natural logarithm of market capitalisation, LEV is debt to assets, ANALYST is the number of analysts following a firm, INCSMO is the Tucker and Zarowin measure of income smoothing, USLIST is a dummy variable capturing whether the firm is listed in the US or not, MB is the market-to-book ratio, CEOOWN is CEO ownership and INSTOWN is institutional ownership.

N	F(34, 131)	Prob>F	Adj. R2	
165	1.94	0.0042	0.1626	
IFRS15121	**Coefficient**	**Std. err.**	**t**	**P>|t|**
SIZE	.06	.05	1.19	0.234
LEV	.24	.23	1.03	0.303
ANALYST	-.01	.01	-1.27	0.205
INCSMO	-.08	.08	-0.94	0.348
USLIST	-.08	.11	-0.79	0.430
MB	.00	.01	0.25	0.800
CEOOWN	.00	.01	0.49	0.626
INSTOWN	.00	.00	2.14	0.034*

Table. **A7** Logistic regression statistics for IFRS 15.94

Logistic regression with dropped constant. Marginal effects are presented in the table.

N	LR $chi^2(19)$	Prob>chi^2	Pseudo R^2	
117	25.17	0.1552	0.2225	
IFRS15121	**dy/dx**	**Delta-method std. err.**	**z**	**P>|z|**
SIZE	.10	.06	1.51	0.131
LEV	.26	.28	0.93	0.354
ANALYST	-.01	.01	-1.56	0.119
INCSMO	-.11	.10	-1.10	0.269
USLIST	-.18	.16	-1.12	0.265
MB	.00	.01	0.16	0.877
CEOOWN	.03	.02	1.04	0.299
INSTOWN	.00	.00	1.38	0.167

Regression for IFRS 16.5

Croatia was dropped due to collinearity – all firms in Croatia applied IFRS 16.5. Only one of our control variables is statistically significant, as CEOOWN is negatively associated to applying IFRS 16.5 (p = 0.004). However, the coefficient is merely 0.01, suggesting that the effect is small in magnitude. As mentioned earlier, we noticed that some firms define a limit for when an underlying asset in a lease is considered to be of low value. Therefore, we decided to run a regression with the companies who specified a limit. This regression shows us which factors increases the probability of having a specific limit for low-value leases.

Table. **A8** OLS linear regression statistics for IFRS 16.5

OLS linear regression with dropped constant.
Dummy variables for country and industries are included in the regression to account for fixed effects and analyse the influence of country and industry in usage of IFRS 16.5, but they are not included in the table for brevity. SIZE is the natural logarithm of market capitalisation, LEV is debt to assets, LL is the size of the total lease liability, ANALYST is the number of analysts following the firm, INCSMO is the Tucker and Zarowin measure of income smoothing, USLIST is a dummy variable capturing whether the firm is listed in the US or not, MB is the market-to-book ratio, CEOOWN is CEO ownership and INSTOWN is institutional ownership.

N	F(36, 176)	Prob>F	Adj. R2
212	56.69	0.000	0.904

IFRS165	**Coefficient**	**Std. err.**	**t**	**P>|t|**
SIZE	.03	.04	0.89	0.376
LEV	.15	.16	0.95	0.342
LL	.02	.02	0.87	0.388
ANALYST	-.00	.00	-0.57	0.572
INCSMO	.06	.07	0.93	0.353
USLIST	-.07	.08	-0.85	0.396
MB	-.00	.01	-0.31	0.755
CEOOWN	-.01	.00	-2.90	0.004**
INSTOWN	-.00	.00	-0.37	0.713

Table A9 Logistic regression statistics for IFRS 16.5

Logistic regression with dropped constant. Marginal effects are presented in the table.

N	LR $chi^2(25)$	Prob>chi^2	Pseudo R^2
146	32.97	0.1319	0.2663

IFRS165	**dy/dx**	**Delta-method std. err.**	**z**	**P>|z|**
SIZE	.04	.05	0.81	0.416
LEV	.22	.23	0.96	0.335
LL	.02	.02	0.66	0.510
ANALYST	-.00	.01	-0.14	0.893
INCSMO	.08	.09	0.92	0.356
USLIST	-.10	.09	-1.05	0.293
MB	-.00	.01	-0.37	0.710
CEOOWN	-.02	.01	-2.44	0.015*
INSTOWN	-.00	.00	-0.06	0.954

Regression for IFRS 16.5 firms with a low-value limit

Croatia is still omitted due to collinearity. The only conclusion we can draw is that companies that have specified a low-value limit are less likely to be listed in the US (p = 0.006).

