May 3, 2024

The Honorable Gary Gensler
Chairman
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Chairman Gensler,

On behalf of the Human Capital Management Coalition (HCMC), the enclosed letter asks that the Commission review and assess the findings and recommendations of the Commission's Investor Advisory Committee regarding human capital disclosure. In highlighting the ineffectiveness of the Commission's 2020 rule change, the ongoing development of human capital-focused investment strategies and tools, investors' stewardship approaches incorporating human capital considerations, and efforts to account for human capital as a driver of value, we reaffirm our desire that the Commission propose rule amendments to standardize registrant disclosures around human capital management policies and practices.

We appreciate the opportunity to share our views and we thank the Commission for considering our comments.

Sincerely,
The Human Capital Management Coalition

Enclosure

May 3, 2024

The Honorable Gary Gensler
Chairman
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Chairman Gensler,

We write on behalf of the Human Capital Management Coalition ("HCMC" or "Coalition"), a collective of 36 U.S. asset owners and representatives thereof representing $10 trillion in assets under management, to reaffirm our desire that the Commission propose rule amendments to enhance registrant disclosures regarding its human capital management (HCM) policies and practices and to ask that the Commission to review and assess[1] the September 2023 findings and recommendations[2] of the SEC Investor Advisory Committee's (IAC) Investor-as-Owner Subcommittee regarding HCM Disclosure. We appreciated the opportunity you gave the HCMC on August 10, 2023, to share our perspectives on investors' need for reliable, consistent, comparable, and decision-useful human capital information and the ways in which investors would use additional company disclosures on HCM in their investment, stewardship, and proxy voting decision making and the kinds of metrics that could serve as a baseline.

To recap, the HCMC has urged regulators and standard-setters to improve access to workforce data through a balanced approach, where principles-based disclosures are anchored by four foundational, decision-useful disclosures that apply to all companies. Those metrics are: (1) the number of full time, part-time and contingent or contracted workers directly involved in firm operations; (2) total cost of the issuer's workforce; (3) turnover; and (4) diversity data that allows investors to understand the nature and effectiveness of the company's efforts to access and develop new sources of talent.

The Strengthening Case for HCM Disclosure

Since the HCMC submitted its rulemaking petition in 2017 asking the Commission to mandate disclosure of several categories of HCM-related information,[3] investors' need for consistent, comparable, and decision-useful human capital disclosures has only intensified. Recent developments underscoring the critical importance of HCM include:

- ⇒ The COVID-19 pandemic and the financial implications of staffing challenges exasperated by burnout, turnover and worker health and safety.
- ⇒ A spotlight on worker rights, benefits, and protections incited by a historic wave of union organizing and strikes--from votes to unionize at a Volkswagen plant, an Amazon warehouse

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[1] 15 U.S. Code § 78pp, Section G – Investor Advisory Committee - https://www.law.cornell.edu/uscode/text/15/78pp

[2] https://www.sec.gov/files/20230914-draft-recommendation-regarding-hcm.pdf

[3] https://www.sec.gov/files/rules/petitions/2017/petn4-711.pdf

and nearly 400 Starbucks stores to strikes by autoworkers, actors, hotel workers, writers, and healthcare workers—illustrated the role of worker voice.

⇒ The 2020 racial justice protests spurred by the murder of George Floyd called attention to workforce demographics and the efforts firms were making to recruit and retain diverse talent and led many companies to publicly affirm their commitment to racial justice.

⇒ Artificial intelligence promises to disrupt jobs, skills, and HCM: According to a 2023 World Economic Forum global employer survey, "44% of workers' skills will be disrupted [by AI] in the next five years," with cognitive skills "growing in importance most quickly, reflecting the increasing importance of complex problem-solving in the workplace."[4]

⇒ The impending need to redeploy workers necessitated by the global energy transition to a low carbon economy which will require human capital investment to develop a workforce with the necessary skills, foster innovation, and ensure a just transition.[5]

These developing labor trends around worker health and safety, workforce demographics and stability, labor costs, employee engagement, and the continuing evolution of the workforce highlight why investors' interest in the economic performance and condition of a company, as well as the effective management of human capital will persist and why the SEC should take action to enhance registrant disclosures regarding HCM.

