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March 22, 2019

Anne Sheehan
Chair
Investor Advisory Committee
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Ms. Sheehan:

I am writing to you as the chair of the Human Capital Management Coalition (HCMC or Coalition) to affirm our support for the adoption of standards that would require listed companies to disclose information on human capital management policies, practices, and performance. We appreciate the work of the Investor Advisory Committee (IAC) and the Investor as Owner Subcommittee in moving this important issue forward.

Established in 2013, the HCMC is a cooperative effort among 25 institutional investors representing over $3 trillion in assets under management to further elevate human capital management as a critical component in company performance and in the creation of long-term value. More information about the Coalition is available at http://www.uawtrust.org/hcmc.

As you may recall, the HCMC filed a rulemaking petition in July 2017 urging the U.S. Securities and Exchange Commission (SEC or Commission) to address the dearth of information accessible to investors that would help evaluate how well companies manage their human capital.[1] We filed our petition out of concern that corporate reporting on human capital to investors has become outdated: current reporting standards only require companies to disclose the number of employees,[2] a requirement adopted in 1973 when the majority of a company's value came from land, equipment, and other tangible assets.[3]

Today, company value is increasingly intangible, and it is human capital, or the collective knowledge, skills, and experiences of the workforce, that drives innovation. These collective talents of the workforce allow companies to compete in an environment where ingenuity and the ability to quickly adapt to novel technologies are the keys to lasting success. Company reporting to investors should reflect this reality, recognizing that effective human capital

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management is critical to navigating these shifts and ensuring ongoing shareholder value creation.

Since we filed the petition, we continue to hold that the SEC is the correct venue to develop universal reporting standards for issuers, recognizing the Commission's core mission of investor protection and ensuring our capital markets remain fair, orderly, and efficient.[4] As a federal administrative agency established for the exclusive benefit of the American public, the SEC is in fact the *only* organization where an independent and fully transparent discussion on an issue of this magnitude can take place.

Consistency and comparability in reporting promotes efficiency, both for issuers who would have concrete guidance on what to report and how, and for investors who would no longer need to pore through reams of documents to find even basic information on the workforce that may or may not be publicly available. It allows investors to easily and efficiently compare companies and benchmark performance. It also levels the playing field between large institutional investors who can demand (and afford) more data from companies on human capital, and smaller retail investors who, on a practical basis, often cannot.

We also believe that human capital reporting meets and exceeds the principles for the development of regulatory disclosure requirements laid out by SEC Chairman Jay Clayton in his opening remarks at the IAC's February 6 meeting.[5] We address these principles in turn below:

- **Human capital information is *material*.**

  Human capital is a key production input necessary for the development of goods and services that drive individual firm performance as well as the larger economy. As stated in our rulemaking petition, absent reasonably robust information about how a company manages its human capital, investors are unable to make fully informed decisions about a company's business, risks and prospects, for investment, engagement or voting purposes.

  Recent research from the Embankment Project for Inclusive Capitalism (EPIC) supports this view, noting firms that disclose data on their ability to create value by leveraging human capital perform better than non-disclosers. In the

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UK, where issuers are required to report detailed human capital information, firms with stronger human capital reporting show a return on invested talent (ROIT) – defined as the dollar return per one dollar invested in talent – that is nearly 3 times higher than the ROIT of non-disclosers[6] and operating margins that are 33 percent higher than those of non-disclosers.[7]

The International Organization for Standardization (ISO) recently released "*Guidelines for Human Capital Reporting for Internal and External Stakeholders*" (ISO 30414:2018)[8] which includes guidance on metrics companies should report internally, and which to report publicly with flexibility to accommodate large and small companies. The standards include details on the evaluation, measurement, and formatting of data.[9]

Companies, too, have recognized the importance of strong human capital practices to both the development and execution of their business strategies by elevating[10] the role of the Chief Human Resources Officer as a key function[11] for operational leadership, as well as strategic development and execution.[12] Boards of companies such as McDonald's[13] and Wells Fargo[14] have adopted committee charters that explicitly list human capital management oversight as a core responsibility.

To further underscore this point, a report from a recent meeting of compensation, risk, and audit committee chairs from Fortune 500 companies co-hosted by the National Association of Corporate Directors (NACD), Farient Advisors, PwC, and Sidley Austin LLP listed the following three human capital-related considerations for boards:

- The combination of major shifts in the workforce and the rise of emerging technologies will have a transformative impact on companies of all sizes and sectors.
- Boards need to elevate the discussion on human-capital strategy and risk, and clarify oversight responsibilities at the full board and committee levels.
- Directors should set expectations for management regarding human-capital objectives, and *use appropriate metrics to measure success*.[15] (Emphasis added.)

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Finally, investors are increasingly vocal that human capital is inextricably tied to performance. Since we filed the petition, investors' calls for higher-quality information have only intensified, with large asset management firms such as BlackRock and State Street identifying human capital as an important issue for investment stewardship and engagement.[16,17,18] These large asset managers now control the majority of ordinary individuals' holdings in the public markets, performing research and creating products that will generate an appropriate return for the level of risk for institutional investors as well as main street investors.

Investors are the intended recipients of issuer disclosures, and in our view it is incumbent upon the SEC to ensure every investor, regardless of size, has equal access to this information.

- **Core human capital data is *comparable* and lends itself to standardization.**

  Key information reported by companies – that is, information investors view as critical in their decision-making processes – is the most useful when it is uniform in measurement, format, and where it is reported, and can be benchmarked over time.

  Our rulemaking petition underscores the importance of developing "[c]onsistent mandatory disclosure standards" to ensure investors can gather material human capital information quickly and efficiently.[19] The ability to access data quickly and efficiently is even more important for passive investors whose holdings are widely dispersed across the U.S. public equity markets and thus may include thousands of companies.

