



W I C I Europe

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Global WICI Network
the world's business reporting network

www.worldici.com

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Mr. Jean-Paul GAUZÈS
EFRAG Board President

Square de Meeûs, 35
B-1000 - Brussels
Belgium

Dear President Gauzès,

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 to deal with the measurement and reporting of intangibles that are unaccounted in traditional financial statements (www.wici-global.com).

WICI Network aims to contribute to the establishment of a comprehensive business reporting framework to enable corporate management to express 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, present and future performances connect to non-financial elements.

In this sense, in September 2016 WICI has published its “*Intangibles Reporting Framework*” to provide relevant definitions, principles, and contents to companies and other organizations to report on their intangible resources outside the financial statements in a value creation perspective (http://www.wici-global.com/wp-content/uploads/2016/09/WICI-Intangibles-Reporting-Framework_ver-1.0.pdf). Our Framework is aligned with the International <IR> Framework.

WICI is also committed to the elaboration of industry-specific Key Performance Indicators (KPIs) for explaining company value creation (www.wici-global.com/kpis).

Founded in Paris on May 2009, **WICI Europe** is the regional organisation for Europe of the WICI Global Network. WICI Europe represents the umbrella organisation for the national WICI jurisdictions of France and Italy, which together accounts for about 100 European entities (companies, banks, insurances, universities, professionals, consultants, Institutions) interested in the area of intangibles.

WICI and WICI Europe intend to play a role internationally 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).

WICI Europe is pleased to forward to you its responses to the Questionnaire you have proposed to our attention.

While we remain at your disposal, we thank you for the opportunity to collaborate with you and the EFRAG.

Sincerely yours,

Mr. Jérôme JULIA
Chairman
WICI France/Observatoire de l’Immatériel

Prof. Dr Stefano ZAMBON
Senior Advisor
WICI Europe



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Responses to the President Gauzès' Questionnaire

1. Governance – Structure and due process

*1.1 Standards need to be developed in the public interest and no individual category of stakeholder may exercise undue influence: How can it be best ensured that standards are developed based on **an inclusive and transparent due process**? What should be the characteristics of such a due process?*

WICI Europe believes that the approach adopted by the IFRS Foundation to the Due Process can be a useful starting point for elaborating an inclusive and transparent procedure for the possible development of European standards on non-financial information.

The three fundamental principles of transparency, full and fair consultation, and accountability of the choices made are to be taken as reference.

The presence of a Due Process Oversight Committee and the development of a Due Process Handbook is also necessary.

Another important element for the setting up of a fair and transparent European Due Process in this field is the attention that should be given to the findings of the academic research on the specific subject area in consideration. This attention can be fruitful when it is given by the new possible European standard setter to both ex ante and ex post vis-à-vis the addressing of a particular topic. This research phase has often been bypassed by the IASB in consideration that the field of financial reporting is well-developed. Owing to the relative immaturity of non-financial reporting practices and the recognition that issuers are still failing to sufficiently meet existing requirements, research – in our view – is essential in developing robust European requirements. Provision should also be made for a 'proactive' research program to ensure that Europe remains at the forefront of high-quality and outcome-driven reporting.

A post-implementation review process (PIR) is also recommended as a component of the Due Process.

Taking a higher and more conceptual perspective, that complements that above delineated, one should consider that

- because the definition of standards will affect many people,
- because clear answers are likely to be difficult in certain circumstances on some important questions (or multiple possible solutions may exist),
- because conflicts may appear,
- because the complexity of issues will quite probably require a creative problem-solving,

WICI Europe thinks that a really "fair process" is relevant.

This kind of process should include the following points:

- framing and preparation of all decisions;
- asking for, listening deeply and engaging with the inputs;
- informing and explaining the decisions taken;
- using feedback and debriefing routines;
- creating a true alliance for the project;
- maximizing the positive energies around the project;
- defining and sharing an inspirational vision (e.g., “why are we doing all this”).

