

June 15, 2018

William Hinman
Director, Division of Corporate Finance
Brent J. Fields, Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Dear Mr. Hinman:

The Center for Safety and Health Sustainability (“CSHS”) respectfully submits this letter in support of the Human Capital Management Coalition’s (the “HCM Coalition”) petition requesting that the Commission “adopt new rules, or amend existing rules, to require issuers to disclose information about their human capital management policies, practices and performance.” (submitted pursuant to Rule 192(a) of the Commission’s Rules of Practice, dated July 7, 2017).

CSHS, established in 2010, is a 501(c)(3) nonprofit organization committed to advancing the safety and health sustainability of the global workplace. CSHS engages key stakeholders around the world to work toward establishing minimum standards that help reduce the number of work-related injuries, illnesses, and fatalities. A collaborative effort by the American Society of Safety Professionals, American Industrial Hygiene Association, Institution of Occupational Safety and Health, and the Canadian Society of Safety Engineering, CSHS represents more than 100,000 workplace safety and health professionals in over 120 countries.

CSHS’s work has included research on corporate reporting practices relating to occupational safety and health (“OSH”) and other human capital metrics, the development of a best practices guide on reporting OSH metrics, and a series of workshops on the implications of current human capital policies and practices.¹ The focus of this work has been on promoting:

- Adoption of more impactful indicators to measure OSH performance;
- Standardization of the data collection methodology, reporting formats, and definition of terms to be used in corporate social responsibility reporting; and
- Public reporting of OSH metrics.

¹ See <http://www.centershhs.org/ourwork.php> for more information. Accessed 5/17/2018.

Public reporting of performance-related data has been shown to be an impetus for organizations to improve or maintain performance. One study of the perceived impact of public reporting of hospital performance data found that it: “led to increased involvement of leadership in performance improvement; created a sense of accountability to both internal and external customers; contributed to a heightened awareness of performance measure data throughout the hospital; influenced or re-focused organizational priorities; raised concerns about data quality and led to questions about consumer understanding of performance reports.”²

Public reporting is particularly important in the context of OSH management. According to the International Labour Organization (ILO) occupational accidents or work-related diseases cause more than 2.78 million deaths per year. Additionally, there are some 374 million non-fatal work-related injuries and illnesses each year, many of these resulting in extended absences from work. Beyond the human cost, the economic burden of poor occupational safety and health practices is estimated at 3.94% of global Gross Domestic Product each year.³

Current corporate reporting practices are ineffective and inefficient. Corporations are being deluged with requests for nonfinancial, corporate social responsibility-related information, including human capital management information. Companies are experiencing so-called “survey fatigue” from responding to multiple sustainability frameworks and ratings and rankings organizations requests. For example, GE reported that in 2014 they:

Developed responses to more than 650 individual questions from ratings groups. The process took several months and involved over 75 people across the organization, with virtually no value to our customers or shareholders, and even less to the environment. Having too many competing rating groups diverts resources from activities that can truly impact sustainability.⁴

² JM Hafner, et al. “The perceived impact of public reporting hospital performance data: interviews with hospital staff,” *International Society for Quality in Health Care* 2011 Dec;23(6):697-704, doi:/10.1093/intqhc/mzr056. Accessed 6/8/2017.

³Hämäläinen, et al. “Global Estimates of Occupational Accidents and Work-Related Illnesses 2017.” Ministry of Social Affairs and Health, Finland. Accessed 5/17/2018.
<http://www.icohweb.org/site/images/news/pdf/Report%20Global%20Estimates%20of%20Occupational%20Accidents%20and%20Work-related%20Illnesses%202017%20rev1.pdf>

⁴ Eccles and Youmans, “In this corner, DJSI; and in this corner, materiality. Ding!”
<http://www.materialitytracker.net/2015/07/in-this-corner-djsi-and-in-this-corner-materiality-ding/>. Accessed 5/17/2018.

Investors also cite “investor fatigue” from reviewing reams of data that are incomplete, inaccurate, irrelevant and not readily understood or useful. While the number of corporate reporting schemes has grown exponentially over the last decade there is still a lack of consensus on the OSH and human capital metrics that should be reported, the data collection methodology and reporting formats to be used, and the definition of terms.

CSHS’s work provides evidence in support of two key issues raised in the HCM Coalition’s petition:

- Human capital management-related information is material non-financial information that should be disclosed to the investing public.
- Current corporate reporting practices fail to yield the kind of comprehensive and meaningful data needed by the investing public and other key stakeholders to evaluate human capital management performance.