  An example involving employee turnover data reported by companies in the Russell 3000 Index – a good approximation of investable U.S. public equities – may be instructive. Employee turnover is often considered a basic quantitative human capital data point[20] that is both universally applicable to all issuers and relatively straightforward to measure and report. If an investor were to try and find employee turnover data from one of the few U.S. issuers that provide it, they would need to look through corporate

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responsibility and sustainability reports,[21] corporate websites, or in very limited cases, financial statements.[22] Consistency and comparability would alleviate this burden by allowing investors to find and evaluate a basic data point in a far more efficient manner.

- **Human capital reporting standards can be both *flexible* and universally applicable.**

  Consistent with our rulemaking petition, we recognize that there are human capital metrics that may be more relevant for certain industries than others, or even specific companies within an industry. Our petition offered nine categories of workforce information as a starting point for this discussion.

  However, we continue to believe that all companies should report on core metrics that are universal across all companies regardless of industry or business strategy. Some examples of these metrics include the number of full time, part time and contingent workers; workforce costs; and employee turnover.

  The recent work by EPIC and ISO cited above may provide a good starting point in determining which metrics are universal and which metrics are most appropriate for specific industries and companies.

- **Standardized human capital data can enhance *efficiency* at reasonable cost and effort, for investors and for issuers.**

  Human capital data need not be expensive for issuers to collect and disclose. In the European Union, companies are required to report their total human capital costs, broken out by salaries, bonuses, and pension benefits.[23]

  Many U.S. companies track basic workforce data like labor costs for administrative purposes such as processing payroll. Human resources analytic tools developed in-house and services like ADP, SAP, Oracle and Workday are commonly utilized to assist with data collection. Firms could leverage the human resources tools and services they already use to satisfy new human capital reporting requirements.

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Further, high quality human capital disclosures need not be excessively long and verbose to be of use: firms that produce human capital disclosures investors find most useful do so with a third of the narrative than companies with lower-quality disclosures.[24] In fact, one of the reasons voluntary and involuntary employee turnover data is of particular interest to investors is because it is numeric.

- **The SEC is well-positioned to develop appropriate mechanisms for *monitoring and enforcement* of compulsory financial reporting.**

  From a practical perspective, the workforce disclosure rules we are asking the SEC to update are part of the financial reporting requirements that already fall under the purview of the SEC's Division of Corporation Finance.[25] Regulation S-K sets forth disclosures required in registration statements and various reports under the integrated disclosure system. It contains one item related to human capital: Item 101(c)(xiii), in the "Narrative Description of Business" section, mandates disclosure of the "number of persons employed by the registrant."[26]

  Investors need high-quality quantitative and qualitative information that is relevant, reliable, and effective in communicating how adeptly a company manages its human capital resources to drive performance. Our request to the Commission is to ensure the information issuers report to investors accurately reflects the markets as they exist, and as they evolve. We submit that a single data point on the number of employees a firm directly employs tells us very little about the company's ability to manage human capital risks and leverage opportunities for growth and thus is no longer sufficient for a maturing market.

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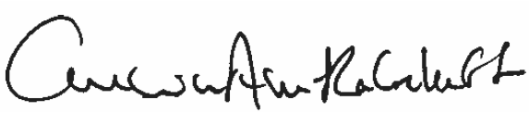
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We appreciate the IAC's interest in this issue and the opportunity to share our views with you. We stand ready to assist in order to facilitate this process including participating in multistakeholder discussions to work toward a solution that satisfies the needs of both the preparers and the end users of financial information. We look forward to working with the IAC on this important issue.

On behalf of the Human Capital Management Coalition:

Sincerely,



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Cc: Hon. Jay Clayton
Chairman
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Hon. Robert J. Jackson, Jr.
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Hon. Hester Peirce
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Hon. Elad L. Roisman
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[1] Human Capital Management Coalition. (2017) *Rulemaking Petition to Require Issuers To Disclose Information About Their Human Capital Management Policies, Practices And Performance,* as submitted to the U.S. Securities and Exchange Commission on July 6, 2017. Retrieved from https://www.sec.gov/rules/petitions/2017/petn4-711.pdf

[2] Item 101(c)(xiii), in the "Narrative Description of Business" section, mandates disclosure of the "number of persons employed by the registrant." See https://www.ecfr.gov/cgi-bin/text-idx?amp;node=17:3.0.1.1.11&rgn=div5.

[3] For example, in 1975, tangible assets accounted for 83 percent of the total market capitalization of companies in the S&P 500. See http://www.oceantomo.com/intangible-asset-market-value-study/.

[4] https://www.sec.gov/about.shtml

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[19] HCMC Rulemaking Petition, at 2.

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[21] See, e.g., 3M's 2018 Sustainability Report (https://www.3m.com/3M/en_US/sustainability-report/) at 123; and Prudential Financials 2017 Sustainability Report (https://www.prudential.com/links/about/sustainability) at 23.

[22] See, e.g., Intel Corporation Form 10-K (https://www.sec.gov/Archives/edgar/data/50863/000005086319000007/a12292018q4-10kdocument.htm) at 14.

[23] See, e.g., IAS 19 – Employee Benefits (https://www.ifrs.org/issued-standards/list-of-standards/ias-19-employee-benefits/).

[24] Embankment Project for Inclusive Capitalism. (2018). *The 2018 EPIC Report,* 42. Retrieved from: https://www.epic-value.com/#report.

[25] Regulation S-K sets forth disclosures required in registration statements and various reports under the integrated disclosure system. It contains one item related to human capital: Item 101(c)(xiii), in the "Narrative Description of Business" section which mandates disclosure of the "number of persons employed by the registrant.

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