THE WICI FRAMEWORK ON INTANGIBLES REPORTING and THE FUTURE OF IC INFORMATION

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“Data, Digital assets and Platforms for innovation”
The 12th World Conference on Intellectual Capital for Communities
Global collaborative, non-profit Network, officially born on 31 March 2008 with the signature of a Memorandum of Understanding (MoU) in Washington DC at the American Enterprise Institute (AEI)
World Intellectual Capital Initiative (WICI)

1st Informal Meeting – 1st October 2007 – OECD, Paris
Monaco Annex, 2, rue du Conseiller Collignon

Participants (from left to right): Prof. Yasuhiro HANADO, Waseda University (Tokyo/Japan), Desirée VAN WELSUM, OECD (Paris/France), Douglas LIPPOLDT, OECD (Paris/France), Alexander WELZL, European Federation of Financial Analysts Societies EFFAS (Frankfurt a. M./Germany), Yoshiko SHIBASAKA, KPMG (Tokyo/Japan), Bob LAUX Microsoft Corporation (Redmond/USA), Amy PAWICKI, American Institute of Certified Public Accountants AICPA (New York/USA), Gert-Jan KOOPMAN European Commission (Bruxelles/Belgium), Annabel BISMUTH, OECD (Paris/France), Prof. Stefano ZAMBON, University of Ferrara (Ferrara/Italy), Grant KIRKPATRICK, OECD (Paris/France), Michael KRZUS, Grant Thornton (Chicago/USA), Christina BOEDKER, Society for Knowledge Economics (Crows Nest/Australia); Participants not on the picture: Rainer GEIGER, OECD (Paris/France), Jean-Philippe DESMARTIN, ODDO Securites (Paris/France), Yoshiaki TOJO, OECD (Paris/France)
The Promoting Parties of WICI are:

Enhanced Business Reporting Consortium (USA)
(American Institute of Certified Public Accountants (AICPA), Microsoft Corporation, PricewaterhouseCoopers and Grant Thornton)

European Federation of Financial Analysts Societies (EFFAS)

Japanese Ministry of Economy, Trade and Industry (METI)

Society for Knowledge Economics of Australia

University of Ferrara

Waseda University

The European Commission, the OECD, and the Brazilian Development Bank (BNDES) participate in WICI as Observers.
The Structure of WICI
(from 1st July 2015)

General Assembly  (Promoting Parties = EFFAS, METI, EBRC, Ferrara, Waseda)

Governance Group
WICI Global Chairperson + US (AICPA/Amy Pawlicky), Europe (EFFAS/Jean-Philippe Desmartin), Japan (METI/Takayuki Sumita) + Former Chairperson

Chairperson
Stefano Zambon (EFFAS)

Deputy Chairman
Eisuke Nagatomo (WICI Japan)

Observers
European Commission, BNDES (Brazil), OECD

Secretariat

WICI Australia

WICI Europe + WICIs of European Countries (Italy; France)

WICI Japan

WICI USA (EBRC)
Our Vision and Goals

Our Vision

WICI, the world’s business reporting network, is a private/public sector collaboration aimed at improving company reporting for representing value creation and, hence, capital allocation through better corporate reporting information.

Our Goals

● The first is to contribute to develop a new global framework for measuring and reporting corporate performance to shareholders and other stakeholders.

● The second is to develop guidelines for measuring and reporting on industry-specific key performance indicators (KPIs).

● The third is to facilitate the development of XBRL taxonomies for this content.

