

WICI Global Network. WICI Europe represents the umbrella organisation for the national WICI
 Founded in Paris on May 2009, **WICI Europe** is the regional jurisdiction for Europe of the
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 dozen). As to the number of companies making it reference to the WICI Intangibles Reporting
 Framework and WICI-KPIs, we probably are in the range of one hundred in Europe, but in Japan a
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Since its inception, WICI has been in favour of the use of XBRL, and some of its industry
 KPIs are already expressed in this digital language.

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WICI is also committed to the elaboration of generic Key Performance Indicators (KPIs)
 dealing with intangibles and company value creation (today we have 50 generic KPIs and 6 KRIs),
 as well as industry specific KPIs (today we have 571 industry KPIs) for representing and measuring
 these resources and the associated organisation's processes (www.wici-global.com/kpis). These KPIs
 are developed through a Due Process specified on the website.

Our Framework is aligned with the International Integrated Reporting
 Framework and interoperable with other analogous documents.
 ([http://www.wici-global.com/wp-content/uploads/2016/09/WICI-Intangibles-Reporting-](http://www.wici-global.com/wp-content/uploads/2016/09/WICI-Intangibles-Reporting-Framework_ver1.0.pdf)
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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-](http://www.wici-global.com/wp-content/uploads/2016/09/WICI-Intangibles-Reporting-Framework_ver1.0.pdf)
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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 for the purpose of creating value, by also pointing out how the past,
 present and future performances are connected to intangibles and non-financial elements.

WICI is the only international organisation operating in this field.
 Business Council for Sustainable Development (WBCSD) in the field of the reporting of intangibles
 and intellectual capital. WICI is the only international organisation operating in this field.
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Dear President Gauzes,

Mr. Jean-Paul GAUZES
ERFAG Board President
 Square de Meeus, 35
 B-1000 - Brussels
 Belgium

12 January 2021



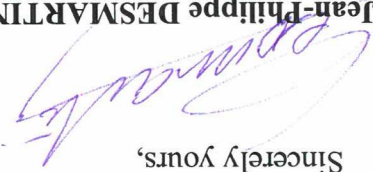
jurisdictions of France and Italy, which together accounts for more than 100 European entities (companies, banks, insurers, universities, professionals, consultants, institutions) interested in the area of the reporting on intangibles.

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 those of an intangible nature, and an improved communication between the firm and its stakeholders, and investors in particular.

WICI Europe is pleased to forward to you its responses to the second 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. Jean-Philippe DESMARTIN

Chairman, WICI Europe

Head of Responsible Investment, Edmond De Rothschild Asset Management

Responses to the President Gauzes' Second Questionnaire

General Comments

Considering the fundamental change in the mission, nature, and governance of EFRAG, WICI Europe thinks that there are some crucial orientating principles and elements that should be dealt with in implementing these changes.

(a) **Independence** of the people involved at the various levels. As an old say of audit goes, members of the three Boards and the two TEGs must not only be independent, but also look like independent. This is especially true and required for the new Non-Financial Reporting side of EFRAG. Independence is the necessary condition for credibility.

(b) An essential element of independence is represented by the **remuneration and full-time engagement** of Non-Financial Reporting Board and TEG members. On this point, the document in consultation is not particularly clear, even though from para. 6.3 it seems that EFRAG is thinking more about a contribution "in-kind" rather than a monetary compensation for the members of the above Board and TEG. An "in-kind" approach does seem to us capable of ensuring enough independence of the members.

(c) **Competence** of the members of the Non-Financial Reporting Board and TEG. At the moment, in the document in consultation both the characteristics of those members and how they will be selected are not sufficiently clear. The risk here is that the new standard setting body will be "captured" by the historical EFRAG stakeholders whose competence on the topic might not be of very high level. For example, the vast majority of national accounting standard setters does not appear to be particularly competent about, and participating in, the debates occurring in the non-financial reporting arena.

