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Via email to rule-comments@sec.gov

October 21, 2019

Ms. Vanessa A. Countryman, Secretary
Securities and Exchange Commission
100F Street, NE
Washington, DC 20549-1090

Re: Release Nos. 33-10668; 34-86614; File No. S7-11-19 Modernization of Regulation S-K Items 101, 103, and 105

Dear Ms. Countryman:

Thank you for the opportunity to provide comments on the Modernization of Regulation S-K and specifically on human capital disclosure requirements. Calvert Research and Management (Calvert) respectfully submits this letter in response to the request for comments and applauds the Commission's efforts broadly to modernize and enhance registrant disclosure requirements.

Calvert is an investment management firm based in Washington, DC that invests across global capital markets. Our firm incorporates into our investment decisions information about corporations (and other issuers of securities) exposure to, and management of, financially material environmental, societal and governance ("ESG") factors. Calvert is an investment affiliate of Eaton Vance Corp., a leading global asset manager based in Boston.

Our firm sponsors one of the largest and most diversified families of responsibly invested mutual funds, encompassing active and passively managed equity, fixed income, alternative and multi-asset strategies. As of August 31, 2019, across our portfolios, we held more than 5800 securities from over 5000 issuers in developed and emerging markets. Our primary focus is to generate favorable investment returns for our clients by allocating capital consistent with financially material ESG analysis and through structured engagement with portfolio companies.

As a participant in the global capital markets focused on long-term value creation for our clients, we understand that most corporations and other issuers of securities deliver a strong net benefit to society, through their products and services, creation of jobs and the sum of their behaviors. We also recognize that, as investors, our success is intrinsically linked to the success of the companies and issuers in which we are invested, and therefore support an approach that balances the need for reliable and complete information on ESG considerations for investors along with limiting any unnecessary regulatory burden for issuers of securities.

Today, companies and investors throughout the world are working to better understand how to further the tremendous progress that corporations, competition and capitalism create by conducting a deeper analysis of environmental and societal impacts and of corporate governance systems in place worldwide. As a firm, we are part of a rapidly expanding base of institutional investors and asset owners globally who seek to strengthen corporations and capitalism through improved performance on financially material environmental risk

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management, job creation, operational efficiency and other factors understood through analysis of environmental and social impact factors.

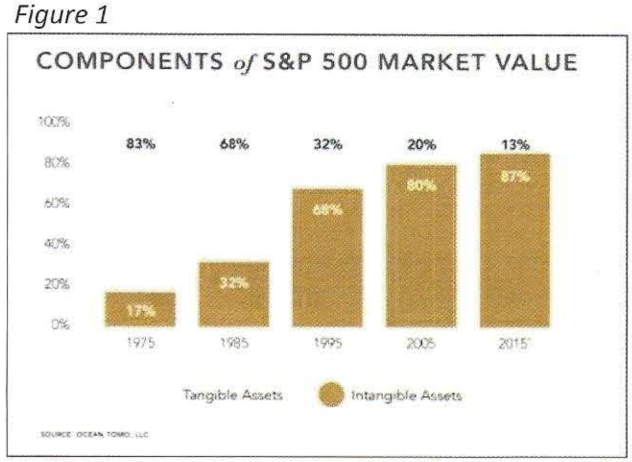
The Need for a Balanced Approach

In response to questions 12 and 13

The global economy and our capital markets have changed greatly since the disclosure requirements of Regulation S-K were last modified in 1982. As noted in a recent report to the SEC from the *Investor-as-Owner Subcommittee on Human Capital Management Disclosure*:

"Today's companies are increasingly dependent on their workforces as a source of value creation. Indeed, for many of the most dynamic companies, human capital is their primary source of value. As the US transitions from being an economy based almost entirely on industrial production to one that is becoming increasingly based on technology and services, it becomes more and more relevant for our corporate disclosure system to evolve to include disclosure regarding investable assets, such as intellectual property and human capital. Human capital is increasingly conceptualized as an investable asset. Modernizing the Commission's framework for corporate reporting generally should reflect these facts subject to the standard of materiality."[1]

Figure 1



For perspective, a 2015 study of S&P 500 market value data found that the implied intangible value of companies captured by the S&P 500 index grew to over 80 percent by 2015 from the 1970s when it was less than 20 percent.[2] This shift is on-going and shown in Figure 1.

Given that regulations are updated infrequently and market dynamics can and do change between updates, we recognize that an overly prescriptive approach can quickly become outdated and an inefficient use of corporate resources. At the same time a lack of consistency and comparability in disclosed information can make it less useful to investment decisions and impose costs on investors trying to compare information accurately. We therefore support a combination framework utilizing "principles-based" and "prescriptive" requirements that takes into account material

[1] "Recommendation from the *Investor-as-Owner Subcommittee on Human Capital Management Disclosure*," Presented to the SEC March 2019 and available at: https://www.sec.gov/spotlight/investor-advisory-committee-2012/iac032819-investor-as-owner-subcommittee-recommendation.pdf
[2] Ibid.