We believe that such better information will improve capital allocation decisions both within companies and between investors and companies. The result will be more value creation for a better world economy.
INTERNATIONAL OVERVIEW of REPORTING SCENE

FINANCIAL REPORTING

A/C STANDARDS
- IASB

VALUATION
- IVSC / ISO

NON-FINANCIAL REPORTING

SUSTAINABILITY (ENVIRONMENTAL/SOCIAL)
- GRI
- UN GLOBAL COMPACT
- DJ & FT SUST. INDEX

VALUE CREATION (INTANGIBLES/KEY VALUE DRIVERS)
- WICI

IIRC

EFRAG/OIC/ANC/GASB/FRC

XBRL

WICI EUROPE/FRANCE/ITALY/JAPAN/USA

IIRC
Collaboration between WICI and IIRC

- Collaboration formalised in a Memorandum of Understanding (MoU) which is in place since June 2013 and it has been extended to November 2016

- WICI has the right to have a seat in the Council of the IIRC (International Integrated Reporting Council)

- WICI took on the leadership of the IIRC Background Paper for <IR> devoted to the principle of “CONNECTIVITY”
WICI Connectivity Project for <IR>/IIRC

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WICI Framework’s Background

Financial report today does not reflect the real strengths of a company. From current financial information we cannot see:

- the origin of company competitiveness
- its value creation as a combination of company-specific Intangibles
- the sustainability of its strengths, and
- the company long term value creation capacity

In this situation, financial people cannot properly evaluate a company.

Therefore, we need some reporting mechanism to describe the real origin of strengths and business sustainability of a company.
Towards a New Concept of «Business Sustainability» and Integrated Reporting

BUSINESS SUSTAINABILITY (including financial sustainability)

Business Model

Knowledge and Intellectual Capital

Natural and Societal Capital
Publication on 16 February 2016 of the Consultation Draft of the “WICI Intangibles Reporting Framework” (WIRF). Deadline for comments: 16 May 2016 (ca. 20 responses). Final version of WIRF is in course of elaboration.

- Aimed to fill in a today large “reporting gap” present today, which is the guidance on measuring and disclosing an organization’s intangible resources.

- It essentially addresses the non-financial (or extra-financial) information on intangibles, insofar as financial information on them is covered by accounting and valuation standards & rules.
WICI INTANGIBLES REPORTING FRAMEWORK

• WIRF crystallizes in one conceptually consistent Framework the best practices and proposals that have emerged in the field of intangibles reporting over the last twenty years.
• It is important to underline that WIRF is largely based on an evolutionary interpretation of the 2005 Japanese Guidelines on “Intellectual Assets based Management” (IAbM) and the 2008 “Principles for Effective Communication of Intellectual Capital” by the EFFAS Commission on “Intellectual Capital”
• Responses received for example from the International Integrated Reporting Council (IIRC), the Climate Disclosure Standards Board (CDSB), Erste Bank Group, Ernst & Young, KPMG, the Observatoire de l’Immatériel, and the Sustainability Accounting Standards Board (SASB). In general, comments are positive and encouraging.
• Final version of “WIRF” is expected by August 2016.
WICI INTANGIBLES REPORTING FRAMEWORK

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Chapter 1 – Rationale and Objective of the Framework

• The purpose of the “WICI Intangibles Reporting Framework” is to establish the principles, the contents and the structure for the reporting of intangible resources which are material for an organization’s value creation process and its communication to stakeholders.

• The Framework is principles-based

• The primary target audience is all companies and other organizations of the private, public and not-for-profit sectors.

• Reporting and communication on intangibles are intended to provide useful information for decision making, and in particular resource allocation decisions, primarily to the organization’s management as well as providers of financial capital including investors, creditors, and analysts. These are expected to be the primary information users.
WICI’s Focus within the corporate reporting landscape

Corporate Reporting

Financial Reporting

WICI’s Focus

Sustainability Reporting

Financial Capital

Manufactured Capital

Human Capital

Intellectual Capital

Social and Relationship Capital

Natural Capital
Figure 1.2: Positive information cycle between an organization and its stakeholder
【Figure 1.3】 Positive Cycle of value Creation based on Intangibles
Chapter 2 – Definition of Intangibles

• Intangibles are *non-physical resources* which, either alone or in conjunction with other tangible or intangibles resources, *have a positive or a negative impact on value creation of the organization in the short, medium and long term.*

• Intangibles may impact two distinct but inter-connected forms of value:
  – *Strategic value* is that related to the enhancement of the competitive, market, product, reputation, and/or risk profile of the organization;
  – *Financial value* is that linked to the generation of net cash inflows and outflows over time.

