



W I C I
the world's business reporting network
www.wici-global.com

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European Securities and Markets Authority (ESMA)

CS 60747

103 rue de Grenelle

75345 Paris Cedex 07, France

Submitted on line at www.esma.europa.eu

RE: The World Intellectual Capital Initiative (WICI) - Comments on the ESMA's Consultation Paper on "ESMA Guidelines on Alternative Performance Measures (APMs)" issued on February 13, 2014

Dear Madams and Sirs,

The "World Intellectual Capital/Assets Initiative" (WICI) Network (www.wici-global.com) is a global, non-profit Network founded in 2007 by relevant private and public sector organizations in Europe, the U.S., Australia and Japan. The Promoting Parties of WICI are:

- The US Enhanced Business Reporting Consortium, which is formed by the American Institute of Certified Public Accountants (AICPA), Microsoft Corporation and PricewaterhouseCoopers;
- The European Federation of Financial Analysts Societies (EFFAS);
- The Japanese Ministry of Economy, Trade and Industry (METI);
- The Organization for Economic Cooperation and Development (OECD);
- The Society for Knowledge Economics (Australia);
- The University of Ferrara (Italy);
- The Waseda University, Tokyo.

The European Commission participates in WICI as an Observer.

The primary objective of WICI is to establish a framework of industry-specific KPIs 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 past and future financial performance connect to non-financial elements.

The WICI Global Network includes jurisdictional representation in the US, Japan, Europe, and at the country level in Europe there are also jurisdictions set up in France, Germany and Italy.

There is a growing international interest in the concept of integrated (financial and non-financial) reporting, as evidenced by the recent release of the International Integrated Reporting Framework. The members of the WICI network are supporting this evolution of corporate reporting through the engagement of various stakeholders at the national and global level to develop industry-specific KPIs and advocate for more meaningful disclosure related to intangibles. Accordingly, WICI is represented on the Working Group of the International Integrated Reporting Council (IIRC), and has signed a Memorandum of Understanding with the IIRC to signify collaboration and coordination between our respective efforts.

To date, the members of the WICI network have supported the development of a business reporting framework combining financial and non-financial information that informed the development of the International Integrated Reporting framework, as well as the elaboration of industry-specific Key Performance Indicators (KPIs) for explaining company value creation, which are publicly available on the WICI website at www.wici-gobal.com.

WICI respectfully submits its comments on the ESMA's Consultation Paper entitled "ESMA Guidelines on Alternative Performance Measures (APMs)" issued on February 13, 2014. We would like to commend ESMA for its effort to address an increasingly important area of corporate reporting and communication. We believe that ESMA Guidelines are in principle a useful tool in dealing with APMs and the related issues encountered with their use (cf. **Q4**).

We also believe, however, that the current definition and scope of APMs is too narrow in the sense that it almost exclusively refers only to measures coming from financial statements or

regulated reports, whilst on the contrary the most important trends in today's corporate reporting go in the direction of widening information towards the financial, but especially non-financial, measurement and/or disclosure of key-value drivers and KPIs, which are mostly intangibles-related. Financial analysts and investors appear to be more and more interested not only in the historical financial statements, but also in understanding the way business is and will be run, with a full awareness that factors such as strategy, business model, governance, risks, research and development, innovation, customer/relational, organizational and human capital, for example, are critical to understanding a company and its value creation prospects.

In this respect, WICI would encourage ESMA to follow up in its effort and to consider now or in the near future an extension of its Guidelines to other relevant forms of APMs. Indeed, most of this type of non-financial information is published in IPO Prospectuses at company listing. ESMA rightly poses the question of, and the need for, transparency of APMs used in these particular company documents. The risk is that some APMs (i.e. those coming from financial statements) are regulated by the ESMA indications, but a large number of other "APMs" of non-financial nature, such as KPIs, key-value drivers and other intangible-related disclosures, are left out, thus creating two categories of APMs and a potentially uneven quality of reported information.

Consistent with WICI's mission and activity, which is not directly concerned with financial issues and accounting standards, we would like to concentrate our detailed comments on only some of the questions ESMA has posed in the Consultation Paper, and in particular on those dealing with issues directly or indirectly linked to KPIs which represent and measure value creation of companies, for which we feel we can provide a competent contribution in terms of reflection and proposal.

- Q2: Do you agree that the ESMA [draft] guidelines should apply to APMs included in:
a) financial statements prepared in accordance with the applicable financial reporting framework, that are made publicly available, and
b) all other issued documents containing regulated information that are made publicly available?
If not, why?

As already pointed out, the number and relevance of non-financial indicators is increasing as well as the forms of reporting that are published by companies on a mandatory and voluntary

basis (Governance Reports, Remuneration Reports, Integrated Reporting, Intellectual Capital Statements). As a consequence, we would encourage ESMA to take a more proactive approach in this area, trying to guide the development trajectory of APMs also in emerging reports.

- **Q3:** *Do you believe that the ESMA [draft] guidelines should also be applicable to prospectuses and other related documents, which include APMs (except for pro-forma information, profits forecasts or other measures which have specific requirements set out in the Prospectus Directive or Prospectus Directive implementing regulation)? Please provide your reasons.*

Yes. For the reasons indicated above, the APMs published in IPOs should also be included. WICI's suggestion is to extend the scope of APMs included in the ESMA Guidelines in order to avoid creating a potential discrimination in treatment between the financially-derived APMs and the others, which deal with other relevant factors of company growth and value creation.

- **Q5:** *Do you agree with the suggested scope of the term APM as used in the [draft] guidelines? If not, why?*

The ESMA Guidelines define APM as “any numerical measure of historical, current or future financial performance, which relates to the financial position, comprehensive income or cash flows, other than a measure defined by the applicable financial reporting framework.”

