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the world's business reporting network

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August 23, 2010

The European Commission, DG Internal Market and Services  
Unit F2, B-1049 Brussels, Belgium

**RE:** Comment on the proposed reform of the EU Transparency Directive

To Whom it May Concern:

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 assets and other non-financial elements for the purpose of creating value, and by pointing out also how the past and future financial performances connect to non-financial elements.

As the EC staff working document SEC (2009) 611 on "The review of the operation of Directive 2004/109/EC: emerging issues" dated 27 May 2010 evidences (p. 107), there is a growing interest in the concept of integrated financial and non-financial reporting, which is exactly the way along which WICI is moving through the engagement of various stakeholders at national as well as an international level.

In particular, already since a few years WICI is committed to the building and refinement of an overall business reporting framework combining financial and non-financial information as well as Key Performance Indicators (KPIs).

WICI also believes that ESG (Environmental, Social and Governance) data is just a part, though relevant, of critical company non-financial information, since the latter concept is much wider and also covers the information on technological competence, organizational capabilities, indispensable human assets, business networks, risks and so on. The idea is that non-financial information, including ESG, should be focused on the general company "*business sustainability*" and *value creation capacity*, which, in our

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view, encompass also the “environmental sustainability”. From here the need to rethink in a broader overall and integrated perspective about corporate non-financial information and business reporting.

In light of the above vision and achievements, WICI participated in the multi-stakeholder workshop on the disclosure of ESG information hosted by the European Commission last autumn, and provided input as a comment to the workshop as you can see in the attached paper. It also presented a comment on the exposure draft on Management Commentary prepared by IASB which is available here (<http://www.wici-global.com/publications>).

Concerning the consultation document presented by the European Commission at the end of last May, WICI would like to comment as follows, especially concerning the paragraphs 14 and 15 of the document named COM(2010)243.

Corporate financial performance does not result solely or directly from financial elements. Rather, it is realized through the company's own method of value creation by combining peculiar financial and non-financial elements. It is very important to raise the transparency on how the company created corporate performance in the past and how it can prospectively generate corporate performance, according to its stakeholders' interests.

From such a viewpoint, WICI believes it is desirable that a company could explain relevant non-financial elements and its own value chain in a brief and appropriate manner in order to show its own value creation mechanisms, while relating these to its corporate performance in the new business reporting. This combination of financial and non-financial disclosures would contribute to enhancing the overall transparency of corporate disclosures relevant to the analysis of corporate performance..

However, European legislations require various kinds of periodical disclosure on non-financial information as was mentioned in paragraph 14 of COM(2010)243. These rules require disclosing some information from the viewpoint of raising awareness of relevant social values. In many cases, such a requirement may exceed the extent which

is necessary to provide transparent disclosures related to the corporate performance. It is also the case in the ESG disclosure requirements explained in paragraph 15 of the above mentioned document. In this case, many types of corporate information are required to be disclosed from each organization, including NGOs, resulting in a significant increase in compliance costs for many companies. This outcome is somewhat contrary to the EU administrative burden reduction program objectives.

When company management is asked to disclose information that it perceives as unimportant concerning its value creation and long-term or sustainable financial performance, it is probable that such company disclosures have limited substantial meaning and may be solely provided for the purpose of compliance. Therefore, WICI believes that this initiative on the revision of EU Transparency Directive is an important starting point of the above project, and that this revision should aim at contributing to the building up of a new approach to business reporting, which also includes non-financial elements that management views as indispensable to its performance, and which provide a good basis for explanation of its financial outcomes in the past and in the future.

If this type of broad performance oriented business disclosures are devised and diffused, companies may more willingly pay for more relevant disclosures. At the same time, integrated business reporting containing financial and non-financial elements with a certain focus on corporate strategy would be welcomed and effectively utilized by many stakeholders. Such a transformation, once achieved, can be said to be a real improvement of substantial transparency. In some cases, the emergence of such an integrated reporting can streamline many kinds of disclosures responding to various social interests, resulting in a de facto reduction in the total compliance cost for companies.

WICI also believes that the mere imposition by the EU on companies of adding a little information on ESG aspects would not address the issue in an appropriate way, leaving the situation as unsatisfactory as it is now. We believe that transparency should not be offered and searched for on a piecemeal approach, but it should emerge as a consequence of a unitary and comprehensive view. That is why we would like to urge

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the Commission to take up this opportunity and propose a more pro-active stance aimed at the achievement of a more comprehensive and effective business reporting (*including ESG and other relevant non-financial information*), which is capable to increase accountability of companies, to integrate more solidly business sustainability issues into company strategy and operations, and to help towards a more efficient resource and capital allocation inside the company and in the financial markets, meanwhile reducing systemic risk and information asymmetries (see for a similar stance also section 14.11 at p. 106 of the above mentioned EC staff working document SEC(2009) 611).

WICI, which has already worked a great deal for improving business reporting, is ready to cooperate with European Commission and with any other organization to reform corporate reporting by sharing our experiences in the perspective of a more evolved and sophisticated idea of business information in the future.

If you have any questions, please contact Takayuki Sumita, Chairman for WICI Global (tel: +32-2-230-6992, e-mail: [sumita@jmceu.org](mailto:sumita@jmceu.org)).

Sincerely,

The Members of the World Intellectual Capital Initiative Network:

Enhanced Business Reporting Consortium, USA  
European Federation of Financial Analysts Societies  
Japanese Ministry of Economy, Trade and Industry  
University of Ferrara, Italy  
Waseda University, Japan