The Findings and Recommendations of the Commission's Investor Advisory Committee's Investor-as-Owner Subcommittee

In September 2023, the Commission's IAC approved and endorsed a recommendation (the "IAC Recommendation") by its Investor-as-Owner Subcommittee regarding HCM disclosure that aligns with the HCMC's four foundational metrics.[6] The IAC Recommendation noted inconsistent disclosures elicited by the Commission's 2020 Regulation S-K disclosure rule change, traced investors' growing interest in HCM information, provided evidence that HCM is not fully priced into the market, and concluded that the benefits to investors are not outweighed by the costs to companies of making the disclosures.

Specifically, the IAC recommended that the Commission "strengthen current Item 101(c) under Regulation S-K pertaining to human resources disclosures by requiring disclosure of the following:

1. The number of people employed by the issuer, broken down by whether those people are full-time, part-time, or contingent workers;
2. Turnover or comparable workforce stability metrics;
3. The total cost of the issuer's workforce, broken down into major components of compensation; and

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[4] World Economic Forum, *Future of Jobs Report*, at 7 (May 2023) (available at https://www3.weforum.org/docs/WEF_Future_of_Jobs_2023.pdf)

[5] See Elizabeth Vance & Jay Sullivan, "Building the Talent Pipeline for the Energy Transition: Aligning U.S. Workforce Investment For Energy Security and Supply Chain Resilience" (Aug. 16, 2023) (available athttps://fas.org/publication/talent-pipeline-for-the-clean-energy-transition/); Platform for Advancing Green Human Capital, *Advancing Green Human Capital: A Framework for Policy Analysis and Guidance*, at 10-11 (undated) (available at https://unevoc.unesco.org/up/PAGHC_full.pdf)

[6] https://www.sec.gov/files/spotlight/iac/20230921-recommendation-regarding-hcm.pdf

> 4. Workforce demographic data sufficient to allow investors to understand the company's efforts to access and develop new sources of talent, and to evaluate the effectiveness of these efforts." (footnote omitted)

The IAC Recommendation also urged the Commission to "consider narrative disclosure, in the Management Discussion & Analysis, of how the firm's labor practices, compensation incentives, and staffing fit within the broader firm strategy."

The HCMC concurs with the IAC September 2023 findings and recommendations which we urge the Commission to review and assess. In addition, we want to emphasize that disclosure related to the entire workforce, not just those workers classified as employees, is critical to a full understanding of a company's HCM. The business models of some newer companies, such as Uber, depend heavily on the use of gig workers, who are generally classified as independent contractors. Omitting data on such workers would present a misleading picture of such companies' workforces and prevent investors from accurately assessing metrics such as labor productivity and Human Capital Return on Investment (HCROI)[7]. Indeed, not requiring disclosures on the full workforce could intentionally or unintentionally incentivize companies to shift employees to non-employee status.

The Federal Trade Commission (FTC) cited[8] similar concerns, with misclassification of employees as independent contractors in order to evade rule requirements, when it declined to exempt independent contractors from the definition of worker in the final text of its Non-Compete Clause Rule[9] on April 23, 2024. The Rule bans most employers from entering into new—or enforcing existing—non-compete agreements with workers. The adopting release[10] states that the final rule defines 'worker' as 'a natural person who works or who previously worked [here the final rule also removed "for an employer"], whether paid or unpaid, without regard to the worker's title or the worker's status under any other State or Federal laws, including, but not limited to, whether the worker is an employee, independent contractor, extern, intern, volunteer, apprentice, or a sole proprietor who provides a service to a person.' The definition further states that the term 'worker' includes a natural person who works for a franchisee or franchisor, but does not include a franchisee in the context of a franchisee-franchisor relationship." We strongly encourage the Commission to adopt a similar approach.