Table A10 OLS linear regression statistics for firms specifying a limit for IFRS 16.5

OLS linear regression with dropped constant.

Dummy variables for country and industries are included in the regression to account for fixed effects and analyse the influence of country and industry, but they are not included in the table for brevity. SIZE is the natural logarithm of market capitalisation, LEV is debt to assets, LL is the size of the total lease liability, ANALYST is the number of analysts following the firm, INCSMO is the Tucker and Zarowin measure of income smoothing, USLIST is a dummy variable capturing whether the firm is listed in the US or not, MB is the market-to-book ratio, CEOOWN is CEO ownership and INSTOWN is institutional ownership.

N	F(36, 144)	Prob>F	Adj. R2	
180	3.05	0.000	0.291	
LIMIT165	**Coefficient**	**Std. err.**	**t**	**P>|t|**
SIZE	-.01	.06	-0.23	0.821
LEV	.02	.23	0.07	0.945
LL	.01	.03	0.16	0.871
ANALYST	.01	.01	0.99	0.324
INCSMO	-.07	.10	-0.67	0.501
USLIST	-.31	.11	-2.77	0.006**
MB	.00	.01	0.29	0.770
CEOOWN	.01	.01	0.70	0.483
INSTOWN	-.00	.00	-0.08	0.934

Table A11 Logistic regression statistics for firms specifying a limit for IFRS 16.5

Logistic regression with dropped constant. Marginal effects are presented in the table.

N	LR $chi^2(25)$	$Prob>chi^2$	Pseudo R^2	
146	35.37	0.0816	0.2339	
LIMIT165	**dy/dx**	**Delta-method std. err.**	**z**	**P>|z|**
SIZE	-.03	.07	-0.47	0.636
LEV	.17	.28	0.58	0.559
LL	.01	.04	0.19	0.849
ANALYST	.01	.01	1.26	0.209
INCSMO	-.07	.11	-0.61	0.544
USLIST	-.37	.13	-2.88	0.004**
MB	.00	.02	0.19	0.849
CEOOWN	.01	.01	1.38	0.169
INSTOWN	-.00	.00	-0.15	0.883

Regression for IFRS 16.15

These regression results should be interpreted with prudence, as there is no disclosure requirement for IFRS 16.15. Thus, there might be other firms that apply this practical expedient but do not write about it, and these firms might differ from the ones who report about it. Still, Croatia is omitted due to collinearity. The only significant coefficient for our control variables is the number of analysts (ANALYST), which is negatively correlated to applying IFRS 16.15 ($p = 0.026$), thereby not negatively correlated with separating non-lease components from lease components. However, the coefficient is only -0.01, suggesting that the magnitude is small.

Table A12 Regression statistics for IFRS 16.15

OLS linear regression with dropped constant.
Dummy variables for country and industries are included in the regression to account for fixed effects and analyse the influence of country and industry in usage of IFRS 16.15, but they are not included in the table for brevity. SIZE is the natural logarithm of market capitalisation, LEV is debt to assets, LL is the size of the total lease liability, ANALYST is the number of analysts following the firm, INCSMO is the Tucker and Zarowin measure of income smoothing, USLIST is a dummy variable capturing whether the firm is listed in the US or not, MB is the market-to-book ratio, CEOOWN is CEO ownership and INSTOWN is institutional ownership.

N	F(36, 176)	Prob>F	Adj. R2
212	2.57	0.000	0.211

IFRS1615	**Coefficient**	**Std. err.**	**t**	**P>|t|**
SIZE	.07	.05	1.39	0.167
LEV	.21	.21	1.00	0.318
LL	.02	.03	0.59	0.554
ANALYST	-.01	.01	-2.24	0.026*
INCSMO	.06	.09	0.62	0.538
USLIST	.04	.10	0.37	0.708
MB	-.02	.01	-1.59	0.115
CEOOWN	-.01	.01	-0.83	0.406
INSTOWN	.00	.00	0.30	0.761

Table A13 Logistic regression statistics for IFRS 16.15

Logistic regression with dropped constant. Marginal effects are presented in the table.