The remainder of the letter will be devoted to providing the relevant CSHS evidence in support of HCM Coalition’s petition.

Material Non-Financial Information

Requiring public companies to disclose meaningful information to the investing public has long been a fundamental tenet of the Commission:

The laws and rules that govern the securities industry in the United States derive from a simple and straightforward concept: all investors, whether large institutions or private individuals, should have access to certain basic facts about an investment prior to buying it, and so long as they hold it. To achieve this, *the SEC requires public companies to disclose meaningful financial and other information to the public*. This provides a common pool of knowledge for all investors to use to judge for themselves whether to buy, sell, or hold a particular security. Only through the steady flow of timely, comprehensive, and accurate information can people make sound investment decisions.⁵ (Italics added)

The evidence in support of the recognition of human capital related information as meaningful and material to investors is compelling. Research has shown that poor human capital management practices may hamper a corporation’s ability to attract and retain talented employees; negatively impact employee engagement, innovation, and

⁵ “What We Do,” Securities and Exchange Commission, <https://www.sec.gov/Article/whatwedo.html>. Accessed 5/17/2018.

performance; disrupt the organization's supply chain; and damage the corporation's reputation to investors and customers. Ultimately, poor human capital management practices negatively impact a corporation's ability to create and maintain value for its shareholders and other key stakeholders.

The new recognition of the importance of human capital is being driven by changing expectations of key stakeholders:

- *Consumers*: Consumers are showing an increased interest in supporting socially responsible companies. In the Nielsen's 2015 global corporate social responsibility survey of 30,000 consumers in 60 countries, 66% of the respondents indicated that they were willing to pay extra for products and services from companies that are committed to positive social and environmental impact, an increase of 11% since 2014.⁶
- *Employees*: The 2016 Cone Communications *Millennial Employee Engagement Study* concluded that meaningful engagement around corporate social responsibility:
...is a business – and bottom line – imperative, impacting a company's ability to appeal to, retain and inspire Millennial talent. More than any other generation, Millennials see a company's commitment to responsible business practices as a key factor to their employment decisions:
 - 75% say they would take a pay cut to work for a responsible company (vs. 55% U.S. average)
 - 83% would be more loyal to a company that helps them contribute to social and environmental issues (vs. 70% U.S. average)
 - 76% consider a company's social and environmental commitments when deciding where to work (vs. 58% U.S. average)
 - 64% won't take a job from a company that doesn't have strong CSR practices (vs. 51% U.S. average)

Millennials will soon make up 50 percent of the workforce and companies will have to radically evolve their value proposition to attract and retain this socially conscious group.⁷

⁶ "The Sustainability Imperative: New Insights on Consumer Expectations," Nielsen, October 2015. <https://www.nielsen.com/content/dam/niensenglobal/dk/docs/global-sustainability-report-oct-2015.pdf> (Accessed 5/18/2018).

⁷ "2016 Cone Communications Millennial Employee Engagement Study," Cone Communications. <https://static1.squarespace.com/static/56b4a7472b8dde3df5b7013f/t/5819e8b303596e3016ca0d9c/1478092981243/2016+Cone+Communications+Millennial+Employee+Engagement+Study+Press+Release+and+Fact+Sheet.pdf>. (Accessed 5/18/2018).

- *Governments:* Several human rights initiatives are bringing new focus on supply chain management and performance. One example is the trend toward adopting “modern slavery” regulations. Modern slavery is a broad term used to cover offences of slavery, servitude, forced or compulsory labor and human trafficking. In 2010, the state of California introduced the California Transparency in Supply Chains Act (the “California Act”), which requires retail and manufacturing businesses with worldwide annual gross receipts over \$100 million doing a certain amount of their business in California to disclose their efforts to eradicate slavery from their supply chains.

In the UK, the Modern Slavery Act 2015 includes a section on transparency in supply chains. All businesses over a certain size (total annual turnover of £36 million or above) are required to prepare a “slavery and human trafficking statement” for each financial year, stating the steps taken to prevent slavery and human trafficking in any of its supply chains or in any part of its own business (or else, stating that no such steps have been taken). The statement should include a brief description of an organization’s business model and supply chain relationships, the business’s policies relating to modern slavery, including due diligence and appropriate performance indicators.⁸

- *Standards bodies:* At a workshop sponsored by CSHS in March of 2018, the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), and International Integrated Reporting Council (IIRC) expressed concerns that confidential disclosure and proprietary models hinder the evolution of the market in terms of human capital performance and transparency.
- *Investors:* Organizations such as Blackrock and Vanguard are reviewing the issue of human capital and related data to influence and support investment decisions. In one recent communication Blackrock made the case for the importance of human capital management data to investors:

Most companies BlackRock invests in on behalf of clients have, to varying degrees, articulated in their public disclosures that they are operating in a talent constrained environment, or put differently, are in a war for talent. It is

⁸ “Accounting Revolution and the New Sustainability,” CSHS, 2015.
http://www.centershhs.org/assets/docs/CSHS_2015_Accounting_Revolution_and_the_New_Sustainability.pdf.
Accessed 5/17/2018.

therefore important to investors that companies explain as part of their corporate strategy how they establish themselves as the employer of choice for the workers on whom they depend. A company's approach to HCM - employee development, diversity and a commitment to equal employment opportunity, health and safety, labor relations, and supply chain labor standards, amongst other things - will vary across sectors but is a factor in business continuity and success. In light of evolving market trends like shortages of skilled labor, uneven wage growth, and technology that is transforming the labor market, many companies and investors consider robust HCM a competitive advantage.⁹

- *Supply Chain*: In recent years there has been increased publicity around working conditions in factories that supply to foreign corporations. In Pakistan, workers trapped behind locked doors leapt to their deaths to escape a factory fire. A building collapsed in Bangladesh, causing the deaths of over 1100 garment workers and leading to the filing of formal murder charges against 41 people. News was circulated that suicide nets were installed at the dormitories for workers of an electronics manufacturer in China. 50,000 Bangladeshi garment workers went on strike over “inhuman” wages (about \$38 a month). From a value creation and risk mitigation perspective, trouble in supply chain operations have the potential to cause major business interruptions and have a significant impact on a company's brand and reputation. “When a major organization's supplier or supplier's partner is exposed for unsafe or unethical practices, it's typically the outsourcing organization that faces consumer backlash.”¹⁰

In a 2017 analysis of the Corporate Knights' *Global 100 Most Sustainable Corporations in the World 2016* list (“Global 100”), CSHS found that 74 of the Global 100 reported on the results of a materiality analysis, usually in the form of a materiality matrix or chart. The “material” issues identified were typically prioritized based on an evaluation of the issue's importance to key external stakeholders or the organizations' business operations or strategies. While it is unclear how many of the 74 organizations used the SEC definition of materiality, information on the issues identified as “material” must be viewed as “meaningful” to the investing public. From a human capital perspective, OSH was

⁹ “BlackRock Investment Stewardship's approach to engagement on human capital management,” BlackRock, March 2018. <https://www.blackrock.com/corporate/literature/publication/blk-commentary-engagement-on-human-capital-march2018.pdf>. Accessed 5/17/2018.

¹⁰ “Accounting Revolution,” CSHS. Page 24.

specifically identified as a material issue by 45 of the 74 organizations reporting materiality information.¹¹

In another analysis of materiality, this one using the SEC definition of materiality, the SASB found OSH to be a material issue in 26 of 79 industries evaluated. SASB is an independent 501(c)3 nonprofit organization in the United States that develops and disseminates industry-specific sustainability accounting standards for use by public corporations in disclosing material information to relevant stakeholders.

Comprehensive and Meaningful Data

CSHS has completed two research projects which examined the reporting practices of global corporations that were considered “the most sustainable.” Specifically, the research analyzed the extent to which these corporations reported OSH information, whether that information provided insight into actual OSH performance, and whether the information was in a format that would allow comparison to other corporations. One aim of this body of work was to inform the leading sustainability reporting frameworks and standards development organizations (GRI, UN Global Compact, IIRC, and SASB) on the viability of their OSH performance indicators and other relevant guidance they provide to corporate reporters.

The most recent study involved the analysis of corporate social responsibility reports, sustainability reports, annual reports, registration documents, and/or other information publicly available on corporate websites between June and December 2016 for each organization on the Global 100. Data on OHS-related performance indicators were collected, analyzed and organized; focusing first on the GRI reporting framework (version G4 Labor Aspects 5-8, which address occupational health and safety indicators) and second on the metrics recommended by the CSHS. The 2016 work represents CSHS’s second analysis of the *Corporate Knights Global 100 Most Sustainable Corporations in the World*. The first report, “Current Practices in Occupational Health & Safety Sustainability Reporting,” was published in 2013.

¹¹ “Need for Sustainability Reporting,” CSHS, August 2017.
<http://www.centershhs.org/assets/docs/NeedForSustainabilityReporting-Final-August.pdf>. Accessed 5/17/2018.