The Ineffectiveness of the Commission's 2020 Rule Change

In 2020, taking an entirely principles-based approach, the Commission amended Item 101 of Regulation S-K with disclosure of human capital resources only required to the extent the registrant themselves determines these disclosures are "material to an understanding of" the registrant's business. Many commenters on the Commission's proposal, especially investors, opposed the principles-based approach the amendment took and urged that it be supplemented by requiring

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[7] https://mybrand.schroders.com/m/63d2ad02332cbde8/original/SC_IDD_Human-Capital-Research_US.pdf

[8] https://www.ftc.gov/system/files/ftc_gov/pdf/noncompete-rule.pdf, at 95

[9] https://www.ftc.gov/system/files/ftc_gov/pdf/noncompete-rule.pdf, at 101

[10] https://www.ftc.gov/system/files/ftc_gov/pdf/noncompete-rule.pdf, at 4

disclosure of standardized metrics, to allow comparisons among companies and deter cherry-picking of favorable information.[11]

The impact of the 2020 amendment on company disclosures was recently analyzed in a study by Ethan Rouen and co-authors (the "Rouen Study") which reviewed 10-K reports filed by 2,395 companies from 2017-2023 and found that:

- The proportion of companies reporting a human capital metric in their 10-K increased from 40% before the 2020 rule change took effect ("preregulation") to 72% afterward, with most of the increase generated by adding diversity, equity, and inclusion ("DE&I") and turnover metrics.[12]
- Among companies reporting at least one metric preregulation, the average number of metrics disclosed after the regulation took effect was 2.5. However, only 1.4 of those metrics align with the Sustainability Accounting Standards Board ("SASB") metrics deemed financially material for the company's industry.[13]
- Using the Herfindahl-Hirschman Index to measure concentration shows that significant heterogeneity among metrics used by companies in an industry persisted in the years after the rule change took effect. Put another way, "firms within the same industry have not coalesced around a common set of metrics," even those deemed financially material by SASB.[14] As a result, investors are not able to compare companies to one another, even within industries.
- Comparing OSHA data against companies' disclosures on worker health and safety showed that poor performers were less likely to disclose. The authors concluded that "our results are consistent with a lack of unravelling, where 'bad' performers are not disclosing, presumably trying to pool with 'good' ones that have other reasons to stay silent."[15]
- In interviews, almost all executives and managers of 16 of the study companies involved with human capital disclosure said that, under the principles-based rule now in effect, "companies typically report metrics that fit their corporate narrative and do not portray their firms negatively or expose them to reputational risk." They also conceded that disclosing a metric implies a commitment to continue doing so, "which could be costly if the pertinent metric deteriorates or stagnates." Investors' concerns about cherry-picking of metrics appear to have been well-founded.[16]

A more limited study by Intelligize reached similar conclusions. Based on a review of 427 10-Ks filed by S&P 500 companies between November 9, 2020, and March 5, 2021, Intelligize characterized the disclosures as follows: "Relatively few issuers provided meaningful numbers about

[11] https://www.sec.gov/files/rules/final/2020/33-10825.pdf, at fns. 131-133

[12] Thomas Bourveau, Maliha Chowdhury, Anthony Le, and Ethan Rouen, "Human Capital Disclosures," at 3 (Nov. 2023) (available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4138543)

[13] Rouen Study, at 3

[14] Rouen Study, at 4

[15] Rouen Study, at 6

[16] https://www.esgtoday.com/ey-survey-investors-say-companies-are-cherry-picking-reported-esg-data/

their human capital, even when they had those numbers at hand. While every public company files a regular report with the government on the percentage of women and racial minorities it employs, for instance, fewer than 20 filers chose to disclose that information in their 10-Ks."[17]

While we commend the Commission for taking action, it is clear that the 2020 amendment did not elicit or facilitate consistent, comparable, decision-useful disclosures that would be most useful to investors.

The Development of Human Capital-Focused Investment Strategies and Tools

Despite the data limitations, investors and their service providers are working to develop human capital-focused investment strategies and tools. As of the end of Q3 2022, asset managers had launched at least 20 funds with a human capital focus in their investment strategies; another 34 asset managers incorporated workforce-related criteria.[18] Uniform human capital disclosures would facilitate the development of more such strategies and could allow refinement of those that already exist.