N	LR $chi^2(25)$	Prob>chi^2	Pseudo R^2
165	19.01	0.2634	0.1629

IFRS1615	**dy/dx**	**Delta-method std. err.**	**z**	**P>|z|**
SIZE	.09	.06	1.47	0.142
LEV	.29	.25	1.20	0.231
LL	.01	.04	0.15	0.877
ANALYST	-.02	.01	-2.51	0.012*
INCSMO	.09	.11	0.76	0.448
USLIST	.10	.12	0.82	0.409
MB	-.03	.02	-1.36	0.174
CEOOWN	-.05	.04	-1.13	0.260
INSTOWN	.00	.00	0.69	0.491

Since usage of IFRS 16.15 is not mandatory to disclose, it is likely that the firms who report that they apply IFRS 16.15 experience a material effect from applying IFRS 16.15 – and therefore they write about it because of the materiality principle. Therefore, we compared the descriptive statistics of the firms who did apply and did not apply IFRS 16.15. However, the two groups were similar. Firms who apply IFRS 16.15 have slightly higher leverage, slightly larger lease liabilities, are a bit less likely to be listed in the US and have a slightly higher M/B ratio.

Regression for IFRS 16.46A

Croatia is omitted due to collinearity. Only institutional ownership (INSTOWN) is significant in the regression for IFRS 16.46A (p=0.032), but the magnitude is small as the coefficient is close to zero.

Table A14 Regression statistics for IFRS 16.46A

OLS linear regression with dropped constant.
Dummy variables for country and industries are included in the regression to account for fixed effects and analyse the influence of country and industry in usage of IFRS 16.46A, but they are not included in the table for brevity. SIZE is the natural logarithm of market capitalisation, LEV is debt to assets, LL is the size of the total lease liability, ANALYST is the number of analysts following the firm, INCSMO is the Tucker and Zarowin measure of income smoothing, USLIST is a dummy variable capturing whether the firm is listed in the US or not, MB is the market-to-book ratio, CEOOWN is CEO ownership and INSTOWN is institutional ownership.

N	F(36, 176)	Prob>F	Adj. R2
212	9.64	0.000	0.595

IFRS1646A	**Coefficient**	**Std. err.**	**t**	**P>|t|**
SIZE	-.08	.05	-1.54	0.126
LEV	-.09	.22	-0.42	0.673
LL	-.01	.03	-0.32	0.747
ANALYST	.01	.01	1.28	0.201
INCSMO	.00	.09	0.04	0.967
USLIST	.02	.11	0.23	0.815
MB	.01	.01	1.14	0.255
CEOOWN	.00	.01	0.36	0.720
INSTOWN	.00	.00	2.16	0.032*

Table A15 Logistic regression statistics for IFRS 16.46A

Logistic regression with dropped constant. Marginal effects are presented in the table.

N	LR $chi^2(27)$	Prob>chi^2	Pseudo R^2
180	69.67	0.0000	0.3059

IFRS1646A	**dy/dx**	**Delta-method std. err.**	**z**	**P>|z|**
SIZE	-.10	.06	-1.70	0.090
LEV	-.13	.25	-0.55	0.584
LL	-.00	.03	-0.06	0.955
ANALYST	.01	.01	1.40	0.163
INCSMO	-.02	.10	-0.17	0.861
USLIST	.00	.10	0.04	0.965
MB	.02	.01	1.56	0.119
CEOOWN	.00	.01	0.16	0.870
INSTOWN	.00	.00	2.22	0.026*

Regression for overt practical expedients

In the regressions including overt practical expedients and all practical expedients, we exclude financial firms, since they are not relevant for the practical expedients in IFRS 15. Later, we perform a robustness test where we include financial firms. In this regression, INSTOWN is the only significant control variable (p = 0.020), with a positive coefficient of 0.02. Wholesale trade is omitted due to collinearity.