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differences between sectors of the economy while balancing the need for consistent metrics-based data when possible.

One framework consistent with this approach that Calvert has been a part of since inception is the Sustainability Accounting Standards Board (SASB). SASB is an independent nonprofit organization established in 2011 to set standards for companies to use when disclosing ESG information to investors. SASB takes an industry-specific approach to sustainability accounting, establishing standardized performance metrics for sustainability factors that are most relevant to companies in a given industry.

This is consistent with Calvert's investment evaluation process which is based on the concept of financial materiality. We define financial materiality as an issuer's exposure to an ESG risk or opportunity that is likely to affect the financial condition or performance of the business or its competitive position within the industry in which it operates over Calvert's long-term investment horizon. According to research we have supported, firms that score highly on material ESG issues financially outperformed firms with poor ESG ratings on those same issues while firms with high marks on immaterial ESG issues actually underperformed their peers. These findings underscore the importance of materiality as it relates to an issuer's exposure to an ESG risk or opportunity.[3]

Similar to how traditional investment analysis evaluates whether a company is allocating capital efficiently to best generate return, at Calvert we are looking for companies to efficiently focus their resources on the ESG risks and opportunities that are financially material to their performance and we recognize that this will vary from business to business and industry to industry.

We also respect the need for flexibility in reporting aspects of a company's human capital management. Some aspects of human capital management lend better to a principles-based framework that allows companies to report the unique features of their strategies to recruit, retain, and promote talent; while other areas such as leadership and workplace diversity should be metric-based and comparable across issuers.

We believe both types of disclosures can be achieved through widespread use of the SASB standards. "This is because SASB's guidelines provide that a company using the SASB framework should use <u>all</u> the metrics applicable to that company's industry or, alternatively, to explain why it is omitting certain metrics. This approach ensures that companies will disclose comparable information and enables investors to benchmark performance across companies."[4]

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[3] Khan, Mozaffar and Serafeim, George and Yoon, Aaron S., "Corporate Sustainability: First Evidence on Materiality," (November 9, 2016). "The Accounting Review," Vol. 91, No. 6, pp. 1697-1724. Available at SSRN: https://ssrn.com/abstract=2575912 or https://dx.doi.org/10.2139/ssrn.2575912.

[4] Sustainability Accounting Standards Board, "Letter Submitted to the SEC Re: Securities and Exchange Commission, Proposed Rule: Modernization of Regulation S-K Items 101, 103 and 105, SEC Release Nos. 33-10668; 34-86614; File No. S7-11-19," October 17, 2019.

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The Value of Better Data on Human Capital Management

In response to questions 22 and 23

As the composition of corporate balance sheets shift from tangible assets to intangible ones so does the materiality of a company's ability to manage its biggest intangible asset – its workforce. Numerous studies have found a link between superior human capital management and corporate profitability[5] but both limited and inconsistent corporate disclosure of human capital practices makes it very difficult for investors to compare the performance of companies in this area.

Providing employees purposeful work and clarity in expectations can be a hallmark of high performing organizations that are dependent on skilled labor, but this type of information can be hard to quantify in metrics. Similarly, treating employees fairly and providing clear pathways to advancement can help retain talent and lead to better corporate outcomes, but the practices that differentiate companies are not easily measured. Despite the difficulties in prescribing disclosure frameworks for these issues, the information is still enormously useful to investors.

As an investor, Calvert employs a proprietary framework that generates quantitative key performance indicators (KPIs) derived from public information reported by companies and employees, concentrated on environmental, social and governance (ESG) factors. KPIs allow analysts to measure qualitative information, and rate and rank company performance relative to peers. Analysts are able to use this information to identify companies that are improving, leading or lagging compared to the industry standard.

The vast majority of Calvert's data-driven ESG models include information on workplace management strategies, trends and outcomes. Because generally available data on human capital management is inconsistent and deficient in many respects, Calvert views this as an area where stronger disclosure requirements could push companies to improve practices that broadly benefit workers and shareholders.

Diversity Metrics should be a Required Disclosure

In response to question 24

Calvert also supports required disclosure of diversity, inclusive of gender, race and ethnicity, for all levels of a company. Academic studies have found that gender-diverse teams are associated with innovation and market opportunities.[6] Additionally, "[h]aving a diverse group of employees from different ethnic groups is likely to enhance a firm's ability to identify unmet customer needs, develop more creative products or services, uncover

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[5] See for example: Serafeim, George., "Managing human capital for value creation," Calvert Research and Management, February 2019 and Foster, Lori and Ariely, Dan and Van Adelsberg, David., "Human Capital Factors in the Workplace," May 2019.

[6] "Groups of Diverse Problem Solvers Can Outperform Groups of High-ability Problem Solvers." Hong, L. and S. Page. (2004). Proceedings of the National Academy of Sciences Vol., 101, No. 46, pp. 16385-16389. Available at: https://www.pnas.org/content/101/46/16385; "Diversity, Social Goods Provision, and Performance in the Firm," Ellison & Mullin, Journal of Economics and Management Strategy, 2014, https://economics.mit.edu/files/8851.