Irrational Capital ("Irrational") has developed an investment tool it dubbed the Human Capital Factor ("HCF"). HCF collects data from Glassdoor and employee surveys to shed light on corporate culture and employee motivation. Back testing by J.P. Morgan found "within the tech-heavy Nasdaq, the HCF is highly proficient at identifying underperformers."[19] Irrational co-founder David van Adelsberg noted that "the HCF score can be used for a variety of portfolio-construction objectives"; for example, J.P. Morgan used HCF to create a Gender Alignment Strategy by identifying companies with the largest divergences in responses between male and female employees.[20]

HCF is being used to create investable indexes. Harbor Capital has adapted HCF to create exchange traded funds based on the performance of the Human Capital Factor Unconstrained Index,[21] an equity index Irrational developed to give "investors exposure to companies that best manage human capital" using Irrational's HCF scores.[22] The State of Wisconsin Investment Board has invested in two of the ETFs.[23]

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17 Intelligize, "Human Capital Disclosure Report: Learning on the Job," at 2. The study can be downloaded at https://www.intelligize.com/intelligize-report-companies-avoid-revealing-human-capital-metric

18 https://www.sec.gov/files/20230914-draft-recommendation-regarding-hcm.pdf

19 https://www.institutionalinvestor.com/article/2bstoaspi8lrcakczoni8/portfolio/looking-for-a-good-investment-find-a-company-that-understands-its-employees

20 https://www.institutionalinvestor.com/article/2bstoaspi8lrcakczoni8/portfolio/looking-for-a-good-investment-find-a-company-that-understands-its-employees

21 https://www.ai-cio.com/news/human-capital-a-new-investment-thesis-that-is-delivering-so-far/

22 https://www.reveliolabs.com/blog/workforce-metrics-that-help-you-invest-wisely/https://www.harborcapital.com/static/72ab3d67518433f3bf5830d01b5cd587/Human_Capital_Factor_Unconstrained_Index_Methodology.pdf

23 https://www.ai-cio.com/news/human-capital-a-new-investment-thesis-that-is-delivering-so-far/

Workforce intelligence company Revelio Labs offers what it calls "the world's first universal HR database," which it markets to investors. Revelio claims that its database can help investors understand the skills, demographics, and stability of a company's workforce as well as compare companies to one another.[24] Revelio has developed a Revelio Labs Gender index that identifies companies with more senior women leaders and greater female promotion velocity.[25] In 2022, Revelio partnered with JUST Capital,[26] which produces an index of the "top 50% of Russell 1000 companies ranked by JUST Capital by industry" on the "issues that matter most to the American public."[27] Payment of a living wage and job creation consistently top the list of issues, based on JUST polling.[28]

Investors' Stewardship Approaches Incorporating Human Capital Considerations

More and more, investors are incorporating human capital considerations into their proxy voting and engagement strategies. Investors' proxy voting guidelines increasingly cover HCM (see Appendix on page 12). Investors' stewardship reports identify HCM as an important issue for engagement. For instance, State Street's 2022 Asset Stewardship Report states that HCM disclosure is one of four "priority" disclosure topics for 2023 stewardship activities. State Street reported holding 205 engagements on HCM in 2022.[29] Similarly, JPMAM identified human capital management as the second-ranking issue on which it engaged with companies in 2023, with 511 engagements.[30] HCM was among the top social issues on which Neuberger Berman engaged in 2022.[31]

Shareholder proposals on the topic of human capital are also on the rise. Since 1998, the Commission has recognized that shareholder proposals dealing with HCM may rise to the level of addressing a significant social policy issue and thus may not be excludable on ordinary business

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24 https://www.reveliolabs.com/blog/a-guide-to-understanding-and-using-workforce-data/

25 https://www.reveliolabs.com/news/social/women-in-the-workplace-gender-parity/

26 https://justcapital.com/news/just-capital-and-new-data-partner-revelio-labs-find-about-half-of-russell-1000-employees-do-not-make-family-sustaining-wage-in-2022/

27 https://justcapital.com/investor-resources/

28 https://justcapital.com/news/just-capital-and-new-data-partner-revelio-labs-find-about-half-of-russell-1000-employees-do-not-make-family-sustaining-wage-in-2022/