(d) **Wider representativeness** of the members composing the Non-Financial Reporting Board and TEG. Today, as a result of the Maysstadt reform, the organisations composing EFRAG are representing various European business sectors/interests and the national standard setters. However, when entering the Non-Financial Reporting arena, there are also other European and national organisations representing public interest which should be taken into account in the new EFRAG structure. The risk of simply replicating the current representation structure is high. In this respect, WICI Europe suggests that EFRAG could carry out a census of the established organisations existing in Europe working competently in the area of non-financial reporting to make sure that the principle of representativeness be assured (for example, O.I.B.R. Foundation in Italy, Observatoire de l'Immatériel in France, Schmalenbach Society in Germany, and WICI Europe itself, etc.).

(e) **Transparency and simplification** of the new EFRAG structure and governance. The document in consultation proposes a quite articulated organisation for the new EFRAG

(h) The objective of the new EFRAG's non-financial reporting should also be to bring greater coherence in corporate reporting. As evidenced by several commentators, including the Corporate Transparency Alliance (2019), there is a disconnection between what companies report in the financial statements and in the management report (and voluntary reports such as sustainability reports). A study by the WBCSD (2018) of risk reporting across global companies found that only 8% of companies reported the same risks in their financial filing and their sustainability report. Similarly, as the TCFD (2019) has highlighted whilst companies acknowledge that climate change is likely to disrupt their business model, there is little evidence of concomitant impairment adjustments to assets which are unlikely to produce the cash flows reflected

(g) The objective of non-financial reporting within the new EFRAG. This could create a profound tension between the purpose of financial versus non-financial reporting. WICI Europe believes it should be made clear that corporate reporting is aimed specifically and primarily at the needs of providers of capital to contribute to their decision-making. That does not imply that there is no role for broad stakeholder groups as they will be vital in understanding and adequately responding to the impacts and dependencies of companies' actions and omissions. It also does not preclude the development of special purpose reports for particular groups of stakeholders, such as employees or NGOs focused on the environment, but we should not pretend that one single report can satisfy the multitude of needs, nor properly discharge the director's fiduciary duties relating to the stewardship of resources. In this respect, the reporting of non-financial information on environmental or social issues should be recognised as equally critical for informing investor decision-making (and increasingly investors claim it is vital), but it has a related purpose of achieving other public policy goals. For instance, reporting on the impact of climate change has implications for the EU targets on carbon. For that reason, it is important that reporting provides transparency around how successful the company is transitioning to low carbon operations. That information is also crucial for capital providers to understand the ongoing viability of a company's business model.

(f) Scope of the EFRAG Non-Financial Reporting standardisation activity. One important element that has remained overlooked in the consultation document is the expected boundaries of the EFRAG non-financial reporting standardisation activity. Even though it is likely that the main contents will be those set by the revised version of the EU NFRD, it would be relevant to state whether EFRAG's activity in the field of non-financial reporting standardisation will encompass only climate-related disclosures, or also social and governance aspects, and/or also intangibles-related information.

with three boards and two TEGs, and the European Corporate Reporting Lab between supervisory activity so to better clarify its role.

Evidently, the new organisation is quite complex and may be subject to conflicts. For instance, what is the power of the EFRAG Board vis-à-vis the Financial and Non-Financial Reporting Boards? And to what extent the Non-Financial Reporting Board can refuse the proposals by the Non-Financial Reporting TEG? Further, what is the future role of the Corporate Reporting Lab? Is it needed for coordination between the financial and non-financial reporting sides? Would not a joint task force be able to do the same job? The multiplication of governing levels and the attribution of overlapping competences can be a severe risk to the well-functioning of the new EFRAG. We are wondering why the EFRAG Board cannot be tasked only with an oversight and

1.3 On p. 8, within the list of the due process steps illustrated, there is one point that would deserve a better explanation and deepening, i.e., “reaching out to relevant (global) non-financial reporting initiatives and considering their views in the research, standard setting and European Lab activities where appropriate”.