Moreover, at WICI Europe, we believe that it is a true transformational process that is needed, including the transformation of the legal framework and regulations, but above all the transformation of behaviours and mindsets of the economic and financial world and its various stakeholders.

Indeed, at a closer and more profound look, developing new standards on non-financial matters is only a way of moving forward, but it is not the goal to be reached or the purpose to be achieved per se. The objective is to change people’s ways of doing business, thinking, deciding and acting, so that companies and institutions can better take into account intangibles and socio-economic aspects and thus better create and share value.

Ideally, one could in fact think of many other components or levers of change taking part in this transformation. For example, the organization of democratic public debates at European, national or local levels; sectorial and/or local experimentations, testing and learning; training programs for students or experienced workers, managers and leaders; data analytics on intangible assets and ESG information; and so on.

1.2 Relevant European institutions and agencies shall be invited to be fully involved in the development of future standards, including the European Securities and Markets Authority (ESMA): How can these European Institutions and agencies be involved in the development of future standards and in the standard setter? Should there a particular role for ESMA?

WICI Europe thinks that the relevant European Institutions and Agencies should be involved, but not directly, in the elaboration of the non-financial reporting standards. They should be granted the role of Observers and be the Enforcement Partners of the standards.

The same applies to ESMA, being one of the supervisory authorities, which should take an observer role and be a partner in the enforcement process.

It is advisable that the new European non-financial standard setting board be formed by a diverse group of stakeholders drawn from users/those impacted and preparers of non-financial reports in order not to mix up the different perspectives and functions of private vs. public sector entities (especially those with enforcement powers).

1.3 To permit relevant national public authorities to provide input about whether any future standards are responsive to the public interest, how can these authorities be included in the governance of the non-financial reporting pillar? Which authorities would be the most relevant and how should they be involved?

In general, WICI Europe believes that relevant national authorities should be involved in the sense that an efficient and effective communication and collaboration channel should be established with

the new European non-financial standard setting body. National authorities should not, in the interests of co-ordination and standardisation, be allowed to adapt requirements to their jurisdictions as this is likely to severely undermine the effectiveness of European governance arrangements.

By the same token, European national accounting standard setters should not be attributed the prevalence in the selection and appointment of the members of the new possible European standard setter for non-financial disclosure.

Furthermore, the local financial accounting standard setters should be encouraged to form, or to sponsor the setting up of, a national non-financial standard setting body, making sure that its members could have the adequate knowledge and expertise on these topics. It should be avoided that only financial accounting experts sit in these new national non-financial standard setting bodies in order to preserve the clarity of the respective functions, and to assure the presence of the needed expertise to dialogue with the European standard setter.

*1.4 Should private sector and civil society representatives be involved in the standard setting work? If so, what would be suitable options for doing so in a balanced way? Which stakeholders should be involved? Should the standard setting pillar be a **public-private partnership** like in the financial reporting pillar?*

WICI Europe supports the view that both private sector and civil society should be involved in the standard setting work. For example, academics and NGOs with a clear and recognised expertise on non-financial reporting topics, including intangibles, could usefully take part in the new European standard setting body.

In general, the ‘non-financial’ accountabilities that flow from such reporting suggest those impacted by the activities of companies to be adequately represented in any arrangements as an analogue to the investor community in the case of financial reporting.

Local representative organisations operating in the area of non-financial reporting (e.g. O.I.B.R. Foundation/WICI Italy in Italy, Observatoire de l’Immatériel/WICI France in France, Schmalenbach Society in Germany, etc.) can also fruitfully be involved.

This is true also for the international organisations operating in this field, such as the WICI Europe Network, the International Integrated Reporting Council (IIRC), the GRI and the Global Compact, with which a useful interaction can be established in consideration of their experience and track record in defining frameworks, concepts and standards for non-financial reporting.

Auditors and assurance providers are also relevant for the standard setting work, even though their presence and weight should be carefully thought of and monitored owing to their evident conflict of interest with their consulting and assurance work for companies and other entities. Rather, auditors should be fully involved in the phase of enforcement.

