

Reporting of R&D: disclosure without recognition?

KEY RECOMMENDATIONS

Intangible assets, such as research and development (R&D), are becoming increasingly important to driving the future earnings of many organisations. An organisation has to consider carefully what to say or not say about R&D, as the narrative will affect stakeholders' perception of its future prospects.

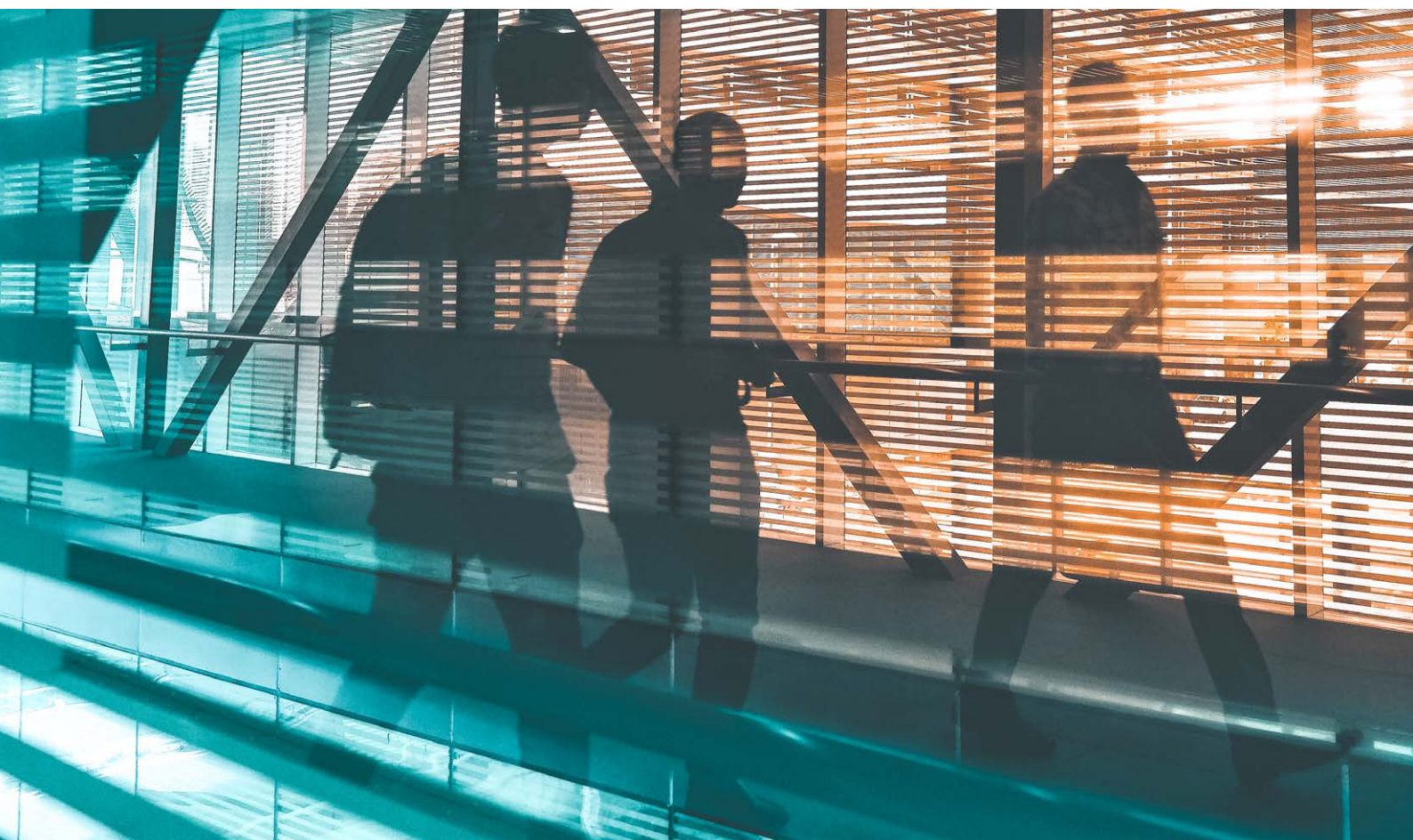
This research reveals a disconnection between disclosures in the narrative sections of annual reports and the financial statements. Annual reports that contain a high volume of R&D-related terms in the narratives, and even in the financial statements, despite not reporting any R&D expenditure are sending mixed signals to users about the significance of R&D to the organisation. Disclosures that indicate investment in R&D but inhibit users from discerning the amounts involved are not decision useful and are confusing.

The findings from this research indicate there is substantial room for improvement in the quality and reliability of reporting of R&D.

Better reporting of R&D should help users to understand the significance of R&D to the organisation's business model and connect it to any material financial, social and/or environmental impact that is relevant to the organisation. Better reporting of R&D by organisations will also have a profound impact on the quality of data in industry- or national- level statistics.

Improving the overall quality of corporate reporting by organisations undertaking R&D requires a multitude of solutions and proactive actions by all stakeholder groups collectively, to produce reliable and decision-useful information.

Therefore, we emphasise the following key recommendations for relevant stakeholder groups.



Details of our key recommendations are set out in the 'Recommendations' section of the Summary report.

Discover the full research report and the summary report: www.accaglobal.com/intangibles

Professional accountants should:

1. **review and identify activities that should be classified, and accounted for, as R&D**
2. **connect non-financial information in the narratives with financial information in the financial statements** to ensure information provided by different parts of the organisation is reliable and consistent
3. **encourage a change of mindset for R&D reporting across departments**
4. **provide further information that explains the significance of R&D to the organisation's business model**
5. **avoid boilerplate disclosures**
6. **collate information about activities that are perceived to be R&D, to inform standard setters**
7. **seize opportunities to highlight application challenges and discuss practical solutions with standard setters and/or policymakers.**

Recommendations (6) and (7) will greatly inform standard setters in their efforts to review and update IAS 38 as well as related IFRS Accounting Standards and guidance.

Those charged with governance (TCWG) should:

1. **critically assess the application of materiality by management** to ensure that both the qualitative and quantitative aspects of materiality have been considered when preparing disclosures in the financial statements
2. **review the relevance and connectivity of information in the narratives and financial statements in annual reports**
3. **review the composition and competency of TCWG** for their effectiveness in supervising the organisation's quality of corporate reporting.

Auditors should:

1. **assess the discovery of any activity that should be classified, and accounted for as R&D, for risk of material misstatement**, and report the discovery to TCWG if it is a significant finding
2. **take note of our recommendations (1) and (2) for TCWG, above, which are similarly applicable to auditors.**

Standard setters and policymakers should:

1. **critically review and update the definitions, taxonomy, and terminology** of intangibles and R&D in IAS 38
2. **review the requirements for recognition and measurement** of intangibles and R&D
3. **enhance the disclosure requirements** for intangibles and R&D
4. **provide guidance** for applying the definition and the recognition and measurement requirements
5. **update the examples** of what may constitute R&D activities
6. **provide illustrative disclosures.**

We suggest undertaking the above exercise, (1) – (6), in collaboration with organisations undertaking R&D and working together with national and regional standard setters.

Users should:

1. **participate in outreach and/or consultations** to inform standard setters and/or policymakers about the nature and extent of the information they need to drive their decisions
2. **take a closer interest in an organisation's activities** and convey enquiries or challenge conflicting disclosures by management through available channels, such as the investor relations department.