Table. **A16** Regression statistics for overt practical expedients

Poisson regression with dropped constant. The finance, insurance and real estate industry is excluded. Dummy variables for country and industries are included in the regression to account for fixed effects and analyse the influence of country and industry in usage of practical expedients, but they are not included in the table for brevity. SIZE is the natural logarithm of market capitalisation, LEV is debt to assets, ANALYST is the number of analysts following the firm, INCSMO is the Tucker and Zarowin measure of income smoothing, USLIST is a dummy variable capturing whether the firm is listed in the US or not, MB is the market-to-book ratio, CEOOWN is CEO ownership and INSTOWN is institutional ownership.

N	Wald $chi^2(34)$	$Prob>chi^2$		
165	159.48	0.000		
OPE	**dy/dx**	**Delta-method std. err.**	**z**	**P>|z|**
SIZE	-.14	.20	-0.67	0.504
INCSMO	.21	.34	0.62	0.533
CEOOWN	-.04	.04	-0.89	0.373
INSTOWN	.02	.01	2.32	0.020*
MB	.02	.04	0.45	0.649
USLIST	-.17	.44	-0.39	0.698
ANALYST	.02	.03	0.66	0.508
LEV	.47	.93	0.50	0.615

Regression for all practical expedients

The wholesale trade industry is omitted due to collinearity. Still, we have no significant factors at the 5% level. Income smoothing is significant at the 10% level (p = 0.060) and is positively associated with applying all practical expedients.

Table A17 Regression statistics for all practical expedients

Marginal effects of Poisson regression with dropped constant. The finance, insurance and real estate industry is excluded. Dummy variables for country and industries are included in the regression to account for fixed effects and analyse the influence of country and industry in usage of practical expedients, but they are not included in the table for brevity. SIZE is the natural logarithm of market capitalisation, LEV is debt to assets, ANALYST is the number of analysts following the firm, INCSMO is the Tucker and Zarowin measure of income smoothing, USLIST is a dummy variable capturing whether the firm is listed in the US or not, MB is the market-to-book ratio, CEOOWN is CEO ownership and INSTOWN is institutional ownership.

N	Wald $chi^2(34)$	$Prob>chi^2$		
165	248.33	0.000		
APE	**dy/dx**	**Delta-method std. err.**	**z**	**P>|z|**
SIZE	-.12	.22	-0.53	0.594
INCSMO	.72	.38	1.88	0.060

CEOOWN	-.04	.04	-0.95	0.344
INSTOWN	.01	.01	1.47	0.142
MB	.03	.04	0.92	0.358
USLIST	.26	.45	0.58	0.565
ANALYST	.01	.03	0.41	0.685
LEV	.44	1.02	0.44	0.662

Appendix VIII: Robustness tests

Clustering

We cluster standard errors by country and by industry in all regressions to test the robustness of our results. For the regressions where practical expedients in IFRS 15 is the dependent variable, 18 country clusters and nine industry clusters are created, since the finance, insurance and real estate industry is excluded. For the other regressions, 18 country clusters and ten industry clusters are created. However, we retrieve no model statistics for any of these regressions, which indicates that the model is weak. This could be due to e.g. too few observations to create meaningful clusters, or our large number of variables. Therefore, we cannot draw any interferences from the clustered results. Few coefficients are statistically significant anyway. The coefficients that are significant are close to zero. Thus, the results are similar to our main ones.

Binary regression

To complement the regression including all practical expedient, we create a dummy variable that takes on the value one if the firm applies one or more practical expedients, and zero if the firm does not apply any practical expedient. We do not include IFRS 16.5 in this categorisation since almost all firms applied that practical expedient. Then, we run a regression to see what factors that influence exploiting one or more practical expedients. However, none of the explanatory variables showed significant results. Thus, we still do not see a pattern for which firms that apply more practical expedients.

Country groups

We also categorise countries into groups to discern potential patterns of practical expedient usage across similar country groups. We create five country groups: Anglo, Eastern, Germanic, Latin, Less developed latin and Nordic countries. The results are summarised below. As can be seen, ownership remains significant for many of the regressions. The main difference from our main results is that some country groups are significant for IFRS 16.46A.