The results of the most recent research¹² on the Global 100 reporting reflect that there is:

- No consensus on the data collection methodology and reporting formats to be used. For example:
 - 11 formulas were used to calculate the absentee rate
 - 7 formulas were used to calculate the lost day rate
 - 6 formulas were used to calculate the injury rate
- A lack of standardized terms and definitions used to report OSH performance, making it difficult to compare performance across organizations. For example:
 - 14 definitions were used for workers
 - 12 definitions of absentee or explanations of the scope of absenteeism-related information were used
- Low levels of reporting on certain key OSH performance indicators, such as those related to:
 - *Hourly, contingent, and contract workers (hereinafter referred to as “contingent workers”)*

Use of contingent workers is on the rise. A recent report concluded that “This trend highlights the need to develop better processes, policies, and tools to source, evaluate, and reward talent that exists outside of traditional corporate and organizational balance sheets.”¹³

In the context of OSH, studies have shown that contingent workers suffer from a lack of information on workplace hazards and training on safety. Even more problematical, they are increasingly being used for jobs that might have a higher level of risk. As a result, contingent workers suffer a significantly higher rate of workplace accidents in comparison to their permanent worker peers. Data on the employment conditions of contingent workers is difficult to obtain, and many organizations do not report on metrics related to contract work. At a recent Human Capital Workshop sponsored by CSHS, an investor group gave the following example regarding their inability to fully

¹² Ibid.

¹³ Available at <http://www2.deloitte.com/us/en/pages/human-capital/articles/introduction-human-capital-trends.html>. 2015 (Accessed October 20 2015).

assess a company's strategy due to the lack of information on temporary workers and other human capital metrics:

- A Canadian company has 13,000 full-time employees and 17,000 part-time. Their public disclosures say these figures exclude “temporary help.” 500 of their stores are operated by third-parties, and the number of employees in those stores is unclear. Despite their strategic initiative to “Achieve sustainable growth by enhancing customer experiences,” the investor group did not find a single metric about training the corporate or franchise workforce, or information about turnover rates, and were.
- *Workers for suppliers in developing countries*

Workers for suppliers in the developing world are especially vulnerable to OSH risks.¹⁴ This is a function of weak governmental regulation, poor management systems, lack of enforcement by governments or oversight by the corporations that purchase products or services from the suppliers, less-educated and sometimes illiterate workers, and inadequate training and supervision. Basic safety and health measures and investments are often bypassed, and employees frequently lack the basic knowledge required to be proactive about their own safety. Depending on the industry, the work-related mortality rate in developing countries is at least double, and often several multiples higher than in industrialized nations.¹⁵

Corporations that source products from developing countries are well positioned to provide oversight and support for their suppliers to ensure the safety, health, and well-being of supplier workers. CSHS has proposed indicators that would encourage reporters to audit their direct or first-tier suppliers' facilities in developing countries for compliance with health and safety standards, thereby helping to promote proactive safety measures and saving lives in the long run.

Information on supply chain management provides the investing public with a better understanding of key issues that face the corporations. For example, one corporation on the Global 100 reported no employee fatalities for the

¹⁴ <https://onlinelibrary.wiley.com/doi/full/10.1002/ajim.22669>

¹⁵ Hämäläinen, et al. “Global Estimates.”

previous year but did report 17 contractor deaths during that same period. Such performance suggests that there are issues with the management of the supply chain.¹⁶

- *Leading indicators, such as occupational safety and health management systems (OSHMS)*

OSHMS have been acknowledged by the ILO and by standards bodies in many countries as central to effective worker safety and health management. The ILO issued a press release on April 26, 2011 stating:

Implementation of OSH management systems is critical in helping to reduce occupational accidents, diseases and deaths.”¹⁷ OSHMS have been shown to reduce workplace injuries and increase organizational performance. The ILO’s OHSMS (ILO-OSH 2001) and OHSAS 18001 (an ISO 14001-based approach), are widely used throughout the world in many supply chains. There are increasing requirements by customers that suppliers have an OSHMS in place. A new global OHSMS standard, ISO 45001, was adopted in March 2018.

CSHS recommends two indicators around occupational health and safety management systems:

- Percentage of owned or leased work locations that have implemented an occupational health and safety management system that meets recognized standards.
- Percentage of owned or leased work locations that have had their occupational health and safety management systems audited by an independent third party.

These leading indicators are designed to measure whether systems are in place to effectively manage worker health and safety.

