Healthcare Management Institute

Honorable Jay Clayton
Chairman
Securities and Exchange Commission
100 F St., NE
Washington, DC 20549

11 March 2019

Dear Chairman Clayton:

This letter is our contribution to the discussion you have pioneered in your recent letter; "Remarks for Telephone Call with SEC Investor Advisory Committee Members," dated 6 February 2019. We hope this response expresses the strongest support possible concerning your remarks about the timeliness and relevance of human capital information when reporting a firm's performance to capital markets. We also hope to address your concerns and fortify your stance about the utility of this information to investors. Simply put, the moment has arrived, the method is here, and the opportunities are vast.

Since February 2011, the United States has led the development of international standards in human resource management through the International Organization of Standardization's (ISO) industry driven process. There are currently twelve published ISO Human Resource Management standards in use across the globe. National experts from twenty-seven countries are actively participating in ISO Technical Committee 260, developing an additional ten standards. Yet no project has proven more important to a truer understanding of the role of workers in an enterprise than *ISO 30414:2018 Reportable Human Capital.* Since 2015 the goodwill, passion, and intellects of accounting, finance, investor relations, and human resource experts forged a document that reflects a pathway for providing rigorous and relevant information to investors. It also addresses the concerns you presented in your remarks so thoroughly, that we believe this standard can serve as the key vehicle for the SEC to advocate the use of human capital reporting in equity markets in the United States.

- ***Human capital data are material facts for effective and thorough investment decisions.*** Justice Marshall instructs us in the TSC Industries case that ". . . [a] fact is material if there is a substantial likelihood that a reasonable shareholder would consider it important in deciding how to vote."[1] We contend that such information is material if it influences any investment decisions that reasonable shareholders may make or actions they may pursue. Organizations, particularly those in the services sector, confront voracious costs to acquire, maintain, improve, and separate employees. These costs routinely comprise up to seventy percent of a firm's expenses. It is then self-evident to regard comparable and reliable information about the quality of an organization's stewardship of workforce costs as material to prudent investment decisions. Considering Fortune 1,000 publicly traded companies alone, the management of tens of millions employees, whose costs go in reported to shareholders annually.

- ***The ISO standard transforms disparate subjective data into comparable objective facts.*** The reduction of empirical uncertainty is one of the direct benefits in the standardization of workforce measures. Among the past challenges in the human resources management field were the myriad ways organizations chose to calculate common measures. The current fungible nature of workforce metrics presents a veneer of subjectivity and casualness to organizational owners and managers. Having a standard that identifies nine universal categories of workforce measures leads to rigorous and comparable metrics. As organizations

[1] TSC Industries, Inc. v. Northway, Inc., 426 US 438, p.449

adopt this approach, investors will enjoy the same degree of certainty and trust in the human capital measures as they do with data from the financial sector.

- ***Human capital metrics provides a lens that investors may use to determine the impact that workforce management has on the performance of an organization.*** Despite the depth and variety of information currently available in investor instruments, few pinpoint how well management marshals and deploys their human assets. When individuals invest in a company, in large measure they are placing a bet on the quality of the leadership and the competence and engagement of employees in that organization. Moreover, investors who wish to better understand an organization are stymied by managers who assert that "cultural" differences between organization make it impossible to comparably assess human capital management. The ISO standard does not dismiss the impact of culture. Instead, it magnifies the importance and awareness of those universal people management practices that have a direct impact on the value and performance of an enterprise. As an investor, I deserve to know if an organization operates chaotically or with discipline. This standard provides a way to focus on this question.

The Committee hopes are inspired by the commercial opportunity that investors will enjoy though the availability of this new body of material, comparable and targeted information about reportable human capital metrics. Whether as a pilot program in a labor or service intensive industry or through a broader application, we believe the viability of this method and merits of this approach transcend any short-term reluctance that this change could arouse within equity markets.

With respect,

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