In a wider perspective, the new standard setting initiative has to be conceived – in WICI Europe’s opinion – as a public-private partnership, where the private sector is directly involved in the standard setting work, whilst the public entities have a fundamental role of direction providers and oversight.

1.5 *If there were to be SME standards derived from the future EU non-financial reporting standards, how should the SME angle be addressed in the governance and in the standard setting process?*

As SMEs represent the backbone of many economies in the EU, WICI Europe is convinced that a special Committee on SMEs, including relevant institutions such as EFAA and representatives of SMEs that are advanced in their non-financial reporting practices, should be set up within EFRAG or the new standard setter.

That said, it remains unclear whether there is a compelling need for SMEs to comply with detailed reporting requirements, where also the existence of users may be difficult to establish. Other accountability mechanisms may be warranted to ensure that it is not 'reporting for reporting's sake', but as a means of holding entities to account for their impacts.

WICI Europe has a special interest in SMEs. For example, WICI Italy/O.I.B.R. Foundation has published the only operational guidance so far to implement integrated reporting in SMEs (<https://www.fondazioneoibr.it/linee-guida-e-documenti/>). Also WICI France/Observatoire de l'immatériel is working with SMEs and their representatives, especially through its partnerships with Bpi France (public banking network dedicated to start-ups, SMEs, and innovative ecosystems) and the French Ministry of Finance.

In more general terms, this is a domain where more experimentation should be encouraged to promote more efficient and meaningful reporting.

1.6 *Which governance structure would you foresee for the EFRAG EU non-financial reporting standard setting pillar? How would this fit in the overall EFRAG governance structure? What relation would there be with the financial reporting pillar, if any?*

We believe that the EFRAG governance and organisational structure has to markedly change to accommodate the possible new European standard setting body and the related committees and staff.

First, we think that EFRAG has to modify its name and to become a non-profit Foundation or alike within the scope and the statutes of the European Union in order to assure the neutrality of its action.

Second, within the new EFRAG, there should be two distinct, but inter-connected sections devoted to, respectively, financial reporting (TEG with an advisory and proactive role) and non-financial reporting (with a standard setting role), with a common view that financial reporting and non-financial reporting should be ultimately integrated in a comprehensive corporate report. The TEG and the standard setting body should be linked by a liaison coordinator or a joint committee.

Third, the two sections should have their own staff with differentiated expertise.

The proposed new structure poses, though, three criticalities:

- The new EFRAG will have an asymmetric function in the two main fields of activity (being a standard setter only for non-financial reporting).
- The relationships with the incoming International Sustainability Standards Board of the IFRS Foundation should be carefully thought of and planned.
- The establishment of research partnerships with European universities (with a track record in the field), which we believe is a further necessary component of the institutional structure. Such partnerships should draw on diverse research traditions and not be captured by a single approach to research.

Furthermore, the EFRAG EU non-financial reporting standard setting pillar should build and run its own network/community composed of national counterparts and country non-financial reporting standard actors so to implant a positive and constructive dialogue for implementation, experimentation, coordination of local initiatives, communication, change management, influence, and so forth).

2. Governance – Cooperation with standard setters and other initiatives

2.1 Any future possible EU non-financial reporting standards must be built on existing reporting standards and frameworks to the greatest possible extent:

- *How can the relevant existing standard-setting organisations be closely associated in future standardisation work? How would you see cooperation and involvement?*

WICI Europe thinks that representatives of existing initiatives working in the area of non-financial reporting should sit or at least be represented by a liaison with the technical groups of the existing initiatives.

Policy bridges should also be established so that reporting is not seen as distinct from achieving wider European policy outcomes such as improving employee rights and training to support innovation.

- *More broadly, how should cooperation with existing public and/or private initiatives producing international standards and framework be established, to ensure that any future non-financial reporting standards applying in the EU build to the greatest extent possible on existing standards and frameworks?*

It is advisable that a large consultative forum be created, with regular working sessions and audits.

