



September 22, 2021

Via email: director@fasb.org

Hillary H. Salo
Technical Director
Chair, Emerging Issues Task Force
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2021-004 – Invitation to Comment: Agenda Consultation

Dear Ms. Salo:

We are writing on behalf of the Human Capital Management Coalition¹ (“HCMC” or “Coalition”) to offer our feedback on the Financial Accounting Standards Board’s (“FASB’s”) Invitation to Comment (“ITC”), File Reference No. 2021-004, regarding FASB’s future standard-setting agenda. We appreciated the opportunity to share our perspectives on investors’ need for reliable, consistent, comparable, and decision-useful human capital information during our February 26, 2021, meeting with FASB Chair Richard R. Jones, board members Christine Ann Botosan and Gary R. Buesser, and staff. We commend FASB for continuing to solicit feedback from users of financial statements on standard-setting priorities, and we are pleased to offer our written perspectives through the ITC.

The importance of human capital – the collective knowledge, skills, and experiences of the workforce – to corporate value creation has grown considerably over the nearly fifty years since FASB was established. Fundamental structural shifts toward a knowledge-based economy have resulted in a growing reliance on the talents of the workforce as the driver of innovation and engine of economic growth, allowing companies to compete in an environment where ingenuity and the ability to quickly adapt to novel technologies are the keys to lasting success. The Coalition considers effective human capital management material and fundamental to navigating these shifts and to ensure the ongoing creation and preservation of long-term shareholder value.

The rise of human capital has had significant implications for financing and capital structure, valuation, and corporate governance. A growing body of research supports the conclusion that companies with effective human capital management perform better than those that manage their human capital poorly,² while incorporating fundamental human capital management data into investment strategies may yield superior performance for investors.³

Accordingly, we urge FASB to prioritize the incorporation of decision-useful human capital information into its technical agenda as a critical step toward further modernizing financial reporting. We believe ensuring investor access to a set of fundamental human capital-related disclosures—beginning with the disaggregation of workforce cost information—would fulfill FASB’s mission to “provide useful information to investors and other users of financial reports”⁴ and satisfy FASB’s technical agenda prioritization criteria, for the following reasons:

1. **There is an identifiable and sufficiently pervasive need to improve Generally Accepted Accounting Principles (GAAP)** by ensuring the information provided by issuers and preparers of financial reports keeps pace with current and future sources of value and risk in companies. Human capital is now a central component of company value, and it is critical that accounting standards allow investors to adequately capture the impact of the management of labor resources to better assess a company’s business, risks, and prospects for investment purposes.
2. **There are technically feasible solutions to modernizing human capital reporting and the expected benefits of those solutions justify the relatively modest costs of change.** The human capital information we are requesting aligns with FASB’s standard-setting framework and is information most companies already collect, for administrative and compliance purposes, but which is generally not available to investors. For example, labor costs could be disaggregated from Selling, General, and Administrative Expense (“SG&A”) or Cost of Sales (“COS”) and reported in tabular form.
3. **The Coalition is requesting FASB focus on foundational⁵ human capital information** which has an identifiable scope and constitutes the minimum information investors need to provide a baseline understanding of a company’s human capital resources. This foundational information covers labor costs, workforce composition, labor variance, and workforce stability.

We believe FASB can take a meaningful first step by disaggregating workforce cost data in the financial statements.

We offer our thoughts on the specific questions posed in the ITC below:

- I. **Question 1: Please describe what type of stakeholder you (or your organization) are from...including a discussion of your background and what your point of view is when responding to this ITC.**

Established in 2013, the HCMC is a cooperative effort among a global group of 35 large institutional asset owners and asset managers representing over \$6.6 trillion in assets. As investors and stewards of capital on behalf of our beneficiaries and clients, we focus on generating returns over the long term. Asset owner members have large, complex global portfolios across multiple asset classes with a combination of active and passive mandates executed internally and through external managers that are carefully selected and monitored by

internal investment teams. Asset manager participants typically provide investment management, research and trading, and financial data analytical services for institutional clients, including governmental bodies, public and corporate retirement and welfare benefits plans, health plans, mutual funds, foundations, and endowments.

Individuals participating in the Coalition on behalf of member organizations also represent a breadth of skills and perspectives, including portfolio managers, buy-side equity analysts, fixed income analysts, stewardship and engagement professionals, and securities lawyers; many possess various professional designations such as Chartered Financial Analyst and Certified Public Accountant.

The Coalition is co-chaired by the California State Teachers' Retirement System (CalSTRS) and the UAW Retiree Medical Benefits Trust.

