

Milan, 31 December 2012

EFRAG

35 Square de Meeûs

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Sent via email : commentletters@efrag.org.

RE: NIBR – Comments on EFRAG’s Discussion Paper “Towards a Disclosure Framework for the Notes”, July 2012

Dear Madams and Sirs,

The *Italian Network for Business Reporting* (NIBR) is a collaborative network between some of the most important players operating in Italy who are concerned with the quality and progress of business reporting, with particular relevance to the measurement and representation of intangible resources.

The NIBR was founded in February 2012 and is officially located in Milan. Its founding members are the Italian Association of Financial Analysts (AIAF), the Italian Association of CFOs (ANDAF), the Italian Association of Auditors (ASSIREVI), the Italian Stock Exchange (which is part of the London Stock Exchange Group), the Italian Professional Network IC² (International Consortium on Intellectual Capital), and the University of Ferrara.

The NIBR represents also the Italian jurisdiction of the “World Intellectual Capital/Assets Initiative” (WICI) Network (www.wici-global.com), and is also part of WICI Europe.

The WICI (World Intellectual Capital/Assets Initiative) is a global Network founded in 2007 by relevant private and public sector organizations in Europe, the U.S. and Japan. It aims at establishing a comprehensive business reporting framework that enables corporate management to express their company’s own way of using intellectual/intangible assets and other non-financial elements for the purpose of creating value, by also pointing out how the past and future financial performances connect to non-financial elements.

As is well known, there is a growing interest in the concept of integrated (financial and non-financial) reporting, which is exactly the direction along which WICI is moving through the engagement of various stakeholders at both a national and global level.

In particular, already over the past few years WICI has committed to the building and refinement of an overall business reporting framework combining financial and non-financial information, along with the elaboration of industry-specific Key Performance Indicators (KPIs) for explaining company value creation. Both the WICI Framework and the WICI-KPIs have already been translated into XBRL digital language.

Within this global collaborative Network, the NIBR aims to play an important role throughout Italy in fostering a new business reporting culture which is more oriented to a better measurement and transparency of firm events and resources (especially the intangible ones), and an improved communication between the firm and its stakeholders (investors in particular).

The NIBR would like to take this opportunity to respectfully submit its comments on the EFRAG's Discussion Paper entitled "*Towards a Disclosure Framework for the Notes*" published in July 2012, as it believes that there are significant points of contact, but also of difference, with its own objectives and actions, which we believe are worth bringing to your attention.

Due to the nature of NIBR's mission and activity, which is not directly concerned with technical financial accounting, we prefer not to provide you with our comments on the proposed questions, but to suggest some more general considerations on the fundamental issues raised by your Discussion Paper.

First of all, we would like to point out the importance of the effort undertaken by EFRAG with this Discussion Paper. The topic of disclosure has for a long time been in need of a re-visitation in order to design a framework and new selection and ordering criteria. We praise EFRAG for this. The NIBR shares the view expressed in the paper for the need of a better focusing on material aspects of corporate information, and therefore it encourages EFRAG to pursue further, the topic at international level, and more distinctively with IASB.

However, we would also like to raise three observations on some of the qualifying aspects of the document in discourse.

1) As said, addressing corporate disclosure is a crucial step towards the improvement of financial and business information. However, it should be recognized that corporate disclosure as stated in annual reports does not end with the Notes, but it extends also to the Management Commentary, where many significant business reporting disclosures of interest to NIBR can be found. This observation opens up the delicate issue of the relationship between the disclosures in the Notes and those in the Management Commentary. What information should be included in one or the other? What are the boundaries of the Notes and those of the Management Commentary? How can we draw a clear line between the two?

We understand that EFRAG has deliberately chosen to focus only on the disclosures contained in the Notes. However, we note that in various parts of the Discussion Paper this problem emerges. For example, in Chapter 2 (para. 8 and paras. 10-15) and Chapter 3 (paras. 12-20 and paras. 21-24) of the Discussion Paper the issue as to whether to present information that is not directly linked to the numbers in financial statements is highlighted with a view to improve the understanding of company value and its future cash flows. In this respect, a suggestion is provided by the Paper to insert in the Notes, information on agreements not recorded in financial statements, disclosures on the expected future trends linked exclusively to past events, and a detailed analysis on some financial risks in order to assist users to assess potential losses or gains on assets and liabilities and to evidence the relationship between the returns achieved and the risks undertaken (Chapter 3, paras. 12-20). Again, in Chapter 3 there is a plea to include in the Notes also an evaluation as to whether the management of resources available is shown to be in line with the strategies deliberated. Still in Chapter 3 (para. 10 and para. 11), the inclusion of the description of the company internal organization and an examination of the assumptions underlying going concern are supported. After all, in Chapter 6 (para. 7) EFRAG itself states that the disclosures requested in the Discussion Paper can be inserted in either the Notes or the Management Commentary (which might be somewhat contradictory with the document's assumption to focus only on the Notes' disclosures), thus opening the problem of the relationship with the Management Commentary.