1.2 The three fundamental principles of **transparency, full and fair consultation**, and **accountability** of the choices made are to be taken as reference for a sound Due Process. The presence of a Due Process Oversight Committee (within the EFRAG Board?) and the development of a Due Process Handbook is also necessary.

1.1 The elements of the due process as described in Chapter 3 are similar to those currently employed by the IASB and other standard setters. There is, in our view, no compelling reasons to alter radically well-established due process steps. Given the nature of non-financial reporting and the diversity of the subject matter, we think it needs to be more normative than currently explained in the proposals. More emphasis will need to be placed on eliciting responses from stakeholders who may not normally have the resources to participate in a formal due process. Accordingly, more emphasis on outreach events will be crucial to encourage a diversity of voices and needs to participate in the process.

Question 1 – Due Process

In the following, WICI Europe is glad to provide detailed answers to the questions posed in the EFRAG’s second consultation document.

transition to more sustainable business models.

(l) Reporting arrangements are not an end but a **means of promoting better transparency and accountability**. In the context of non-financial reporting the emphasis should be on the ability of reporting to provide an indication of how companies are making the

(k) **Name of EFRAG**. In light of the proposed changes, it makes sense for EFRAG to be renamed in a way that better reflects its new nature. For instance, it could be the **European Corporate Reporting Advisory Group (ECRAG)** in order to communicate to stakeholders that its expanded role is to drive better integration between what has

(j) **Relationship with other international initiatives**. This aspect is not particularly dealt with in the consultation document. There is only a generic reference to the necessity for collaboration with these initiatives. However, there is a risk of “reinventing the wheel” or creating overlapping or “carves out”. Another crucial element is to determine whether the intended collaboration would be more, for example, with the GRI (stakeholder orientation) or the Value Reporting Foundation (providers of financial capital orientation).

(i) **Relationship with European and national authorities**. Taking into account the new role of EFRAG in such a delicate sector as non-financial reporting, the presence of the authorities is an important element to guarantee the pursuing of the public interest. However, their role should be that of supervision, advisory and oversight.

in their carrying amounts. These examples highlight the need for there to be a strong and effective dialogue between the elements of the proposed governance structure so that a binary split in financial and non-financial governance is to be seen as a transitional rather than a permanent disconnection in reporting in the EU.

- 1.4 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-a-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. Moreover, 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
- 2.1 It is our view that participation of member states is needed at all levels of the proposed governance structure so that company actions are congruent with the realisation of public policy ambitions. Unlike current arrangements for financial reporting, the engagement of member states needs to be much more agile, given the diversity of the subject matter. Accordingly, it may demand the involvement and liaison with policy experts across a number of national government departments and central banks perhaps co-ordinated through Ministries of Finance while leveraging on possible already existing national working groups on Sustainable Finance.
- 2.2 The nature of how member states are engaged will depend on the level of the governance structure – the General Assembly and Board level can involve more strategic specialists drawn from a diversity of finance, environmental and social disciplines, supported by technical expert groups connected with the EFRAG TEG technical discussions.
- 2.3 National regulators will need to play an active role on reviewing the quality of non-financial reporting and drive compliance, enforcement, and quality improvements. To date, regulators in only a few jurisdictions have been active in reviewing non-financial information.
- 2.4 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.
- 2.5 By the same token, auditors and assurance providers are also relevant for the NFR 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

Question 2 – Member States and National Public Authorities

consulting and assurance work for companies and other entities. Of course, auditors should be fully involved in the phase of enforcement.

Question 3 – European Institutions and Agencies

3.1

In our view, the European Institutions and Agencies should be involved in the high-level governance of the new structure. In line with principles of good governance they should be involved in the boards as observers to ensure EFRAG is discharging its obligations consistent with its new mission. To maintain the independence of the organisation, the European bodies should play an oversight role and not become involved with its management and decision-making. Alternatively, they should be granted the role of Observers. They should be the European enforcement partners of the standards.