29 State Street Global Advisors, 2022 Asset Stewardship Report, at 8, 31 (May 2023) (available at https://corpgov.law.harvard.edu/wp-content/uploads/2023/05/asset-stewardship-report-2022.pdf)

30 JPMAM, 2023 Investment Stewardship Report, at 7, 48 (Apr. 2024) (available at https://am.jpmorgan.com/content/dam/jpm-am-aem/global/en/sustainable-investing/investment-stewardship-report.pdf)

31 Neuberger Berman, 2022 Investment Stewardship Report, at 58 (available at https://www.nb.com/handlers/documents.ashx?id=a2ebbe58-2e7d-4abd-9d5d-8fe2eebf02ac&name=Neuberger%20Berman_Investment%20Stewardship%20Report.pdf)

grounds. Until the last few years, the types of proposals meriting this designation have tended to deal with equity-related matters such as employment discrimination.[32]

In November 2021, the Commission's Division of Corporation Finance (the "Division") issued Staff Legal Bulletin ("SLB") 14L,[33] which explained that the focus when analyzing whether a proposal implicates a significant social policy issue should be whether it "raises issues with a broad societal impact." SLB 14L illustrated this principle by pointing to human capital matters, stating that a "proposal[] squarely raising human capital management issues with a broad societal impact" would not be subject to exclusion. Following SLB 14L's issuance, the Division's Staff declined to allow exclusion of paid sick leave proposals, whose proponents had urged that the issue qualified as a significant social policy issue, given the widespread public debate during the COVID-19 pandemic.[34] Worker health and safety[35] and the payment of a living wage[36] have also been deemed to qualify as significant social policy issues since SLB 14L came out.

The HCMC applauds the Division for broadening its aperture to allow shareholders to vote on a wider array of proposals addressing HCM. Uniform HCM data would facilitate more informed voting on shareholder proposals addressing HCM issues. It would also permit investors to identify HCM laggards for engagement purposes.

Finally, the 2024 proxy season saw the first proxy contest in which HCM issues played a central role. The Service Employees International Union ("SEIU") and the Strategic Organizing Center ("SOC"), a federation of three unions including SEIU, ran three dissident candidates for the board of Starbucks Corporation. The crux of the campaign was that Starbucks' incumbent board had botched the company's labor relations strategy, allowing unlawful anti-union tactics amid a unionization effort by an SEIU affiliate, including a refusal to bargain in good faith, and alienating Starbucks' customer base. SEIU and SOC's candidates boasted extensive HCM experience, including service as Chair of the National Labor Relations Board.[37] The proxy contest ended when Starbucks agreed to begin negotiating a framework for collective bargaining.[38] Investors continue to incorporate human capital considerations into their stewardship and proxy voting policies and practices but still need disclosure standards that allow for a comprehensive view of all companies' HCM strategies, headcount, turnover, workforce demographics, and costs, as well as the ability to compare HCM

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32 See, e.g., R.R. Donnelly & Sons Co. (Jan. 6, 1999) (gender pay equity); ACTWU v. Wal-Mart, 821 F. Supp. 877 (S.D.N.Y. 1993) (racial discrimination in employment); OGE Energy, Inc. (Feb. 24, 2004) (sexual orientation discrimination); Circuit City Stores, Inc. (Apr. 6, 1999) (disclosure of EEO-1 reports); The TJX Companies (Apr. 1, 1999) (MacBride Principles)

33 Staff Legal Bulletin 14L (Nov. 3, 2021)

34 Compare CVS Health Corporation (Feb. 19, 2021) (concurring that proposal seeking an analysis and report on the feasibility of making the company's COVID-19 sick leave policy permanent was excludable on ordinary business grounds) with CVS Health Corporation (Mar. 18, 2022) (declining to allow exclusion of proposal asking that all employees be provided with some amount of paid sick time)

35 See Amazon.com, Inc. (Apr. 6, 2022)

36 Walmart Inc. (Apr. 18, 2024)

37 See https://www.sec.gov/Archives/edgar/data/829224/000090266424000719/p24-0449defc14a.htm

38 https://www.cnbc.com/2024/03/05/labor-unions-end-proxy-fight-at-starbucks-after-bargaining-progress.html

disclosures to peers, in order to assess the effectiveness of its HCM oversight and make informed investment, stewardship, and proxy voting decisions.