Table A18 Results when including country groups

Regression	Results when creating country groups
IFRS 15.63	Country group Anglo is omitted due to collinearity. No significant variables.

IFRS 15.94	INSTOWN remains significant (p = 0.008) and shows a small positive effect. ANALYST is significant (p = 0.043) and shows a positive effect. No country of industry effect is found.
IFRS 15.121	Agriculture is omitted, as the industry includes only one observation. INSTOWN remains significant, implying a small positive effect (p = 0.006).
IFRS 16.5	CEOOWN is still significant, but at the 0.05 level instead of at the 0.01 level (p = 0.043 instead of p=0.004). No country group or industry is significant.
IFRS 16.15	ANALYST still shows a significant negative effect (p=0.014). Also, country group Anglo shows a significant positive effect (p = 0.020).
IFRS 16.46A	INSTOWN shows a significant positive (p=0.044), but the coefficient is close to zero. The country groups Eastern, Latin, German and Less-developed Latin show a significant positive effect (p=0.000, p=0.004, p=0.024 and p=0.000 respectively). No industries are significant.
Overt	Wholesale trade is omitted due to collinearity. INSTOWN remains significant (p = 0.027) and shows a positive association to applying additional practical expedients.
All	No explanatory variable is statistically significant.

Size quartiles

Next, we divide the sample into quartiles based on firm size, measured as market capitalisation, to see if we can distinguish any differences between smaller and larger firms. However, we find few significant results. No size quartiles are significantly different from another expect for the regression where IFRS 16.5 is the dependent variable, where the second quartile is significantly more likely to apply IFRS 16.5 compared to the first quartile. Few other variables are significant, but INSTOWN is significant in four of the regressions, even if the magnitude is small.

Table A19 Results when creating size quartiles

Regression	Results when creating size quartiles
IFRS 15.63	No significant results.
IFRS 15.94	Wholesale trade is omitted due to collinearity. No size bucket is significant. INSTOWN remains significant (p = 0.006) with a small coefficient.
IFRS 15.121	Wholesale trade is omitted due to collinearity. No size bucket is significant. INSTOWN remains close to significant at a 0.05 level (p = 0.051) implying a small positive effect.
IFRS 16.5	The second quartile is significantly more likely to apply IFRS 16.5 compared to the first quartile (p = 0.023). CEOOWN is significantly negative correlated with applying IFRS 16.5, but the coefficient is small (-0.01, p = 0.009). USLIST is no longer significant.
IFRS 16.15	No size bucket is significant. ANALYST still has a significant coefficient of -0.01 (p=0.019).
IFRS 16.46A	No size bucket is significant. INSTOWN is still significant at a coefficient of 0.00 (p=0.025).
Overt	No size bucket is significant. INSTOWN remains significant (p = 0.026) and showing a positive association to applying additional practical expedients. Wholesale trade is omitted due to collinearity.
All	No size bucket or other control variable is significant.

Alternative income smoothing measure

Besides the income smoothing metric developed by Tucker and Zarowin (2006), earlier literature commonly includes earnings volatility as a proxy for income smoothing. We run the regressions with this metric instead to determine whether there is a difference in our results. Earnings volatility is not significant in any of the regressions. There are few significant results for the other variables as well, even if INSTOWN is significant in two of the regressions and CEOOWN is significant in one of the regressions, suggesting that ownership could influence practical expedient usage.

Table A20 Results when using an alternative income smoothing metric

Regression	Results when using an alternative income smoothing metric
IFRS 15.63	No significant variables.
IFRS 15.94	Croatia is omitted due to collinearity. INSTOWN remains significant and with a small positive effect (p = 0.029). No significant country or industry effects.
IFRS 15.121	Croatia is omitted due to collinearity. No significant variables.
IFRS 16.5	CEOOWN is still significantly negatively correlated with applying IFRS 16.5, and it is slightly more negative (-0.02, p=0.001). The other control variables are still insignificant.
IFRS 16.15	No significant variables – ANALYST becomes insignificant.
IFRS 16.46A	INSTOWN becomes insignificant and MB turns significant (coefficient of 0.03, p=0.037).
Overt	Wholesale trade is omitted due to collinearity. INSTOWN is significant on a 0.1 level (p = 0.088).
All	No factor is significant.