Question 4 – Private Sector and Civil Society

4.1

The effectiveness of the new EFRAG organisation will depend on the quality of its relationship with private sector actors and civil society. It is important that the governance arrangements are not captured by any particular group but that there is broad, competent, independent and meaningful representation. Non-financial reporting is still developing and therefore there is still a great deal of consensus building that needs to take place. Accordingly, there needs to be an effective partnership between governments, business, and civil society.

4.2

The private sector and civil society should be engaged in all levels of governance consistently with the partnership notion described in 4.1 above. Because of the developmental nature of many areas of non-financial reporting, a principles-based and pragmatic approach needs to be encouraged to ensure there is an appropriate balance between costs and benefits with the goal of promoting more sustainable business being the overriding consideration.

Question 5 – SMEs

5.1

We would like to recall our answer to a similar question that was posed by the first EFRAG Consultation some months ago because we think it is still relevant: “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 and WICI Europe have a special interest in SMEs. In this respect, we signal to you that 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/>). In more general terms, this is a domain where more experimentation should be encouraged to promote more efficient and meaningful reporting.”

WICI Europe does not have any specific comments on the composition of the EFRAG Board, apart from the above illustrated consideration about the need to have independent, competent, and widely representative members. Indeed, the Board should be based on principles of good governance by being independent, appropriate skills, diverse and be transparent and open in its decision-making. As aforementioned, its focus should be in providing oversight and ensuring that the organisation is delivering on its mission. It will be important for the Board to provide leadership to

Question 7 – EFRAG Board

7.1

As companies currently report non-financial reporting under various frameworks, it will be important for the new arrangements to consider an appropriate transition path to enable companies to bridge to European reporting arrangements without incurring substantial implementation costs. The development of an IFRS 1 equivalent to pass from national requirement to European NFR standards may be useful to achieve a meaningful adaptation of process and systems at the corporate level.

6.2

WICI Europe thinks this is an area that will require careful attention. According to the WBCSD, there are over 200 reporting frameworks and guidance documents for non-financial reporting around the world, and it is well-accepted that the reporting landscape is quite confusing for both preparers and capital providers. It will be important that these arrangements serve to consolidate and rationalise existing reporting and not add to the existing level of confusion. To that end, it will be important that there is strong and effective co-operation and working arrangements with global standard setters such as the coming-into-existence Value Reporting Foundation and WICI Global Network along with other subject and sector specific standard setters. It will be unhelpful for the EU to develop separate and uncoordinated requirements as that will most likely undermine comparability of reporting and potentially increase the cost burden on companies.

6.1

Question 6 – Cooperation with other standard setters and initiatives

Once arrangements are established for listed companies it may be appropriate to use the experience and lessons learned to consider whether a similar approach should be established for SMEs or whether they would be better served by an alternative approach which differentiates needs across EU jurisdictions, for example. Other SME specific arrangements may include an SME Lab established to develop and support requirements for SMEs. This Lab could be based on a coordinating role played by EFRAG with specific jurisdictional satellites working closely with relevant national agencies.

5.3

In this field, though, it would not be sufficient to rely on input from SMEs through public consultation and outreach alone. In consideration of the proposed EFRAG governance structure, SMEs and the EU economy would be better served when represented at the EFRAG Board level, the non-financial board level, and TEG level. The proposal for an SME focussed working group is welcomed, and this should be closely integrated with the operations of the above three EFRAG levels.

5.2

9.2 The practice with the existing TEG where the membership is drawn predominantly from the accounting firms (either directly or indirectly) or national accounting standard setters will need to be different as non-financial reporting expertise covering all aspects including **environmental, social, intangibles and human rights** is dispersed and will need to rely on a much more collaborative approach of working with various disciplines, including NGOs and specialised non-profit organisations, such as WICI Europe, to develop a robust set of reporting solutions.