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new distribution strategies, build stronger relationships with key stakeholders, and make better firm-level decisions among a host of other factors that drive firm performance."[7]

Leadership Diversity

Several studies indicate that inclusive corporate culture and diverse leadership can positively affect or show correlation to organizational and financial performance in numerous ways, including innovation, retention, sales, productivity, reputation, return on equity and price/book ratios.[8] McKinsey & Co found strong correlations between more diverse leadership and measures of profitability and long-term value creation. Companies in the top-quartile for gender diversity on executive teams were 21 percent more likely to outperform on profitability and 27 percent more likely to have superior value creation and those in the top-quartile for ethnic/cultural diversity on executive teams were 33 percent more likely to have industry-leading profitability.[9] Institutional Shareholder Services Inc. affirmed the link between company performance and gender diversity at executive and board levels in its 2018 analysis of the Russell 3000 Index.[10]

Additionally, in a June 2016 speech, former SEC Chair Mary Jo White stated that, "a growing number of company proxy statements have recently begun to voluntarily provide an analysis of data, accompanied by pie charts and bar graphs, to describe the state of the board's gender, race and ethnic diversity composition, sometimes in addition to other categories. [. . .] This more specific information is clearly more useful to investors."[11]

Workplace Diversity

Despite the benefits of diversity to investors and multiple other stakeholders, corporate disclosure of diversity at the employee level is quite poor, making comprehensive examination a challenge. Calvert believes that workplace diversity is material to investors and research indicates that the marketplace agrees with us. "[R]acial diversity does more than satisfy a social or political agenda... shareholders value such diversity among the firm's workforce thereby recognizing its potential to enhance the firm's returns in the marketplace."[12]

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[7] Ellis, K.M. & Keys, P.Y. Rev Quant Finan Acc (2015) 44: 191. Available at: https://doi.org/10.1007/s11156-013-0403-7

[8] See for example: Hunt, V., Layton, D., Prince, S., "Why Diversity Matters," January 2015, Available at: http://www.mckinsey.com/business-functions/organization/our-insights/why-diversity-matters. The Tipping Point: Women on Boards and Financial Performance, MSCI, December 2016, Available at: https://www.msci.com/documents/10199/fd1f8228-cc07-4789-acee-3f9ed97ee8bb. Paul, A.K., McElroy, T., Leatherberry, T., "Diversity as an Engine of Innovation," Deloitte Review. Available at: https://dupress.deloitte.com/dup-us-en/deloitte-review/issue-8/diversity-as-an-engine-of-innovation.html.

[9] Delivering through Diversity, McKinsey & Company, January 2018. Available at: https://www.mckinsey.com/~/media/mckinsey/business%20functions/organization/our%20insights/delivering%20through%20diversity/delivering-through-diversity_full-report.ashx

[10] ISS Analytics, "Female CEOs on a Glass Cliff? A Look at Gender Diversity and Company performance," October 2018. Available at: https://www.issgovernance.com/library/female-ceos-on-a-glass-cliff/

[11] White, Mary Jo., "Keynote Address, International Corporate Governance Network Annual Conference: Focusing the Lens of Disclosure to Set the Path Forward on Board Diversity, Non-GAAP, and Sustainability," June 27, 2016. Available at: https://www.sec.gov/news/speech/chair-white-icgn-speech.html

[12] ISS Analytics, "Female CEOs on a Glass Cliff? A Look at Gender Diversity and Company performance," October 2018. Available at: https://www.issgovernance.com/library/female-ceos-on-a-glass-cliff/

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The marketing firm Edelman observed in its 2018 Trust Barometer survey of global institutional investors that 98 percent of investors think public companies are "urgently obligated to address one or more societal issues to ensure the global business environment remains healthy and robust," and included workplace diversity as one of the top five issues.[13] More specifically, 53 percent of US investors think companies should take a public stand on workplace diversity and 57 percent strongly agree that board and executive diversity affect their trust when considering investing in or recommending a company.[14]

International Regulation

Investor trends towards diversity go beyond international borders. Some international jurisdictions have instituted mandatory requirements regarding diversity, while others have put in place quantitative targets without penalties.[15] Many have required disclosure relating to diversity as a means to track progress. Calvert believes that both board and workplace diversity disclosure would be extremely valuable to a variety of stakeholders.

In conclusion, Calvert sincerely appreciates the Commission's work on this important issue. We would like to thank you for the opportunity to contribute to this vital process. Please do not hesitate to contact us should you have questions or would like to discuss these comments.

Sincerely,

John Streur

CEO, Calvert Research and Management

[13] Edelman Trust Barometer, "Special Report: Institutional Investors, U.S. Results," November 2018. Available at: https://www.edelman.com/sites/g/files/aatuss191/files/2018-1/Edelman_Trust_Baromter_Institutional_Investor_US_Results_0.pdf
[14] Ibid.
[15] Calvert Research and Management, "Evaluating the Glass Ceiling: Understanding and unlocking the value in gender equity," June 2019.