- GRI Reporting Standards

¹⁶ [http://www.icohweb.org/site/images/news/pdf/Report Global Estimates of Occupational Accidents and Work-related Illnesses 2017rev1.pdf](http://www.icohweb.org/site/images/news/pdf/Report%20Global%20Estimates%20of%20Occupational%20Accidents%20and%20Work-related%20Illnesses%202017rev1.pdf)

¹⁷ http://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_154749/lang--en/index.htm

The GRI is an independent organization that produces the world's most widely used sustainability reporting framework. Over 80 percent of the world's largest 250 companies refer to the GRI Guidelines when issuing a corporate social responsibility or sustainability report. In addition, several countries have a formal reference to GRI in their governmental corporate responsibility guidance documents or policies, including Austria, Belgium, Denmark, Finland, Germany, the Netherlands, Sweden, the United States, and Canada. The GRI framework is designed for use by all organizations, regardless of size, sector or location.

The Global 100 had very low levels of compliance in reporting on the OSH information recommended by the GRI framework (version G4 Labor Aspects 5-8). For example:

- No organization provided a full response to GRI-recommended indicators
- No organization reported on fatal occupational diseases
- Less than 10% provided information on 3 of the 4 indicators (LA5, LA7, LA8)
- The highest relative level of reporting for commonly prescribed metrics on worker/employee injury rates. Very few, however, used the formula for calculating injury rates recommended by GRI.
- 50% of the reporters provided information on fatalities
- Compared to that for workers/employees, very low reporting regarding contract temporary workers' lost day rate and injury rate.

Low levels of corporate reporting on OSH metrics was confirmed by research conducted by Corporate Knights, a specialized media and research firm. Presenting at a Human Capital workshop sponsored by CSHS, a representative of Corporate Knights presented the results of an analysis they conducted on 5990 public companies with over 1 billion US dollars of revenue. The disclosure rate on key OSH metrics were as follows:

- Lost time injury rate (LTIR): 19.08 %
- Total recordable injury rate (TRIR): 16.59 %
- Injuries combined (LTIR or TRIR): 25.71%
- Fatalities: 18.08 %

Further confirmation of the low number of corporations publicly reporting OSH information can be found in research completed in 2017 by the Pensions and Capital Stewardship Project Labor and Worklife Program, Harvard Law School. CSHS partnered with the American Society of Safety Engineers and the American Society of Safety Engineers Foundation to sponsor the research, which investigated human capital management reporting practices of major global corporations. The study was based on an analysis of information on nearly 2000 firms traded on global exchanges in the RobecoSAM database, which drives the Dow Jones Sustainability Index. Approximately 800 of the corporations reviewed had completed a comprehensive survey document developed by RobecoSAM, while the analysis of the remaining 1200 organizations was based on data collected solely from public reports.

The key finding of the Harvard research was that human capital metrics, including OSH data, are frequently collected by a majority of global companies, yet many of these firms are not publicly reporting the information. The research found a sharp dichotomy between metrics disclosed publicly and those reported by respondents in the RobecoSAM survey. For example, about half of these companies report the average hours of training they provided to employees annually. But the figure was dramatically higher for respondents, at 84 percent, versus just 18 percent of firms assessed using public reporting. Similarly, while 52 percent of firms publicly report employee fatalities, 96 percent of survey respondents disclosed the metrics, but only 17 percent of publicly assessed companies.¹⁸

The findings suggest that investors could gain access to human capital management data that is material to financial performance if they request public disclosure of information already gathered by a critical mass of large corporations in major markets.

Conclusion

Given the demonstrated importance of human capital management information to the investing public and the ineffectiveness and inefficiency of voluntary disclosure practices, CSHS requests that the Commission acts favorably on the HCM Coalition's petition. By requiring public companies to disclose meaningful information on human capital management practices the Commission will better position the investing public to evaluate key aspects of a company's performance, including the ability to attract and retain talented employees; employee engagement, innovation, and performance; supply chain

¹⁸ Aaron Bernstein and Larry Beeferman, "Corporate Disclosure of Human Capital Metrics," Pensions and Capital Stewardship Project Labor and Worklife Program, Harvard Law School, 10/19/2017.

management; operational excellence, improving productivity and efficiency, increasing quality, reducing costs; the likelihood of catastrophic events; and core ethical values.

If the Commission acts favorably on the HCM Coalition's petition, CSHS stands ready to offer expert technical input on the appropriate OSH related information that should be part of the disclosure, as well as the standardized terms, definitions, and data collection methodology and reporting formats that should be adopted.

Respectfully submitted,

The Center for Safety and Health Sustainability

A handwritten signature in black ink, appearing to read "Kathy", followed by a long, sweeping horizontal flourish.

Kathy Seabrook, Chairperson