Including finance, insurance and real estate companies

We run the same regressions for IFRS 15, overt practical expedients and all practical expedients but including finance, insurance, and real estate companies as those were excluded in the main regressions. When going through the annual reports, we found that some financial firms applied practical expedients in IFRS 15. The references made to IFRS 15 by such firms mostly relate to fee- and commission income. The results are similar to our main results.

Table A21 Results when including finance, insurance and real estate companies

Regression	Results when including finance, insurance and real estate companies
IFRS 15.63	Still no variables were statistically significant – ARDAYS's p-value dropped to 0.104 and INCSMO to 0.164.
IFRS 15.94	Croatia is dropped due to collinearity. The only significant control variable is INSTOWN (p-value = 0.004), showing a positive effect.
IFRS 15.121	Croatia is still dropped due to collinearity. CEOOWN (p = 0.026) and INSTOWN (p = 0.024) are both significant and show a positive effect.
Overt	The only significantly positively associated variable before, INSTOWN, is now only significant at a 0.1 level (p = 0.074), but the coefficient is still close to zero. No other variables are significant.
All	Still no coefficients are significant.

Appendix IX: Disclosures of practical expedients in annual reports

Table A22 Disclosures of IFRS 15 practical expedients

Firm	Country	Excerpt
IFRS 15.63		
Sandvik	Sweden	"Sandvik uses the practical expedient to not calculate and account for significant financing component if the period between the transfer of a good or service to a customer and payment is 12 months or less."
Naturgy	Spain	"In addition, the Company decided to apply the practical solution of not considering the financing component to be material when the payment period is less than one year."
Santander Bank Polska	Poland	"Trade receivables and other receivables payable within 12 months from the origination are measured at the initial recognition at par due to the immaterial effect of discounting. Trade receivables and other receivables payable within 12 months are at the balance sheet day recognised in the amount of the required payment less impairment loss."
IFRS 15.94		
Atlas Copco	Sweden	"For incremental cost of obtaining the contract, the Group uses the practical expedient of recognizing the incremental cost as an expense if the amortization period of the asset, that otherwise would have been recognized, is one year or less."
Svenska Handelsbanken	Sweden	"Additional expenditure required to obtain a contract with a customer is not recognised as an asset (prepaid expense) and is instead recognised as an expense during the accounting period in which it arises."
SAP	Germany	"We expense incremental costs of obtaining a customer contract as incurred if we expect an amortization period of one year or less."
IFRS 15.121		
Epiroc	Sweden	"The remaining performance obligations expected to be recognized within one year or more than one year, relate to combined service contracts, where the entire contract is assessed to be one performance obligation. The amount of remaining performance obligations not yet satisfied or partially satisfied has not been disclosed for: • Contracts with a contract period of less than one year. • Contracts meeting the requirement for the right to invoice expedient."
BMW	Germany	"The services included in vehicle sale contracts that will be recognised as revenues in subsequent years represent only an insignificant portion of expected revenues. Accordingly, use has been made of the practical expedient contained in IFRS 15, permitting an entity not to disclose information on a quantitative basis due to the short-term nature of items and the lack of informational value of such disclosures."
Polski Concern	Poland	"Due to the fact that the described performance obligations are part of the contracts, that can be considered short-term, or the revenues from fulfilled performance obligation under these contracts are recognised in the amount that the Group has the right to invoice, the Group applied a practical

	solution, according to which it does not disclose information about the total amount of the transaction price allocated to the performance obligation."

Next, we show common disclosures of IFRS 16 practical expedients. Many firms call IFRS 16.5 a practical expedient, even though it is not called a practical expedient in the standard. IFRS 16.5 does not prescribe a certain monetary limit for what should be considered as 'an asset which underlying value is low'. However, some firms also disclose what limit they have set internally to determine such assets. The limits range between EUR 2 708 to 25 000, where the most common values are around EUR 4 000-6 000. The limits have been converted to Euro using the European Central Bank exchange rate on December 31st, 2021 (European Central Bank, 2023) for those firms disclosing the limit in their national currencies. For IFRS 16.15, many firms apply the practical expedient only for certain asset classes.

