



October 31, 2019

Vanessa A. Countryman
Secretary
United States Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

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

Dear Secretary Countryman:

We write to comment on the Commission's proposal to amend Regulation S-K in order, among other things, to improve the quality of issuer disclosures regarding human capital. Breckinridge Capital Advisors is a Boston-based investment advisor specializing in the management of high-grade fixed income portfolios for institutions and private clients. Working through a network of investment consultants and advisors, Breckinridge manages over \$40 billion* in municipal, corporate and government bond strategies in customized separate accounts for institutional and retail clients.

At Breckinridge, we seek to consider material risk factors that may impact a company's credit quality. As a result, Breckinridge has integrated the analysis of environmental, social and governance (ESG) factors into our credit research process. We believe that companies with good financial flexibility and more-sustainable business practices may prove to be safer, more-reliable borrowers—and thus, should make better fixed income investments.

Our ESG investment research effort includes consideration of a company's practices related to human capital management (HCM). This dimension addresses the management of a company's human resources (employees and individual contractors) as key assets to delivering long-term value. It may also include issues that affect labor relations as well as employee health and safety and diversity and inclusion.

In this letter, we discuss arguments for integrating robust HCM data in corporate disclosure documents, our support for the Commission's rulemaking initiative and our recommendations for meaningful HCM disclosure requirements as specified in the Sustainability Accounting Standards Board (SASB).

1) We integrate ESG factors, and HCM data is an important ESG risk component.

As fixed income investors, our primary investment mandate is to preserve capital and to build sustainable income while seeking opportunities to increase total return. We believe that the integration of material ESG data into our research process, including HCM data, can inform us as investors, providing a crucial bulwark against credit risks and an additional tool for us to accomplish our mandate.

Financial research has demonstrated the value-relevance of HCM metrics to financial performance. Through its research and outreach work, SASB has found that human capital management is essential to long-term value creation. Positive relationships are documented in studies between financial performance, however measured, and disclosed training programs or Human Resources policies related to topics such as employee participation and pay for performance.

2) Standardization in HCM disclosures may help investors to better evaluate corporate performance.

In current reporting, some companies provide disclosures relevant to ESG and HCM. However, the information tends to be made without reference to any generally accepted set of metrics or standards that might enhance comparability with other issuers for best use in credit research and analysis. SASB's researchers have found that "most ESG disclosures, which include those related to HCM, consist of boilerplate disclosures – generic statements that are not specifically tailored to the individual company, the risks it faces and the opportunities it might have."

Standardization of HCM reporting could encourage company transparency of material data and facilitate comparisons of corporate performance. This focus on transparency and comparability is important for investors who evaluate companies through quantitative and qualitative frameworks. We support efforts toward greater integration of standardized, comparable, material ESG metrics into traditional SEC filings. We believe that market participants need HCM metrics that meet the highest accounting standards.

3) We recommend that the SEC encourage or require companies to use the SASB's investor-focused disclosure framework for HCM disclosure.

The SEC's proposed rule would amend Item 101 (Description of Business) of Regulation S-K to require a "description of the registrant's human capital resources, including in such description any human capital measures or objectives that management focuses on in managing the business (such as, depending on the nature of the registrant's business and workforce, measures or objectives that address the attraction, development, and retention of personnel)."

We agree with concerns with this principles-based approach as detailed in a joint statement from Commissioners Robert J. Jackson, Jr., and Allison Herren Lee. Specifically, these Commissioners cited concerns that the principles-based approach would give “company executives discretion over what they tell investors,” and second, that the approach might “produce inconsistent information that investors cannot easily compare, making investment analysis—and, thus, capital—more expensive.”**

Human capital is one of the five sustainability dimensions that serve as the basis for SASB’s standard-setting framework. HCM disclosure topics rank as the second most frequently recurring topic in the SASB standards, behind climate change, indicating the significance of human capital issues across sectors.

We believe the Commission should make clear in the rule that companies disclose more than boilerplate and provide specific metrics to the extent they are material to the company’s financial and operating performance. Further, the SEC should consider either strongly encouraging or requiring issuers make their disclosures pursuant to a framework or set of disclosure standards.

In our view, the SEC should consider the SASB framework for identifying, quantifying and reporting ESG risks and opportunities, including those relevant to HCM matters. SASB has maintained ongoing communication with the investor community as it has developed its sustainability reporting standards. SASB’s process is quantitative and methodological, which helps create transparency.

Conclusion

HCM is vitally important to companies’ operating and financial performance, and fulsome disclosure of human capital issues should benefit the capital markets. We therefore support the SEC’s rulemaking initiative.

Under a principles-based rule, disclosures could lack comparability, consistency and reliability unless the SEC strongly encourages or requires that companies disclose topics and metrics using a recognized disclosure framework that has been developed through due process.

Accordingly, we respectfully suggest that SASB, with its materiality-based, industry-specific, investor-focused set of standards, be referenced in the SEC’s Adopting Release in much the same way that reference has been made to other private-sector initiatives in prior SEC rulemakings.



Thank you for the invitation to comment on the new disclosure requirements. We welcome the opportunity to participate in this important effort.

Sincerely,

A handwritten signature in black ink that reads "Peter R. Coffin". The signature is fluid and cursive, with the first name "Peter" and last name "Coffin" clearly legible.

Peter Coffin
President
Breckinridge Capital Advisors

- * Assets under management as of September 30, 2019.
- ** Joint Statement of Commissioners Robert J. Jackson Jr. and Allison Herren Lee on Proposed Changes to Regulation S-K (August 27, 2019) available at <https://www.sec.gov/news/public-statement/statement-jackson-lee-082719>.