Efforts to Account for Human Capital as a Driver of Value

Accounting information around workforce costs is subsumed in broader categories of companies' financial statements, which limits the visibility investors and other stakeholders have into the financial implications of workforce policies and practices. Unlike spending on physical assets like equipment, under generally accepted accounting principles ("GAAP"), amounts spent on the workforce—whether salaries, amounts spent on training, or stock compensation expense—fall into the broad category of expenses, which also include rent and advertising.[39] Treating expenditures related to the workforce solely as expenses distorts companies' decision making about their management of human capital and deprives investors of information they need to make investment and stewardship decisions.

In 2022, the Working Group on Human Capital Accounting Disclosure, which is made up of academics and former Commission officials, filed a rulemaking petition requesting that the Commission develop rules requiring firms to disclose information that will allow shareholders to assess public companies' investments in their people.[40] Citing the "rise of the human capital firm" and the increasing number of companies that report net losses on their income statements, the petition argued that the current GAAP accounting rules are outdated because the rules do not facilitate analysis of public companies' investments in their people. By failing to reflect companies' investments in their workforce, the petition urged, the rules "do not reflect the current reality that the largest firms add value through internally developed intangible assets such as human capital." As a result, accounting data does not allow investors to accurately value many firms.

To remedy this situation, the petition asked the Commission to require companies to:

- "[D]iscuss in the MD&A what portion of labor costs they view as an investment and why";
- Provide detailed tabular disclosure, broken out by full-time, part-time, and contingent workers, of the number of workers, their mean tenure, their turnover, and compensation; the petition noted that this suggested disclosure is consistent with GAAP's treatment of research and development expenses; and
- Disaggregate labor costs in the income statement from where they are currently bundled within cost of goods sold, research and development costs and selling, general and administrative costs.

The Financial Accounting Standards Board ("FASB") proposed a more modest step toward labor cost disaggregation in July 2023.[41] FASB's proposal would require companies to disclose amounts of employee compensation in annual and interim income statements, disaggregating them from the more general expense categories. At the meeting where FASB decided to proceed with the proposal,

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[39] See https://www.sec.gov/files/rules/petitions/2022/petn4-787.pdf, at 2-3; https://www.forbes.com/sites/shivaramrajgopal/2021/08/02/whats-in-sga/?sh=4fa7a2f6237d.

[40] https://www.sec.gov/files/rules/petitions/2022/petn4-787.pdf

[41] The proposal is linked at https://www.fasb.org/page/getarticle?uid=fasb_News_Release_07-31-23

one FASB board member stated that the project, which also involved disaggregation of certain other costs, was "the most important project that we're working on from an investor perspective by a factor of ten."[42] The proposal would incorporate the existing definition of employee, which would exclude independent contractors and contingent workers. What's more, FASB's proposal would not encompass other workforce-related costs, such as amounts spent on training, limiting investors' visibility into the extent of investment in the workforce.

Research continues to reinforce the key role HCM plays in creating value and investor use-case

Growing research continues to reinforce the key role HCM plays in creating value and reinforces why the Commission should develop rules requiring firms to disclose information that will allow shareholders to assess public companies' investments in their people. A 2023 study by CalPERS and Schroders, in collaboration with the University of Oxford Said Business School (the "CalPERS/Schroders Study") found that HCROI is "positively correlated with forward excess returns over multiple time horizons and across sectors, even after controlling for a variety of factors."[43] The study suggested "interrogat[ing] companies that, for a given level of labor intensity, are underperforming on HCROI." It also noted that poor HCM practices could be inferred from the fact that a firm is "generating significantly worse HCROI than its peers, despite having the same levels of labor intensity and average costs."[44] The CalPERS/Schroders study posited various investor analyses that depend on accounting and human capital metrics to refine investors' understanding of human capital management's contribution to a firm's returns and productivity. However, it noted that the paucity of publicly available data "severely limits investors' ability to adequately quantify a variety of important human capital management practices."[45]

