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Global Network
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Accountancy Europe

RE; Comments to 'Interconnected Standard Setting For Corporate Reporting'

The "World Intellectual Capital/Assets Initiative" (WICI) Network (www.wici-global.com) is a global, non-profit organization founded in 2007 by relevant private and public sector organizations in Europe, the U.S. and Japan. Its current most active members are WICI Europe, WICI Japan and World Business Council for Sustainable Development (WBCSD).

WICI operates also through its national (Japan, France, Germany, Italy) and regional (WICI Europe) jurisdictions in the perspective of promoting improved corporate reporting globally and locally.

With the aim to promote improved corporate reporting through a focus on intellectual capital/intangible assets, WICI has focused on how organizations generate value over the short, medium and long term through the realizing, managing, combining and utilizing their own intangibles. For this purpose, WICI published "WICI Intangibles Reporting Framework" (WIRF) in 2016, followed by WICI KPIs Concept and industry-specific KPIs related to intangibles in several sectors.

We have read with interest the December paper on the Future of Corporate Reporting titled "Interconnected Standard Setting for Corporate Reporting" prepared by an Accountancy Europe Task Force. We have noted that what is there called as non-financial information includes various intangibles used to create value for each company. Those are not non-financial in nature, but they are closely linked to financial performance especially in a future perspective. Therefore, they are increasingly recognized as important resources, which are at the origin not only of financial or economic, but also of social and ecological outputs. In the transformation from financial or shareholder-oriented capitalism toward stakeholder capitalism, they have become more critical and will be even more so in the future.

This paper prepared is relevant in that it focuses also on intangibles, thus reflecting this change. In the current situation, various guidelines and standards relate to non-financial information and intangibles. According to WBCSD's work on the Reporting Exchange, there has been over 200 frameworks across 71 countries, all claiming to be needed and different. In this situation, it would be beneficial for companies and their stakeholders to streamline those under an established authority. Especially, Approach 4 the paper proposes seems to be meaningful to provide a reliable backbone for non-financial information and intangibles. However, institutional arrangements for standard setting are not necessarily able to improve the quality of non-financial reporting. Dramatic change in institutional landscape --- not limited to inside the EU, but in a global perspective such as that of IFRS, may be needed.

On the other hand, to set up consistent metrics is problematic. Of course, some trial for the future system may be needed, so to propose some experimental metrics as a starting point of a journey may be harmless. However, the real material issues are judged from a company's own way of value creation, so if certain metrics are set as mandatory items for all companies to be disclosed, it may conflict against the specificity in the modes companies create value. We do not intend to deny the importance and urgency of climate change issues, but in this paper you need not to focus only on the metrics related to climate change. WICI would like to advise you to leave the metrics issue apart for the time being or, in case, to take the approach of listing up some examples of metrics and allow companies to choose some of them or to add some others in their reporting.

These metrics correspond to KPIs. To standardize KPIs is quite risky because it may make unclear the specific way value is created by each company. Therefore, everybody should be very careful to use some sets of KPIs as WICI explained in the document of 'WICI KPI Concept' (https://www.wici-global.com/wp-content/uploads/2012/06/Concept-Paper-on-WICI-KPI-in-Business-Reporting-ver.1-.pdf).

In addition, your paper seems to have triggered several new developments as the paper prepared by the WEF concerning common metrics, and the 28 January 2020 announcement by the European Commission that European standards on non-financials will be created. Certainly, it is meaningful to deepen discussions, but too many initiatives may raise the burden on companies with limited benefits. Therefore, it is desirable to improve the current system, based on the IIRC framework, which was the product of various organizations concerned. WICI, which has developed in 2016 the WICI Intangibles Reporting Framework as well as examples of KPIs in several industries, is quite ready to contribute to such a progressive work.

Some detailed comments on various parts of the paper follow.

- Amongst the criteria to evaluate the approaches mentioned in the text box 1 on pages 2 and 10, some of them include ‘urgency’, ‘global or local solution’ and ‘oversight’ which tend quickly to become linked to a strong regulatory approach. You should be careful to differentiate regulation or strict standards from guidelines on disclosure to focus on material matters for companies. The former one is likely to put just more burden on companies.
- WICI appreciates the approach to focus on long-term value creation and stakeholder needs as you describe in the last paragraph on page 3 as well as the broader stakeholder focus picked up on page 6.
- Definition of non-financial information on page 4 is agreeable, since it includes also a wide variety of intangibles relating to value creation.
- No. 9 of the text box 2 on page 7 reads ‘create a European regulatory framework for corporate governance in the single market, but a global framework is more desirable in principle.
- Last two paragraphs of page 9 are most problematic. It is difficult to understand why the first step should be to establish a core set of global metrics. If some metrics are needed, some examples can be shown. Then, each company can choose among them or add some other metrics according to the company’s unique value creation mechanism. The choice itself will provide ample information to compare companies, even though the same indicators are not selected and shown. As to the final paragraph, it reads ‘leadership by like-minded jurisdictions including Europe’. This approach may attract more people concerned, since the most important thing is that the new system gets sympathy and actually executed by as many jurisdictions and companies as possible.
- WICI supports the idea on the first part of page 12 to use the <IR> Framework as a starting point, because it was built on the basis of a serious discussion among international organizations.
- The first sentence in the part of consistent metrics on page 12 cannot be agreed. The focus and purpose of this paper appears to enhance company’s capabilities and actions for long-term value creation. Those are quite diversified. Nevertheless, the approach to determine ’a core set of metrics’ universally applied to every company is not the right direction. As was mentioned before, if some set of metrics is needed, you could just present examples of important metrics, leaving the final choice (or any addition

to it) to companies on the ground of their own value creation mechanism. It is also questionable that you mention 'auditable' and 'meets public policy' objectives. These may be taken into account in a later stage, but as a first step makes less sense.

- Touching upon the role of technology, including XBRL on page 13, is welcome.
- Since WICI has produced various kinds of proposals and a Framework focusing on non-financial information and intangibles for more than 12 years, we will highly appreciate if you add WICI's activities in the first paragraph of page 14.
- Contamination of general long-term value creation with global warming issues should be in principle avoided. It can be seen in the last paragraph of page 18 and the second paragraph of page 23. Needless to say, climate issues will have a huge impact on long-term value creation, but long-term value itself has more variety. Picking up just climate issues and TCFD work when addressing the non-financial information and long-term value might be misleading, we are afraid.

Takayuki SUMITA
WICI Global Chair