II. Question 6: Greater disaggregation and granularity of the types of financial reporting information described in Chapter 1 have been identified as decision useful to investors.... Which, if any, of the areas described in Chapter 1 should be a top priority for the FASB to consider requiring greater disaggregation...? Would this information be the most useful in the financial statements or in the notes to financial statements? How would this information be used to analyze a company and make capital allocation decisions?

High-quality accounting can improve investment efficiency and affect nearly every aspect of the financing decision-making process by reducing information asymmetry and improving the overall efficacy of monitoring.⁶ Additionally, high-quality human capital disclosures that are reliable, clear, consistent, and comparable would lower the cost of capital for well-managed companies while allowing investors to more efficiently direct capital to its highest value use. An analysis of U.K. firms shows that companies with higher human capital reporting scores, defined as reporting that is more quant-focused with fewer words, enjoy higher operating margins, carry less debt, and generate nearly three times the economic return on human capital,⁷ as compared to firms with lower-quality disclosures.⁸

We believe it is appropriate for FASB to act in the near term to improve the utility of financial reporting to investors by incorporating human capital information that is both foundational and decision-useful.

A. There is an Identifiable and Sufficiently Pervasive Need to Improve Human Capital Disclosures: Despite Growing Evidence of a Clear Relationship Between Human Capital Management Skill and Performance, Investors Cannot Obtain Reliable, Decision-Useful Information to Assess Human Capital Management Performance.

Despite its value, only 15 percent of S&P 500 firms report workforce cost data, in contrast to the 100 percent of FTSE 100 firms providing that information; the difference reflects the fact that workforce cost data is not required for U.S. filers but is for companies filing under IFRS standards.⁹ Critically, the same research found that over 80 percent of firms in the UK's

FTSE 100 spend more on salaries and benefits than their formally stated audited level of materiality,¹⁰ and “[h]alf [of] FTSE 100 firms exceed this materiality level by greater than a factor of 20, underlying the fiduciary requirements of greater transparency relating to the disclosure of human capital practices....”¹¹

Researchers from Harvard Business School’s Accounting and Management Unit examined various dimensions of intangible human capital investment embedded in a firm’s personnel expense.¹² They found that (1) personnel expense is positively associated with characteristics of human-capital intensive firms and employee productivity growth; and (2) personnel expense has a positive pricing coefficient, implying that the market recognizes some of its variation. The authors also found that long-short portfolios constructed based on both the quantity and quality of human capital investments (based on total personnel expense) produced statistically significant annualized abnormal returns, providing important evidence of *accurate* human capital measurement to valuation. Based on these findings, the authors observe, “The evidence supports the notion that markets fail to fully account for the intangible asset value generated by personnel expenses.”¹³

Numerous financial analysts and academics have acknowledged that the lack of a comparable source for standardized human capital information forces key actors in the investment process to rely on limited approximations of critical data that are often costly, inefficient, and unreliable.¹⁴ Professor Shiva Rajgopal, the Roy Bernard Kester and T.W. Byrnes Professor of Accounting and Auditing at Columbia Business School, commented that analysts and researchers are forced to rely on crude workarounds to fill the human capital reporting gap, such as using Glassdoor, Indeed, and LinkedIn to create proxies for needed human capital disclosures to “guesstimate what a company’s labor costs are.”¹⁵ Professor Rajgopal notes that labor cost data is a proxy for fixed cost, continuing “if I don’t know fixed cost, I don’t know operating leverages at companies. This is like Finance 101.”¹⁶

In a recent letter to the U.S. Securities and Exchange Commission (“SEC”) urging the SEC to focus on human capital data availability,¹⁷ asset manager and HCMC member Calvert Research and Management (“Calvert”) similarly reported that since retention and turnover data is typically unavailable but is financially material, Calvert’s analysts have developed various proxies for turnover that are narrowly scoped to a particular industry or type of employee, and therefore limited in application.¹⁸

These roundabout attempts by investors to obtain actionable human capital information from U.S. public companies underscore the value of this information to the broader capital markets. It would be far more efficient for companies to provide human capital information directly and for investors to have access to reliable information that has undergone rigorous assurance consistent with other fundamental financial data.

A recent letter from the CFA Institute to the SEC further underscores the importance of closing this disclosure gap:

Investors are working with a 19th century manufacturing accounting model in a 21st century service-oriented, global, intangibles-based economy that makes it challenging to factor the emerging risks into a recognition and measurement mechanism within financial statements that is value relevant. Our view is that the accounting model does not provide a suitable framework for the information investors need.¹⁹

B. There are Technically Feasible Solutions to Modernizing Human Capital Reporting and the Perceived Benefits of Those Solutions Justify the Relatively Modest Costs of Change. As an Initial Step, FASB Should Provide More Granular Information on Labor Costs by Disaggregating Total Workforce Costs from SG&A and Cost of Sales as Footnote Disclosure in Tabular Form.