On May 11-12, 2023, institutional investors, academic researchers, data scientists, consultants, and human resource experts came together in Ann Arbor, Michigan at the University of Michigan Ross Business School to participate in a "Summit on Workforce Valuation and Performance." The overarching goal of the Summit was to answer the question: "How might we improve the accuracy and usefulness of our workforce data to better support decision-making and good jobs?" Given investor concern with how the current disclosure and accounting treatments obscures trends and changes in the makeup and cost of workforces, the summary report[46] key takeaways highlight that reliable and standardized HCM disclosure is critical to emerging and potential valuation methodologies that seek to incorporate new forms of intangible capital (natural, social and human) and new approaches to corporate valuation that focus on the workforce include both quantitative metrics and qualitative assessments as part of a larger framework, designed to identify, measure and

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[42] https://www.cfodive.com/news/fasb-decides-require-labor-inventory-cost-disclosures/640224/

[43] CalPERS & Schroders, in collaboration with University of Oxford Said Business School, *Human Capital Management Research Summary: People Are Our Greatest Asset*, at 2 (July 2023) (available at https://mybrand.schroders.com/m/63d2ad02332cbde8/original/SC_IDD_Human-Capital-Research_US.pdf)

[44] CalPERS/Schroders Study, at 10-11

[45] CalPERS/Schroders Study, at 7

[46] https://drive.google.com/file/d/1JGsjol6mNiuBBVovIRn-XTzef_n6Dk9s/view

change corporate practices to achieve better performance. These new frameworks and methodologies are a natural outgrowth of research findings that better managed companies produce better financial results and would be strengthened by mandatory disclosure of reliable and standardized HCM data in the U.S.

In closing, the HCMC wishes to reaffirm our desire that the Commission propose rule amendments to enhance registrant disclosures regarding HCM and in doing so we encourage the Commission to review and address the September 2023 recommendation[47] of the SEC Investor Advisory Committee's Investor-as-Owner Subcommittee regarding HCM Disclosure. We remain supportive of the SEC's long-standing three-part mission to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation and appreciate the Commission's attention to modernizing corporate reporting in a way that ensures that investors have the information they need about companies' HCM to make investment, stewardship, and proxy voting decisions. If you have any questions or need additional information, please do not hesitate to contact Tamara Sells, Chair of the HCMC and Associate Investment Manager for the California Public Employees' Retirement System (CalPERS) at (916) 795-2700 or via email at Tamara.Sells@calpers.ca.gov.

Respectfully Submitted,

The Human Capital Management Coalition

Cc: Caroline Crenshaw, Commissioner
Hester Peirce, Commissioner
Mark Uyeda, Commissioner
Jaime Lizarraga, Commissioner
Erik Gerding, Director Corporate Finance

[47] https://www.sec.gov/files/20230914-draft-recommendation-regarding-hcm.pdf

Appendix

Examples of investors' proxy voting guidelines covering human capital management (HCM)

- BlackRock: "A company's approach to human capital management ("HCM") is a critical factor in fostering an inclusive, diverse, and engaged workforce, which contributes to business continuity, innovation, and long-term value creation. . . . Our publicly available commentary provides more information on our approach to HCM."[48]
    - BlackRock's publicly available commentary: "Companies need to be able to attract, retain, and develop workers with the skills and expertise necessary to execute their long-term strategy, meet the needs of their customers and others in their value chain, and deliver financial returns for shareholders. . . . Through our analysis of company disclosures and engagement with corporate leadership, we aim to understand the following, as appropriate and relevant to the particular company . . . Workforce engagement . . . Workforce compensation . . . Training and development . . . Efforts to advance diversity and inclusion . . . Worker rights and protection . . . Health and safety"[49]
- Fidelity: "As part of our efforts to maximize long-term shareholder value, we incorporate consideration of human and natural capital issues into our evaluation of a company if our research has demonstrated an issue is financially material to that company and the investing funds' investment objectives and strategies."[50]
- Glass Lewis: "Glass Lewis carefully monitors companies' performance with respect to environmental and social issues, including those related to climate and human capital management. In situations where we believe that a company has not properly managed or mitigated material environmental or social risks to the detriment of shareholder value, or when such mismanagement has threatened shareholder value, Glass Lewis may recommend that shareholders vote against the members of the board who are responsible for oversight of environmental and social risks."[51]
- J.P. Morgan Asset Management ("JPMAM"): "We expect engaged boards to provide oversight of human capital management ("HCM"), that is, a company's management of its workforce, including human resources policies (including code of conduct), use of full-time versus part-time employees, workforce cost, employee engagement and turnover, talent