9.1 As suggested at the beginning of this commentary, WICI Europe thinks that the formation and appointment of this TEG should follow the principles of independence, competence and wide representation (not only drawing from "for-profit" sector). As we have suggested in 8.3 above, it is important that the TEG remains relatively small so that it is agile enough to make decisions and be responsive. To support a small and active TEG, because of the diverse nature of the subject matter, it will be important for the TEG to be supported by focussed working groups drawn from environmental, social, and non-financial reporting disciplines that can develop approaches for specific subject matter areas. It is important that for these arrangements to be effective that experts are not only drawn from within the EU but other jurisdictions to benefit from expertise developed in other areas.

Question 9 – TEG for Non-financial Reporting

8.3 This Board should have no more than workable member number and be agile providing appropriate direction to the TEG and working groups without constraining their activities.

8.2 It would be desirable to have on both Reporting Boards (financial and non-financial) one or several individuals with expertise in the interconnectivity of FI and NFI from a political and policy perspective. These could act as active 'ambassadors'/interfaces of integration of agendas and approaches. It would be worthwhile to have observers from regulators and non-financial reporting standard setters. Furthermore, the two reporting Boards (financial and non-financial) should also meet together as often as possible to ensure integration of agendas and approaches.

8.1 To be effective we believe that the Reporting Board should be diverse and broadly constituted. It should have a mix of business (representing different economic activities and sizes of companies), public policy, civil society (NGOs with expertise on the matter) and technical members (drawn from financial, environmental and social disciplines and academia).

Question 8 – Non-financial Reporting Board

7.2 As pointed out above, it remains to be clarified whether the new EFRAAG Board will have a sort of "veto power" in regard to the non-financial reporting standards promoted by the NFR Board and TEG.

the reporting boards and promote integration and coherence in reporting within EU jurisdictions and where feasible internationally.

Question 10 – Activities of the European Lab

10.1 Our vision as to the European Lab is mixed. It is relatively new, and we agree that in principle it could play a positive role in supporting both boards and driving integration. However, it is composition and concrete role are not totally clear to us, because – as mentioned above – it could represent an organisational complexification which may generate tensions and contrasts.

10.2 However, we also feel that in the context of non-financial reporting it would be useful whether the Lab could become more of an incubator stimulating new practices and experimentation occupying in a proactive way a space informing future standard setting. In our view, it is important that the Lab evolves beyond showcasing good practice to possibly becoming a thought leader in the international environment on the nature, direction and value of corporate reporting. European issuers are at the forefront of corporate reporting practice and it follows that it is well-placed to take a global leadership role in shaping future practices. The membership of the Lab should allow for this possible new role to be played.

10.3 On the construction of an appropriate bridge between financial and non-financial reporting within the new EFRAG, WICI Europe suggests the following three possible ways to establish 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 position:** 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



Source: WICI Intangibles Reporting Framework, 2016

- 11.1 In the first EFRAG Consultation, WICI Europe believes that 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. 150 euros per company filing can be levied, this should allow for a private funding of the new European standard setting initiative of around one million euros per year. The levy in question can be of course modulated in accordance with the size of companies.
- 11.2 We concur with the second Consultation document where the major financial source is indicated to be the EU Parliament and the European Commission. The standardisation of the non-financial information responds also to general political and policy objectives, and then it sounds appropriate that the funding should primarily come from public sources.
- 11.3 We would also like to remind that the building up of an independent, competent, and credible organisation in the field of non-financial reporting – as postulated by the O.I.B.R. Foundation – requires to stay on the upper side of the financial range shown in the Consultation paper (between 2.5 and 9 million euros).
- 11.4 Another possible source for funding can derive from the opening up of the EFRAG stakeholders participating in the General Assembly to a new set of organisations that should be dealing with non-financial reporting information (NGOs, universities, Foundations, etc.). Clearly, the funding from this specific source can be quite limited, but it would assure a flow of resources and enhance the pursue of the wider representativeness principle.