More in detail, APM are: “(i) all measures of financial performance not specifically defined by the applicable financial reporting framework (e.g. EBIT, EBITDA, free cash flow, underlying profit, net debt etc.); (ii) **all measures designed to illustrate the physical performance of the activity of an issuer’s business (e.g. sales per square meter)**, and (iii) all measures disclosed to fulfil other disclosure requirements (e.g. pro-forma financial information or a profit forecast) included in public documents containing regulated information”.

As we have noted above, WICI's vision of APMs is broader. Only the APMs evidenced in bold under the category (ii) above are partially consistent with such a vision. We would propose ESMA to extend the scope of the APMs considered as indicated above.

Q6: Do you believe that issuers should disclose in an appendix to the publication a list giving definitions of all APMs used? If not, why?

Yes. A Glossary containing a technical description of all APMs (of financial and non-financial nature) selected by a company in its reporting documents would be most useful.

Q7: Do you agree that issuers should disclose a reconciliation of an APM to the most relevant amount presented in the financial statements? If not, why?

Yes, if and when that is possible or makes sense. For some non-financial KPIs this reconciliation is only indirectly possible, for example in the case of KPIs related to research activity or intellectual property (IP) or brand management. Sometimes it is easy to indicate/identify a cost, but the value of the outcome cannot be measured directly in relation to financial statements items. For instance, revenues can easily come from a brand management activity of several years earlier but it is difficult to determine to what extent; IP value is not in the balance sheet if internally generated, and so on. Therefore, even though we understand the underlying rationale of the point in question, we would suggest some relaxation on this indication, giving some clear guidance when the reconciliation is possible and when it is not possible owing to accounting rules or the nature of the outcome represented by the KPIs.

Q8: Do you agree that issuers should explain the use of APMs? If not, why?

Yes, we agree, but we think that it is not completely clear what should be explained. In principle, the use of APMs must be driven by the willingness to disclose information that helps to clarify the current and future value creation potential of a company. If the Guideline intends to ask for a justification for the use of any APM, then we fear that the use of APMs may be unintentionally discouraged.

Q9: Do you agree that APMs presented outside financial statements should be displayed with less prominence, emphasis or authority than measures directly stemming from financial statements prepared in accordance with the applicable financial reporting framework? If not, why?

We don't agree with this recommendation. First, it is not clear to us what is exactly meant by "less prominence, emphasis or authority". Is it something to do with the size and

characteristics of the font used by a company? Or should this type of APMs be presented only in a note? We believe that there is a need for a clearer guidance on this particular point, if ESMA thinks that it should be maintained.

Second, WICI supports the view that a correct usage of non-financial APMs should be encouraged through clear guidance and verification. The corporate world appears to be moving in this direction; users want to understand value creation processes in the short, medium and long term, and need information consistent with that. We live in a knowledge-based society and intangible investments in many cases now exceed tangible investments. In this context, it is difficult to imagine that the disclosure of non-financial information and KPIs will not become more and more important and prominent (e.g. Integrated Reporting).

WICI believes that corporate information should be enhanced by following a globally accepted business reporting framework that is based on financial and non-financial KPIs, in order to avoid misunderstandings or, worse, easy manipulations. In this respect, WICI has started developing in the last five years benchmarks which are centered on long-term value drivers for specific industries and which are publicly available in a section of the WICI's website (www.wici-global.com/kpis).

We have also elaborated a special “WICI-KPI Concept”, according to which the key-performance indicators (KPIs) identified for each industry – to be interpreted as frequently used KPIs – have the following features:

- WICI-KPIs are not to be disclosed on a mandatory basis, but companies may choose amongst them those that better describe their own value creation story. WICI does not expect companies to follow a “tick-the-box” type of approach to WICI-KPIs, rather to use those KPIs that are most relevant to their specific business model needs and to also extend the WICI framework to meet their individual needs and also be available for other market participants (companies and other consumers);
- WICI-KPIs, once selected by a company, are to be used consistently over time (if its strategy/value creation model is not revised), in order to accompany the other metrics and the management narrative dealing with the financial and strategic situation of that organization;
- WICI-KPIs are developed by market-driven, industries-based initiatives, with a bottom-up approach (similar to “Wikipedia”);

- WICI-KPIs are internationally agreed and elaborated in a public service perspective;
- WICI-KPIs are translated in a digital, computer-readable language, called eXtensible Business Reporting Language (XBRL);
- WICI-KPIs are freely downloadable.

To date, WICI has produced through general international market-driven consensus those benchmarks, WICI-KPIs, for the following industries:

- Pharmaceuticals;
- Automotive;
- Electronic components;
- Telecommunications;
- High Technology;
- Mining;
- Fashion and Luxury;
- Electricity.

We are currently in the process of developing the KPIs of the Oil and Gas industry.

In many industry-specific WICI-KPIs, socio-environmental sustainability indicators are also included. These KPIs have been developed with the support of company managers and financial analysts from various countries around the world.

In conclusion, we praise ESMA for the idea of providing Guidelines on APMs, however we also encourage the European Authority to extend its vision and the scope of these performance measures. We also signal the availability of the WICI-KPIs, already developed and accepted industry benchmarks which we think could be quite useful in a process of directing listed companies towards a correct usage of APMs fully representing and better explaining their value creation processes.

Sincerely yours,



Ms. Amy Pawlicki
Chair, WICI Global Network



Prof. Dr. Stefano Zambon
Chair, WICI Europe
Secretary General, WICI Italy