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[48] Proxy Voting Guidelines for U.S. Securities (Jan. 2024), at 20 (available at https://www.blackrock.com/corporate/literature/fact-sheet/blk-responsible-investment-guidelines-us.pdf)

[49] https://www.blackrock.com/corporate/literature/publication/blk-commentary-engagement-on-human-capital.pdf, at 2

[50] Fidelity Proxy Voting Guidelines (Jan. 2024), at 8 (available at https://www.fidelity.com/bin-public/060_www_fidelity_com/documents/Full-Proxy-Voting-Guidelines-for-Fidelity-Funds-Advised-by-FMRCo-or-FDS.pdf

[51] Glass Lewis U.S. 2024 Benchmark Policy Guidelines, at 31-32 (available at https://www.glasslewis.com/wp-content/uploads/2023/11/2024-US-Benchmark-Policy-Guidelines-Glass-Lewis.pdf)

development, retention and training, compliance record, and health and safety. JPMAM will vote case-by-case on shareholder resolutions seeking disclosure of HCM."[52]

- Morgan Stanley: "We consider proposals on other social issues on a case-by-case basis but generally support proposals that: Seek to enhance useful disclosure or improvements on material issues such as human rights risks, supply chain management. workplace safety, human capital management and pay equity in line with local rules."[53]
- CalPERS: "[D]irector attributes should include expertise in . . . human capital management . . . . Companies should provide for the integrated representation of operational, financial, human capital management practices, environmental, social, and governance performance in terms of both financial and nonfinancial results in order to offer investors better information for assessing risk [including] key performance indicators (KPIs) that are linked to strategy and facilitate comparisons, including human capital KPIs [such as turnover, workforce cost, and workforce diversity]."[54]
- New York City pension funds: "The Systems generally support requests to disclose material information related to a company's strategies to develop, motivate, and retain a productive workforce in line with a company's business strategy, as well as to mitigate the risks or assess the impact of labor strife that may undermine firm performance. The Systems encourage effective employee engagement, fair compensation, adequate training and development, and suitable rates of retention at portfolio companies that are conducive to driving long-term value."[55]
- AEW Capital Management: "AEW believes that human capital management is an area of material importance to all companies. Maintaining a diverse and engaged workforce can help mitigate risks related to low worker productivity, employee turnover, and lawsuits based on discrimination or harassment. . . AEW believes the board and management should be allowed discretion in designing and implementing employment policies. Where shareholders identify a lapse in directors fulfilling their duty, shareholders can hold them accountable in director elections."[56]

[52] J.P. Morgan Asset Management, Global proxy voting guidelines, at 20 (Apr. 2024) (available at https://am.jpmorgan.com/content/dam/jpm-am-aem/global/en/institutional/communications/lux-communication/corporate-governance-principles-and-voting-guidelines.pdf)

[53] Morgan Stanley Investment Management Equity Proxy Voting Policy and Procedures, at 7 (Mar. 14, 2024) (available at https://www.morganstanley.com/im/publication/resources/proxyvotingpolicy_msim_en.pdf)

[54] CalPERS' Governance & Sustainability Principles, at 16, 27 (Sept. 2019) (available at https://www.calpers.ca.gov/docs/forms-publications/governance-and-sustainability-principles.pdf)

[55] Corporate Governance Principles and Proxy Voting Guidelines, at 33 (Feb. 2019) (available at https://comptroller.nyc.gov/wp-content/uploads/documents/NYCRS-Corporate-Governance-Principles-and-Proxy-Voting-Guidelines_2019-Revised-February-2019.pdf)

[56] https://www.aew.com/aew-proxy-voting-guidelines