Table A23 Disclosures of IFRS 16 practical expedients

Firm	Country	Excerpt
IFRS 16.5 disclosures without limits		
Alfa Laval	Sweden	Alfa Laval has decided to apply a practical expedient for leasing contracts where the contract period is maximum 12 months or the leased asset is of low value.
Aena	Spain	"When Aena Group acts as lessee, it recognises the assets and liabilities arising from all the lease agreements in the statement of financial position (except for short-term lease agreements and those intended for low-value assets)."
IFRS 16.5 disclosures with limits		
Hera	Italy	"Lease payments - As defined by IFRS 16, lease payments relating to lease contracts for low-value assets and leases with a contract duration of 12 months or less (short-term leases) are recorded in the income statement as charges for the period. The Group has set a threshold of 10,000 euro for deeming the individual underlying asset to be of modest value."
Hrvatska Postanska	Croatia	"Bank opted for the practical expedient in terms of IFRS 16 "Leases" (i.e. Lease Liability and Right-of-Use Asset recognition) in the following cases: • Short-term leases and • Leases of low-value items. In these cases, lease payments are recognized as an expense over the lease term. The Bank decided to opt for the low-value items expedient and identified, based on the IASB opinion presented in the Basis of conclusion, that the order of magnitude would be USD 5,000 (value of underlying asset). Bank has opted for the expedient for the intangible asset as well."
IFRS 16.15		
Merck	Germany	"Leases for land, land rights and buildings are separated into lease and non-lease components. Merck otherwise elects to exercise the option not to separate non-lease components from lease components."

BATS	UK	"Except for property-related leases, non-lease components have not been separated from lease components."
Umicore	Belgium	"The Group elects, by class of underlying asset, not to separate non-lease components from lease components and instead accounts for each lease component and any associated non-lease component as one single lease component."
IFRS 16.46A		
Hexagon	Sweden	"Rent discounts as a direct consequence of the Covid-19 pandemic are recognised as a variable lease fee in the income statement. No material rent discounts have been received during the year."
Inditex	Spain	"During the financial years 2021 and 2020, as a result of rental renegotiations linked to COVID-19, the Group has applied to all rent concessions the practical expedient introduced by the amendment to IFRS 16 – Leases – concerning the accounting of rent concessions. The amount recognised in this connection in the consolidated income statement for the years 2021 and 2020 were 203 and 317 million euros, respectively."
JDE Peet's	Netherlands	"The practical expedient for COVID19-related rent concessions were applied to all rent concessions meeting the criteria in 2021 and 2020. There were no amounts recognised to reflect changes in lease payments that arise from rent concessions. The rent concessions amounted to EUR 0.2 million (2020: EUR 1 million)."

We also found disclosures for other practical expedients than the ones we focus on in this study. IFRS 17 has not yet been adopted, but many firms already start to mention that they will likely apply the simplified premium allocation approach for the measurement of their insurance premiums fulfilling those the requirements.

Table A24 Disclosures of other practical expedients

Firm	Country	Excerpt
IFRS 15.4		
Flughafen Wien Group	Austria	"The Flughafen Wien Group exercises the portfolio approach practical expedient in assessing these contracts."
Hellenic Telecommunications	Greece	"The Group uses the portfolio approach to combine contracts for the purposes of revenue recognition, rather than to account for each contract separately."
IFRS 15.B16		
Aker Asa	Norway	"The group applies a practical expedient under IFRS 15 whereby the revenue from power contracts is recognised at the amount of which the entity has a right to invoice. The right to invoice power arises when power is produced and delivered and the right to invoice the consideration will normally correspond directly with the value to the customer."
Inter Cars	Poland	"In respect of contracts for continuing services under which the Group has the right to receive remuneration from the customer in an amount that corresponds directly to the value to the customer of the