The Coalition proposes FASB focus in the near-term on disaggregating components of total workforce cost, which are generally already included in SG&A and COS. This information should be presented in a way that evinces a discernable through-line from the company's audited financial reports to issuer disclosures, with key components provided in tabular form in a footnote. Currently, GAAP does not require this type of disclosure.

Components of total workforce cost should include a line-item breakdown of total employee compensation (salaries/wages, benefits such as health care, employer's contribution to Medicare and Social Security, value of equity-based compensation, commissions and bonuses, perquisites, overtime, severance payments, and retirement) and, separately, training and development expenses. The presentation should also provide a clear delineation between costs for full time, part time, and contingent²⁰ workers to ensure companies are capturing the full breadth of labor resources used during the reporting period. One starting point FASB may consider is *IFRS International Accounting Standard (IAS) 19: Employee Benefits*, which requires companies to report the total value of salaries, bonuses, and pension benefits. Other tabular disclosure examples that may be useful in developing a standard for U.S. filers include TUI Group's 2020 Annual Report²¹ and the International Organization for Standardization's Human Resource Management reporting standard.²²

We believe total workforce cost information can be collected, measured and reported at reasonable cost to companies, over specific time periods. Workforce cost data is quantitative and universally applicable to all companies, making it well-suited for a tabular presentation to ensure consistency, clarity and comparability for efficient collection, analysis, and benchmarking by investors and other primary users of financial statements.

Recent academic modelling conducted on behalf of the Embankment Project on Inclusive Capitalism²³ and provided in a letter to the SEC Investor Advisory Committee²⁴ on the relative value of labor cost data estimates that only a small increase in operating performance (several basis points) would be required to cover any additional costs incurred through human capital disclosure. Importantly, most firms already undertake "significant" audits of payroll systems, thereby reducing the need to expend additional costs for reporting purposes.²⁵ Further, U.S. filers

already collect workforce cost data to satisfy mandated proxy statement reporting of the CEO-to-median worker pay ratio.²⁶

These relatively negligible administrative costs of providing workforce cost data are eclipsed by the anticipated economic returns generated from decision-useful human capital disclosure, including higher-quality workforce cost data, by orders of magnitude.

C. Investors and Other Users of Financial Statements Will Use Workforce Cost Data for Investment Analysis and Decision-Making.

Investors demand fundamental decision-useful information about human capital to understand and evaluate how well a company manages its investments, and to identify, assess, and incorporate emerging risks into financial analysis and decision-making.²⁷ For example, workforce cost data can provide a line of sight into the efficiency of each dollar invested in human capital through various productivity measurements such as return on investment (“ROI”) and return on invested talent²⁸ (“ROIT”). One accounting expert observed that portfolio managers understand the materiality of human capital in their fair value calculations and are consequently factoring in human capital data points to their analysis (to the extent practicable, considering the dearth of high-quality data).²⁹

Calvert reported that disaggregated workforce cost data “would provide better transparency and allow investors to more clearly understand how the costs associated with human capital management impact financial performance,” providing various applications of disaggregated workforce data as part of the firm’s fundamental investment analysis and decision-making:

Examples of workforce costs that would be useful to inform our analysis include wages (as well as wage differences by workforce categories, ideally with industry-specific job classifications, and gender/ethnic wage differences), benefit costs (such as health care and mental wellness costs and retirement plan costs), and other employee expenses (such as recruiting costs, training costs, and separation costs). Training or reskilling/upskilling and associated costs, for instance, are an important component in understanding the costs associated with innovation, change, and other strategic company initiatives. It would also be useful to understand how a company compensates its employees, through data on straight salary versus bonuses, commissions, equity, or other forms of compensation. We would then use this information to further assess how compensation aligns with company strategy, how companies reward performance, and how compensation might relate to other human capital metrics such as employee turnover and retention.³⁰

III. Question 4: Are there any financial reporting topics beyond those in this ITC that should be a top priority for the Board to address?

It is important for investors to have the necessary tools to understand the impact of a firm’s decision-making on its human capital, and we propose three additional disclosures we view as critical in placing workforce cost information in context.

