

Brussels, 25 June 2013

European Commission
DG « Internal Market »
B-1000 Brussels
Belgium

Sent via email to: markt-consultation-long-term-financing@ec.europa.eu

RE: The World Intellectual Capital Initiative (WICI) - Comments on the European Commission's Green Paper on "*Long-Term Financing of the European Economy*", 25 March 2013

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. 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.

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 to 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 in XBRL digital language.

In this general framework, WICI intends 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 would like to take this opportunity to respectfully submit its comments on the European Commission's Green Paper on "Long Term Financing of the European Economy" published in 25 March 2013, because it believes that there are significant points of contact, but also of difference, with its own objectives and actions, which we think are worth bringing to your attention.

Due to the nature of WICI's mission and activity, which is not directly concerned with technical financial issues and accounting standards, we would like to concentrate our comments on the questions you have posed in the Green Paper that deal with the section "Information and Reporting" (pp. 15-16), for which we feel we can provide a contribution in terms of reflection and proposal. Accordingly, in our comments we will address the following questions:

24) To what extent can increased integration of financial and non-financial information help provide a clearer overview of a company's long-term performance, and contribute to better investment decision-making?

25) Is there a need to develop specific long-term benchmarks?

Comment on:

24) To what extent can increased integration of financial and non-financial information help provide a clearer overview of a company's long-term performance, and contribute to better investment decision-making?

WICI believes that corporate information should be enhanced with a new business reporting framework in order to understand and appreciate the value creation story and potential of a company. To this end, as aforementioned, in the WICI framework we also aim to combine financial and non-financial measures and information. We are strongly convinced that the current reporting status does not favor a long-term orientation of investors.

However, we would also like to point out that, in order to understand and disclose the long term viability of a company, it is essential to understand and measure the intangible resources which are the pillars upon which a company's value creation potential is based. By intangible resources, we mean all the elements that are not embodied in a physical form and that a company uses to create value with a very limited possibility to include them in financial

statements and annual reports. Examples are customer relationships, brands, leadership, organizational procedures, research and development, human skills and competences, alliances, strategy execution capacity, human talent development and formation, etc.

All these resources are largely measured using non-financial metrics, i.e. metrics that are not expressed in a currency (euro, dollar, yen, yuan, etc.).

In such a sense, we observe that non-financial metrics are certainly important to nurture a long term perspective, but they are not represented only by socio-environmental indicators. Also metrics linked to the intangible resources of companies are long-term oriented and foster a consistent view by investors and financiers. In this perspective, when the EC Directive refers to socio-environmental sustainability as non-financial, we think that this is limitative and not-exhaustive. Socio-environmental respect is important for a company's development, but it is surely not the only non-financial element which allow firms to grow and prosper in the medium-long term.

Therefore, in order to favour a more long-term financing and investment decision-making perspective, we would propose the European Commission to consider a wider perspective by introducing the notion that non-financial elements and indicators should regard also intangibles that by universal recognition are the real long-term value drivers of companies. We would also propose the European Commission to talk more openly about the need for companies to pursue a wider business sustainability, which systematically includes the socio-environmental sustainability.

Comment on:

25) Is there a need to develop specific long-term benchmarks?

WICI thinks that the development of specific long-term benchmarks is one of the key passages to achieve the objectives discussed in the EC Green Paper. These benchmarks should be generally accepted, internationally recognized by companies and market operators, readily and freely available, and industry-based because each sector has different value and business sustainability drivers.

In a similar vein, WICI has started developing in the last five years *ad hoc* benchmarks which are centered on long-term value drivers of specific industries and which are publicly available in 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.

At the moment WICI has produced through general international consensus those benchmarks, the WICI-KPIs, for the following specific industries:

- Pharmaceutical industry;
- Automobile industry;
- Electronic components industry;
- Telecommunication industry;
- Software industry;
- Extractive industry;
- Fashion and Luxury industry;
- Electricity industry.

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

Therefore, we praise the European Commission for the idea of developing specific benchmarks for favoring long term orientation of company behavior, and we signal the availability of the WICI-KPIs, which represent already developed benchmarks, and which we think could be very useful in this important process of shifting economy and business towards a more long-term oriented perspective.

Sincerely yours,

Takayuki Sumita
Chairman
World Intellectual Capital Initiative (WICI)