All the above are examples drawn from the Discussion Paper pointing to the need for a comprehensive vision of company disclosures in annual accounts and for clarifying the demarcation between Notes and Management Commentary.

In this perspective, it is easy to observe that the very recent Discussion Paper by the UK accounting standard setter tries in fact to look at the corporate disclosure issue in a unitary perspective, contemplating the setting up of a single framework for the complete information included in the annual reports of companies.

Therefore, the NIBR would like to suggest to EFRAG to devote some more attention to the above issue, and in particular as to whether it would be more useful to have instead a comprehensive disclosure framework including both the Notes and the Management Commentary information and narrative. In any case, the need for establishing a more precise and rigorous divide between these two sections of company annual reports is here evidenced and supported. One possibility is to strictly limit disclosures in the Notes to the explanation of the financial statement numbers, reserving all the other information to be placed in the Management Commentary. However, it is also fair to recognize that this solution may run against the current legal provisions regulating the detailed contents of the Notes.

2) Along a similar vein, the NIBR is concerned about the absence of indications in the Framework delineated by the EFRAG's Discussion Paper, on where to place information about key-value drivers – which are essentially linked to intangibles – and the other important categories of risks (very often associated with intangibles: e.g. reputational and strategic risks) which are important to value creation and, in particular, to the generation of future cash flows. In other words, the NIBR would like to point out that linking the Notes essentially to the financial statement items, as it emerges from the document, may preclude the provision of information on relevant aspects of company strategy and tomorrow's performance. In such a sense, the NIBR would like to evidence the risk of potential opacity that is associated with this position vis-à-vis investors, analysts and other accounting information users. If the route that EFRAG wants to suggest for the disclosures in the Notes is that of exclusive adherence to financial statements numbers and valuation criteria (cfr. Chapter 1, para. 1; Chapter 2, para. 11) – and as also suggested by the NIBR at the end of the previous point –, then the NIBR believes that in the new Disclosure Framework there should be space also for financial and non-financial information on (relational, structural and human) intangibles as well as all the categories of risks. It is hoped that in the revised version of the Discussion Paper EFRAG will explicitly recognize the importance of, and the need for, such an information, independently of where it should be located. It is well known that ultimately (industry-specific) KPIs represent largely also KRI (Key-Risk Indicators), and therefore they should be disclosed by

companies with reference to internationally developed and recognized standards as those elaborated by the WICI/NIBR.

As a specific point related to the above, the NIBR does not understand why in Chapter 6 (para. 3) it is stated that Risk Reporting is outside the scope of the Disclosure Framework, whereas some information on risks are to be included – according to the same Discussion Paper – in the Notes. Is perhaps a splitting of information on risks between the Notes, the Risk Reporting and maybe the Management Commentary envisaged by EFRAG?

3) The NIBR wonders whether there is a need to better qualify the concept of materiality with regard to the Notes. At the moment the concept of materiality appears to be drawn from the current accounting and auditing standards, but we believe it would be useful to devote some additional thinking to this criterion when applied to Notes, in order to guide companies to select the most relevant disclosures and, hence, to streamline their Notes contents. The risk is to ask for a reduction of the quantity and weight of information within this section of the annual accounts, but not to offer a clear principle and method to do so. Indeed, in the Discussion Paper there is a beginning of discussion on this subject, but it does not seem to be conducive to a neat outcome. For example, the WICI and the NIBR state the principle that information in business reporting should be selected according to its relevance for the present and future value creation and preservation of a company.

Therefore, we encourage EFRAG to further elaborate on the guiding principle according to which rethinking and preparing the Notes contents.

In concluding, although recognizing the importance of EFRAG's effort and the soundness of many positions taken in the document, the NIBR fears that the strength of the Discussion Paper represents also its major weakness: the focus on the Notes certainly contributes to clarity of their scope and contents; however, it may detract the attention from a more comprehensive vision of corporate disclosure, with the risk of letting aside relevant and material issues explaining not only the past results exposed in financial statements (e.g. intangibles, risks), but also the bases for the future performances of the company. Accordingly, it seems to us there is a danger in devising a nice and convincing framework for Notes disclosures, which leaves though open and intact the problem of how and where to disclose information on other relevant events, strategies, operations, and resources that can be

even more important for users to understand companies' evolutionary trends and future outcomes, and that are not reflected in today's financial statements. If the guiding principle of the new Framework for the Notes is to show information that is useful to assess the generation of future cash flows and to take economic decisions by users, then the NIBR urges EFRAG to sustain the view of including – either in the Notes or in the Management Commentary – all the relevant disclosures to pursue that informational objective.

Sincerely yours,

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