In 2020 and 2021, a subcommittee of the HCMC³¹ led by Legal and General Investment Management and the Ohio Public Employees' Retirement System, held dialogues³² with 13 asset managers representing \$31 trillion in collective assets, to better understand the extent to which the firms currently use human capital data for investment analysis and decision-making, and, specifically, whether they would use the four data points the Coalition has identified as foundational. These metrics include:

1. **Total cost of the workforce;**
2. **The number of people employed by the issuer**, broken down by full-time and part-time employees along with contingent workers who produce its products or provide its services (independent contractors, supplied through subcontracting relationship, temporary employees, etc.);
3. **Turnover** or comparable workforce stability metric; and
4. **Workforce diversity data**, including diversity by seniority, sufficient to understand the company's efforts to access and develop new sources of human capital and any strengths or weaknesses in its ability to do so.

Based on the team's dialogues, 11 out of 13 managers, or approximately 85 percent, would use all four foundational data elements in their investment analysis and decision-making. The other two managers stated they would use three out of the four metrics.³³

All four foundational disclosures also have received broad support from investors.³⁴ We therefore propose FASB consider including workforce headcount, turnover, and diversity data, as defined above, in its future standard-setting agenda.

The abrupt crisis of the COVID-19 pandemic highlighted the lack of information and context in understanding how companies are confronting the realities of remote work, furloughs, layoffs, and potential changes to their business models related to the use of its workforce. The pandemic also spotlighted the importance of having policies that protect employees and invest in their well-being. For months, companies have grappled with how to adapt their human capital management to retain their workforces, provide safe workplaces, accommodate remote workers, and respond to disruptions in supply chains.³⁵

Some examples of where human capital disclosures would have been helpful to investors' understanding of the pandemic's impacts include:

- Amazon's announcements³⁶ in the spring and fall of 2020 that it would fill 175,000 and 100,000 new positions, respectively, to meet COVID-19 demand, without *turnover* or absenteeism data to help determine whether it was replacing or expanding its workforce. Data reported in national media suggests that Amazon may experience approximately 150 percent turnover per year, or at least twice the turnover of peers in the retail and logistics industries.³⁷

- Announcement³⁸ from Walgreens that it would lay off 4,000 workers just four months after announcing³⁹ it would hire 9,500 workers, without *total workforce headcount* (FT, PT, and contingent), *total workforce cost*, and *turnover data*. This information would have allowed investors to appropriately evaluate layoff news, which led to a 9 percent decline in the stock's value.
- CVS Health's March 2020 announcement⁴⁰ that it would expand employee benefits, including bonuses and extended sick leave and childcare benefits, in order to attract and retain workers. However, the company did not disclose the total expenditures for the initiative or its *total workforce costs*, making it difficult for investors to gauge whether these hiring and retention initiatives were meaningful and effective.
- McDonald's announced "New U.S. Covid-19 Safety Precautions"⁴¹ on July 24, 2020, to "[protect] the health and well-being of our and our franchisees' employees and customers." Four days later, McDonald's reported its Q2 2020 financials,⁴² showing a \$20.4 million decline in operating margins for its 303 U.S. company-owned restaurants, reflecting "incremental COVID-19 expenses incurred for employee related costs, personal protective equipment, signage and other restaurant costs." It did not report similar data on COVID-19-related expenses for its 12,953 franchised stores and restaurants. Without information on *total workforce costs*, investors could not evaluate the impact of COVID-19 employee protection protocols in context in terms of the company's response and current and expected financial impact.

As the economy teeters toward recovery from pandemic-era lockdowns and economic disruptions, labor costs and labor availability have emerged as key concerns across the economy. The realities of this "new normal" may require firms to increase workforce spending or implement innovative strategies, such as leveraging new technologies, to ensure adequate labor resources and continued performance for investors.⁴³

* * *

The HCMC appreciates the opportunity to provide the FASB with this letter of recommendation and response to its ITC, and we look forward to working with you to shape and refine workforce cost disclosures as well as other foundational human capital information as outlined above. If you have any questions, or need anything further, please do not hesitate to contact Mary Hartman Morris, Co-Chair of the HCMC and Investment Officer for the California State Teachers' Retirement System, at (916) 664-2092 or via email at mmorris@calstrs.com, or Cambria Allen-Ratzlaff, Co-Chair of the HCMC and Corporate Governance Director for the UAW Retiree Medical Benefits Trust, at (734) 929-5789 or via email at callen@rhac.com.

Respectfully submitted,

The Human Capital Management Coalition

¹ Established in 2013, the HCMC is a cooperative effort among 35 large asset owners and asset managers representing over \$6.6 trillion in assets to further elevate human capital management as a critical component in company performance and in the creation of long-term value. More information about the Coalition, including a current list of members, is available at <https://www.hcmcoalition.org>.