		service provided to date, the Group recognises revenue in the amount that it is entitled to invoice."
IFRS 16.B1		
Infrastructure Wireless Italy	Italy	"Lease liability is also estimated on a portfolio basis for leases of a similar nature and for which the result of applying the portfolio approach is expected to be very similar to a lease by lease approach. The use of these estimates is subject to potential future changes based on the actual evolution of some dynamics that may influence management estimates."
Coloplast	Denmark	"As a practical expedient, the discount rates are determined on basis of a portfolio of leases with similar characteristics, e.g. a portfolio of leased cars in a specific country."
IFRS 9		
EVN	Austria	"EVN uses the practical expedient defined by IFRS 9.B5.5.35 for trade receivables and measures the expected credit loss with a provision matrix (also see note 13. Trade and other receivables)."
Sanoma	Finland	"Sanoma uses provision matrix as a practical expedient for measuring expected credit losses for trade receivables."
IFRS 17		
Gjensidige Forsikring	Norway	"Insurance contracts in Gjensidige's general insurance operations mainly have a coverage period of one year or less and will therefore qualify for the use of a simplified method called the Premium Allocation Approach (PAA), to measure the liability for remaining coverage."
Tesco	United Kingdom	"It is expected that the simplified premium allocation approach will be applied to all material insurance and reinsurance contract groups."

In some cases, firms call simplifying accounting treatments for practical expedients even though the standard does not label them as such. One such example is IFRS 7.29 relating to fair value disclosure reliefs.

Table A25 Disclosures of accounting treatments not labelled as practical expedients

Firm	Country	Excerpt
Deutsche Telekom	Germany	"The practical expedient under IFRS 7.29a was applied for information on specific fair values."
Telekom Austria	Austria	"*Not applicable as the practical expedient of IFRS 7.29 (a) was applied. *Not applicable as the practical expedients of IFRS 7.29 (a) respectively IFRS 7.29 (d) for lease obligations were applied."

Another simplifying accounting treatment which is not labelled as a practical expedient in the IFRS standards is the simplified approach for credit losses related to trade receivables. This is closely related to the allowed provision matrix approach. Thus, it is probable that firms interpret these two as the same thing.

Table A26 Disclosures of accounting treatments not labelled as practical expedients

Firm	Country	Excerpt
KBC	Belgium	For trade receivables, IFRS 9 allows for a practical expedient. The ECL for trade receivables can be measured in an amount equal to their lifetime ECL. KBC applies this practical expedient to trade and other receivables.

Another finding is that some firms call practical expedients practical solutions. An operational simplification allowed in IFRS 9 is the one related to the assessment of credit risk, and some firms use similar phrasings when describing their application of the low-credit risk exemption.

Table A27 Disclosures of accounting treatments not labelled as practical expedients

Firm	Country	Excerpt
Banco Bilbao	Spain	"Although the standard introduces a series of operational simplifications, also known as practical solutions, for analyzing the increase in significant risk, the Group does not use them as a general rule. However, for high-quality assets, mainly related to certain government institutions and bodies, the standard allows for considering that their credit risk has not increased significantly because they have a low credit risk at the presentation date. This possibility is limited to those financial instruments that are classified as having high credit quality and high liquidity to comply with the liquidity coverage ratio (LCR). This does not prevent these assets from being assigned the credit risk coverage that corresponds to their classification as Stage 1 based on their credit rating and macroeconomic expectations."
Legal & General Group	United Kingdom	"The group will recognise either twelve months or lifetime expected credit losses in the Consolidated Income Statement at each reporting period. The group intends to use the practical expedient for financial assets with low credit risk at the reporting date, which allows recognising twelve months' expected credit losses. Additionally, for trade receivables, contract assets and lease receivables, the group plans to use a provision matrix method to calculate and recognise lifetime expected credit losses."

Table A28 Disclosures when a firm does not apply a practical expedient

Firm	Country	Excerpt
Meritus Ulaganja	Croatia	"As a practical solution, IFRS 16 allows a lessee not to separate non-lease components and to account for lease-related components and non-lease components as a single component. The Group did not use this practical solution."
ANDRITZ	Austria	"ANDRITZ has not made use of the practical expedient in accordance with IFRS 15.121."
Proximus	Belgium	"The Group does not apply the short-term lease recognition exemption nor the low-value recognition exemption."
Vodafone	United Kingdom	"The Group does not apply either the short term or low value expedient options in IFRS 16."