

WICI Comment on non-financial disclosure (as of January 28, 2011)

Q1: How would you consider the current regime of disclosure of non-financial information applicable in your country?

Sufficient (in case of Japan)

It is true that we can see some information useful for decision-making of a company. However, the most desirable situation is not that readers earnestly chose such information from the huge amount of disclosed one, but that a company discloses only information useful for decision-making for a company. We should not have a prejudice that non-financial information in a certain category can be useful for decision-making in every company. Rather we need to recognize the category of information useful for decision-making of a company may be totally different from the one of another company.

Q2: Have you evaluate the effect, and costs and benefits, of any current corporate disclosure of environmental and social information?

Yes

For example, CSR reports in Japan are rarely utilized by investors, though the number of published reports is more than 1000. Of course, the cost of concluding a CSR report for a company is quite burdensome, including setting up a specific team for CSR issues.

Q3: If you think that the current regime of disclosure of non-financial information should be improved, how do you suggest that this should be done?

It is desirable to have an integrated report which describes a comprehensive picture of the company's strategy which combines financial performance and business strategy based on the recognition of its own way of value creation, value chain, specific assets for the company as origins of creating values, strategy for using those assets and risk in the future which the company think is influential for its future business. To focus only on a certain category like ESG related information might cause a passive and tick the box type response from the company, resulting in the lack of materiality which stakeholders

ask for in the disclosed information. Rather, we should take an approach to encourage a company to disclose information which the company thinks 'material' or substantial for the corporate strategy while showing its relationship or causality with the financial performance. This idea has a common nature with the substance of PS on MC published by IFRS in December 2010.

Q4: In your opinion, should companies be required to disclose the following:

Others

Fixing a priori the category of information to be disclosed and mandatorily requiring the disclosure are not appropriate ways as was indicated in the comment to Q1 and Q3 above.

In substance, business risk and opportunities in the second box is quite important for a company since it may relate closely to the future business strategy. Yet, it does not necessarily fall in the category of social or environmental issues. Moreover, for some companies risk and opportunities originated from those categories might not be relevant.

Elements shown in the third box is also important. However, this is not categorically important, but important as long as those elements are related to the company's own value creation or business strategy.

In sum, the most critical point is to encourage a company to disclose the core part of information related to its own value creation or strategy, which is quite diversified, company specific one. Therefore, it is impossible to determine the category of information to be disclosed, but it is desirable, as was mentioned in the answer to Q3, to encourage a company to present its own way of value creation, value chain, specific assets for it as origins of creating values, strategy for using those assets and risk or opportunity in the future which the company think influential for its future business, in connection with the business strategy and financial performance.

Q5: In your opinion, for a EU measure on reporting of non-financial information to achieve materiality and comparability it should be based upon:

Principles

Q6: In your opinion, what should be the process to identify relevant principles and/or indicators (whether general or sector-specific)?

We would like to provide you with Summary of WICI guideline and WICI KPI concept. Material or substantial elements and indicators for a company are company specific.

Therefore, a model embracing the following functions is necessary.

- identifying the sources of differentiation of a company from others
- making clear the value creation mechanism unique to the company which can last longer
- presenting an integrated picture of the company's activities including financial data, financial performance and non-financial elements
- providing clues for stakeholders to predict future performance of the company
- allowing companies to freely choose the substance without requiring 'tick the box' type disclosure
- explaining material issues for the company with a certain reliability and comparability of the disclosed information for users
- reducing the total cost of reporting for companies

To realize the above mentioned functions, we believe our basic approach as follows would be most appropriate one.

- WICI presents the skeleton of a narrative story to explain the value creation and corporate strategy of the company. This approach is taken to avoid regulating the substance of disclosure by each company, while making the story understandable to as many people as possible.
- WICI asks companies to include measurable key performance indicators (KPIs) to support the narrative story. At the same time, WICI presents a paper on the concept and principles of KPIs in order to avoid the risk that referring to KPI might make a company feel to be obliged to disclose a certain set of KPIs. WICI believes that such a one-size-fits-all approach might have a negative effect on the materiality of the disclosure. Rather, WICI prefers to provide a framework to allow a company to choose the most material KPIs by itself. This approach of asking for inclusion of KPIs is taken to raise the reliability and verifiability of the report, avoiding

the risk that a report only with narrative story might be complacent or self-sufficient.

- WICI recommends companies to use XBRL format. This approach is taken to improve the comparability and analysis of reports through empowering readers of reports by using the flag information which can be easily and conveniently used for searching.

Q7: In your opinion, should companies be required to disclose the steps they take to fulfill the corporate responsibility to respect human rights?

No

Information related to human rights should also be disclosed as long as it is a part of the company's core business strategy or its value creation mechanism. It is not necessary to require every company to disclose such kind of specific information. WICI may understand the situation that some EU people are positive to introduce some regulation, because European people might tend to forget the importance of human rights without it. However, WICI strongly oppose to press introduction of such a regulation globally. This does not mean that WICI does not see the human right issue important. WICI believes that in many companies, respecting human rights is the very fundamental rule of long term business. Rather, WICI is afraid of the mandatory disclosure of this kind of information will induce some companies to pretend respecting human rights though they work otherwise.

Q8: In your opinion, should companies be required to disclose the risks they face and the policies they have in the field of corruption and bribery?

No

As was indicated in the response to Q7, bribery and corruption issues should be addressed as long as it is a part on the company's core business strategy or its value creation mechanism. ' I hope bribery and corruption is not part of core business! Maybe say 'As was indicated in the response to Q7, issues should only be addressed if they are relevant and material to the company's core business strategy or its value creation mechanism. In the case of bribery and corruption, then it would be important to address this issue, and what the company does to mitigate the risk, if the company does significant volumes of business in jurisdictions that have a poor record in this area.

Q9: In your opinion, what companies should be required to disclose non-financial information?

None.

Q10: In your opinion, should institutional investors be subject to specific or additional disclosure requirements, for example to disclose whether and how they take into account environmental and social issues in their investment decisions?

No

Institutional investors just need to make clear their policy on its own way of investment. Moreover, it is meaningless to ask for every investor to behave in the same way to put high priority on social and environmental issues. It is quite natural for an investor to decide their own investment based on their own sense of value.

Q11: In your opinion, should European policy promote the concept of “integrated reporting”?

Yes

Integrated reporting which connect financial elements with non-financial ones is desirable. This might make it possible for stakeholders to grasp a company's total picture. In addition, this might decrease the total cost of reporting through streamlining current non-financial reports. However, if the new business reporting focuses only on some specific elements like ESG, WICI is seriously afraid that it might cause negative effects of creating non-material reports and raising the cost of reporting for companies.

Q12: In your opinion, should disclosed non-financial information be audited by external auditors?

No opinion

Q13: *attachments*

WICI framework

WICI concept

WICI KPI concept

Comment to DG ENTR WS

Comment to MC

Comment to transparency initiative of DGMRKT