



Aug. 20, 2019
520 White Plains Rd., Suite 500
Tarrytown NY 10591

The Honorable Jay Clayton
Chairman, Securities & Exchange Commission
100 F Street, Northeast,
Washington, DC 20549, United States

File Number S7-11-19

Dear Honorable Chairman,

Thank you for the opportunity to provide recommendations for the creation of human capital disclosures in items 101 and 102 of Reg S-K. Our recommendations are based on the chairman's guidance provided at the Feb. 11, 2019, meeting with the SEC Investors committee and come from the management perspective of executives representing human resources, sales, and marketing. We are also among the leaders and creators of the first 11 ISO (International Organization of Standardization) human resources standards and/or certifications, including ISO 30414 Human Capital Internal and External Reporting Guidelines; ISO 10018 Quality People Management standards, as well as ISO 10667 assessment services delivery; ISO 30401 knowledge management, and ISO 30409 workforce planning.

ISO standards are based on the same flexible, principles-based approach cited by the Commissioners in the proposed rules related to human capital disclosures.

We write in full support of disclosures of human capital practices as well as the Honorable Chairman's call for a flexible approach that enables organizations to disclose the information they believe will be material to investors. We also believe that the free market of ideas, including the new ISO 30414 standards on human capital management, as well as other publicly available frameworks, provide public companies a full range of protocols from which to select to demonstrate their human capital management practices in a principles-based manner called for in the proposed revised SK disclosure rule.

We believe these rules are particularly timely considering the new Business Roundtable's¹ standard for corporate conduct released on Aug. 19, 2019, that includes the importance of addressing the needs of all stakeholders, not just employees, but customers, distribution partners, employees, and communities.

¹ <https://www.sec.gov/news/press-release/2019-148>

Our Recommendations

Because of the need to view human capital issues through the “eyes of management” and to address the issues of principles-based disclosures, materiality, comparability, flexibility, efficiency, and responsibility—the terms used by the Honorable Chairman—we believe that human capital disclosure requirements should focus narrowly on disclosures related to comparable Generally Accepted Accounting Principles that already exist and which are contained in worldwide accepted ISO standards that are voluntary and recognized throughout the world. This issue needs to be considered as the European Union has sustainability disclosure laws going into effect over the next few years that create reporting requirements on human capital for any company with over 500 employees.² Companies, investors, and other stakeholders committed to human capital management can more than address the disclosures set forth by the Honorable Chairman in the guidelines provided by ISO 30414 human capital reporting (see: <https://www.iso.org/standard/69338.html>). This ISO and other disclosure frameworks provide both organizations and investors a range of worldwide accepted and comparable methods of disclosing valuable information against which to develop or evaluate an organization’s commitment to stakeholder engagement, while providing flexibility to companies.

While we noted the chairman’s observations that organizations only recently have valued human capital as an asset rather than as a cost, we have personal experience to the contrary: CEOs in fact often view their human capital to be their secret weapon or Achilles heel and are reluctant to share the types of information most valuable to investors, such as revenue per customer or employee; customer or employee turnover, or safety incidents. We believe the disclosure requirements should be sensitive to these concerns to help ensure compliance.

From a practical standpoint, human capital is defined the total of an organization’s investment in all its human capital, not just employees, but customers, distribution partners, and communities. While such expenditures are not carried as assets on balance sheets, they are all readily trackable on internal profit/loss statements under marketing and human resources expenses generally not broken out for public consumption.

Therefore, we recommend that whatever leeway the Commissioners leave registrants in their human capital disclosures, they include not only issues related to the workforce, but to customers, distribution partners, vendors, and communities. This includes marketing, sales, and human resources recruitment, development, and retention costs.

The difference between legally required and voluntary disclosures. While we hope that organizations around the world will see the value of adopting the ISO 30414 disclosure guidelines, we understand there are perhaps other useful and comparable frameworks for reporting on human capital that address the same criteria outlined by the Chairman. Therefore, our recommendation is that SEC disclosure requirements consist is based on a key criteria outlined by the Chairman: The best regulations or standards help guide management toward successful practices, rather than impede operations. Because of the strong correlation between stakeholder engagement, financial results, and share price performance, requirements limited to disclosure of related data without giving public companies a disadvantage likely will ensure a higher level of compliance.

² <https://www.globalreporting.org/information/policy/Pages/EUpolicy.aspx>

We also believe with the contention of the Business Roundtable that the engagement of all stakeholders must be considered.³

Our Recommendations

The following information included in ISO 30414 guidelines should already be accounted for at most companies but disclosures would not require organizations to break out what they spend per tactic or number of customers or reveal the specific combination of tactics utilized in details so as to protect sensitive competitive information.

1. Quantitative

- No. of full-time/salaried employees and independent contractors.
- Overall payroll.
- Overall nonpayroll expenses (incentives, recognition, benefits, training, excluding taxes), and as a percentage of payroll.
- Employee retention (percentage retained year to year)
- Customer retention (percentage retained year to year)
- Overall expenditures in marketing and sales costs, and as a percentage of overall sales.
- Number of reportable accidents/deaths.
- Expenditures in Corporate Social Responsibility.
- Number of law suits (by employee, customer, community).

II. Qualitative

Because a CEO-led strategic and systematic approach to engaging all interested parties are bedrock ISO principles, and because there are now voluntary ISO 30414 guidelines against which practices can be judged, we believe that a statement from the CEO in the SK filing as it pertains to human capital practices can in fact be quite useful to knowledgeable investors and other stakeholders, especially those in a position to ask the right questions of CEOs in securities analyst and other meetings with investors. We believe that even broad latitude of the nature of these statements will give savvy stakeholders useful information about the level of the organization's commitment to human capital.

See the Whole Foods annual report from 2017 for an excellent example of a human capital report.
<http://www.annualreports.com/Company/whole-foods-market-inc>

Should the Commissioners prefer to provide organizations with a broader latitude, the mere requirement that CEOs provide a personal statement related to Human Capital issues, including all stakeholders, will make a significant contribution to more transparent management of the vital assets of public companies, especially if they define human capital as the sum total of all people investments—i.e., customers, distribution partners, employees, vendors, and communities.

³ <https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-american>

In conclusion, our recommendations seek to directly address the requirements stated by the chairman that weigh the concerns of all interested parties to provide information from which all stakeholders can benefit in a principles-based, flexible manner that addresses the contribution and needs of all stakeholders.

Sincerely,

Bruce Bolger
Dr. Ron B. McKinley
Lee S. Webster

Co-Founders of the International Center for Enterprise Engagement at TheICEE.org.