• It is not necessary that intangibles are owned or controlled by an organization. They simply have to be available and/or utilized by it to generate value → *new concept of capital*
Chapter 2 – Definition of Intangibles (cont’d)

**Intangible assets**
They are the drivers of long-term competitive differentiation and advantage. They derive from a strategic utilization of intangibles (including combinations of them) that is conducive to an organization’s sustainable business value and/or sustainable future stream of cash flows.

**Intangible liabilities**
- Intangibles that may have substantive negative impact on the organizational business and/or financial value (e.g., bad reputation of the organization; poor management quality and leadership).
- Intangible liabilities are often linked to specific risks of the organization.
Chapter 2 – Definition of Intangibles (cont’d)

**Intellectual Capital**

- The above definition of intangible assets is fundamentally equivalent to the concept of Intellectual Capital.
- Intellectual Capital is the internal (competencies, skills, leadership, procedures, know-how, etc.) and external (image, brands, alliances, customer satisfaction, etc.) stock of dynamically inter-related intangibles available to an organization, which allows the latter to transform a set of tangible, financial and human resources into a system capable of pursuing sustainable value creation.
- Intellectual Capital is typically categorized into three main clusters, which are 1) Human capital, 2) Relational capital, and 3) Organizational capital. The boundaries of these categories are flexible and they should not be interpreted/perceived in a static or rigid way.
Chapter 3 – Principles for Intangibles Reporting and Communication

Principles for Intangibles Reporting & Communication are:

- Materiality
- Connectivity
- Conciseness
- Comparability
- Future orientation

There should also be an appropriate balance between communication and confidentiality
Chapter 4 – Structure and Contents of Intangibles Reporting

Definition of Key Performance Indicators (KPIs):
“KPIs are numerical figures (metrics) related to critical/material factors of value creation, and which should provide objective evidence of performance trends by tracking them over time.”

The role of KPIs in reporting is to support the narrative explanation of the organizational strategy linking to past, present or future financial and/or strategic performance → distinction between lagging and leading KPIs.

Examples of industry-based KPIs are those proposed by the WICI (www.wici-global.com)
Chapter 4 – Structure and Contents of Intangibles Reporting (cont’d)

• Structure of Intangibles Reporting → 3 sections:
  – **Outline of activities and value creation model:** this information consists of the illustration of the general characteristics of the organization’s activities and the resilient management philosophy, with particular attention devoted to its value creation mechanism.
  – **Intangibles and value creation from past-to-present:** this information addresses intangibles, their role in the strategic management of the organization, and their contribution to value creation from past to present period.
  – **Intangibles and value creation from present-to-future:** this information addresses intangibles, their role in the strategic management of the organization, and their contribution to value creation from present to future period.
A few days ago, Prof. Baruch Lev and Prof. Feng Gu published a book titled «The End of Accounting», where «arcane» and not insightful accounting information should be accompanied by a system of industry-based indicators on critical resources and processes for the value creation of an organization.

Traditional financial information will of course persist but its relevance for investors’ decision making will be limited.

WICI is moving exactly along this avenue setting a Framework for a more insightful representation and reporting of intangibles and value creation mechanism of an organisation.

Importance of WICI Framework also for the development of Integrated Reporting practice around the globe.
Concluding remarks

- Difficulties of current accounting and reporting practice to capture long-term value creation drivers

- We are moving towards new systems of corporate information linked to value creation and articulated on general, industry and company-specific KPIs focussing on key-factors of the business model and activities

- WICI provides a comprehensive set of voluntary sector-based KPIs from where a company can choose the most representative of its unique value creation story
THANK YOU!

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