The Board should be made accountable to private and institutional entities.

- *How can the EU non-financial reporting standard setting have a global impact?*
We feel that the new EU initiative on possible standardisation of non-financial reporting can have a global impact essentially by showing leadership in terms of a robust and transparent due process, and be evidenced by high-quality reporting that can demonstrate improving accountability about value creation (also through intangibles) as well as societal and environmental outcomes.

Another impactful element could be the creation of a broadly constituted Consultative Forum to ensure that Europe can learn from national experiences in the area of non-financial reporting within and outside its regional boundaries (e.g., O.I.B.R. Foundation/WICI Italy in Italy, Observatoire de l'Immatériel/WICI France in France, Schmalenbach Society in Germany, but also Business Reporting Leaders Forum in Australia, <IR> US Community in the US, Brazilian Commission on Integrated Reporting, IRC South Africa, WICI Japan and the Japanese METI, etc.). The above-mentioned Consultative Forum could be the place where Europe can develop and strengthen the linkages in this field with its global partners and where it can exchange and learn from the differentiated national experiences around the globe.

2.2 How to establish an appropriate coordination between the financial and non-financial reporting so as to ensure that financial and non-financial reporting provide an integrated view of the performance, position, development and impacts of reporting companies?

In general terms, WICI Europe believes that a positive coordination between the financial and non-financial reporting may be a good transition phase towards a better understanding and management of non-financial strengths and specificities, without threatening the role and legacy of accountancy rules. This coordination should of course be achieved by avoiding a frontal competition between the two forms of reporting. A further potentially positive spillover of this coordination process is that it can generate innovations in business modelling and strategic conceptual thinking and frameworks, with – for instance – the identification of the key intangible asset systems of a company.

In this picture, WICI Europe suggests the following three possible ways to address the issue of an appropriate coordination between the financial and non-financial reporting within the new EFRAG.

In terms of governance: the new EFRAG can set up a high-level board where financial and non-financial representatives sit together. Also, a liaison operating committee can be established between the two units (financial and non-financial) within the new EFRAG structure.

In terms of reporting positioning: a European version of Management Commentary (*rectius*, Management Report for the European accounting directive) can be elaborated jointly by the financial reporting TEG and the new European standard setting body for non-financial reporting.

In terms of contents: unaccounted intangibles appear to be one of the most obvious topics where the coordination between the financial and non-financial reporting can be developed (see Figure 1 below). Another clear subject area for coordination is that of the reporting of non-financial risks and their potential financial impact (e.g., impairment test).

Figure 1 – Position of Intangibles in the corporate reporting system



Six capitals as defined by IIRC

Source: WICI Intangibles Reporting Framework, September 2016

3. Possible changes to finance of EFRAG

3.1 What ideas do you have for financing of the non-financial reporting pillar? Should the financing reflect the public-private partnership?

The finance of the new EFRAG is clearly a major delicate issue due to the extra-cost implied by the possible setting up of a new Board specialised on the standardisation of non-financial information.

We believe that the public-private partnership should be reflected also in the financing of the new EFRAG body.

WICI Europe thinks that two will be the main sources of funding: one is linked to the EU Institutions, and in particular the European Parliament that could increase the current amounts provided to EFRAG; and the other one could come from the European companies that will be benefitting from the new possible non-financial reporting standards.

In latter's perspective, a new system of financial contribution could be put in place in relation to the filing/publication of the Non-Financial Statements required on companies by the NFRD in conjunction with the filing/official publication of their financial statements. When the ca. 6,000 European companies file/publish their Non-Financial Statements according to the EU Directive no. 95/2014, a modest levy can be charged on these companies, similarly to what happens in Italy for the partial funding of the Italian accounting standard setter (OIC).

For the sake of reflection, on the assumption of ca. 100 euros per company filing can be levied, this should allow for a private funding of the new European standard setting initiative of around 600,000 euros per year.

The levy in question can be of course modulated in accordance with the size of companies.