² See, e.g., Aaron Bernstein and Larry Beeferman, *The Materiality of Human Capital to Corporate Financial Performance*, Pensions and Capital Stewardship Project, Labor and Worklife Program, Harvard Law School (Apr. 2015), https://lwp.law.harvard.edu/files/lwp/files/final_human_capital_materiality_april_23_2015.pdf (Review of 92 studies assessing traditional financial performance indicators widely used by institutional investors finds positive correlations between human capital management and total shareholder return, return on assets, return on earnings, return on investment, return on capital employed, profitability and Tobin's Q); Mark Huselid, *The Impact of Human Resource Management Practices on Turnover, Productivity, and Corporate Financial Performance*, Academy of Management Journal (1995): 635-672, http://www.markhuselid.com/pdfs/articles/1995_AMJ_HPWS_Paper.pdf (finding that certain combinations of high-performance workplace practices were associated with statistically significant increases in productivity, Tobin's Q and gross rate of return on capital); Mark Huselid and Brian Becker, *The Strategic Impact of High Performance Work Systems*, at 2 (Aug. 25, 1995), http://www.bhbassociates.com/docs/articles/1995_Strategic_Impact_of_HR.pdf (high performance workplace practices have a statistically significant positive effect on firm performance); Brian Becker and Barry Gerhart, *The Impact of Human Resource Management on Organizational Performance: Progress and Prospects*, Academy of Management Journal Vol. 39, No. 4, at 797 (1996), <https://doi.org/10.5465/256712> ("In sum, at multiple levels of analysis there is consistent empirical support for the hypothesis that HR can make a meaningful difference to a firm's bottom line.").

³ See, e.g., Mattias Regier and Ethan Rouen, *The Stock Market Valuation of Human Capital Creation*, Harvard Business School Accounting & Management Unit Working Paper No. 21-047 (Oct. 2, 2020), https://www.hbs.edu/ris/Publication%20Files/21-047_0369ca63-540e-4f5c-bd38-87ac8953ea24.pdf (hereinafter "Regier and Rouen") (Long-short portfolios based on human capital creation efficacy produced annualized abnormal returns of 4.0-5.4%. Portfolios formed on the combination of efficacy and opportunities produce the strongest annualized abnormal returns of 6.3-9.3%.); Morgan Stanley Investment Management Counterpoint Global Insights, *Culture Quant Framework* (Jan. 2021), <https://mgstn.ly/2XgLsn6>, hereafter "MSIM Counterpoint Global Insights" (Examination of employee retention at 2,000 publicly-traded companies over a 10-year period found companies with better employee retention saw cumulative stock returns that were 25 percent higher, or 2.8 percent annualized, than those with the lowest retention. Research also showed predictive association between a YoY increase (decrease) in employee retention and positive (negative) alpha generation in the subsequent year.); Laurie Bassi and Dan McMurrer, *Human Capital Management Predicts Stock Prices*, at 1 (Jun. 2010), <https://mcbassi.com/wp/wp-content/uploads/2018/07/HCMPredictsStockPrices.pdf> (Two portfolios of large capitalization companies launched in 2001 and 2003 using criteria related to training and employee development outperformed the S&P 500 on an annualized basis by 3.1% and 4.4%, respectively, through May 25, 2010. Four other portfolios launched in 2008, selected using a wider variety of HCM factors including commitment to talent management, also outperformed the S&P 500 through May 25, 2010, on an annualized basis to varying degrees, from 0.1% to 11.9%).

⁴ FASB In Focus, *Invitation to Comment: Agenda Consultation* (Jun. 24, 2021), <https://bit.ly/2VBiA8B> at 2.

⁵ The HCMC considers the following human capital disclosures foundational: (1) total cost of the workforce; (2) number of employees (separated by full time, part time, and contingent labor); (3) turnover; and (4) diversity data, including diversity by levels of seniority within the firm. A description of the components of total workforce cost is provided beginning on p. 5 above, and a more detailed list of all four foundational disclosures is available on p. 7.

⁶ See, e.g., Catherine Shakespeare, *Reporting matters, the real effects of financial reporting on investing and financing decisions*, Accounting and Business Research 50:5 (Jun. 26, 2020) at 425-441, <https://www.tandfonline.com/doi/full/10.1080/00014788.2020.1770928> (presenting an overview of research on impact of financial reporting on investing and financing decision made by firms, showing that "[a]ccounting can improve investment efficiency and affect nearly every aspect of the financing decision by reducing information asymmetry and improving monitoring.").

⁷ See, *Letter from Anthony Hesketh*, Lancaster University Management School, to Anne Sheehan, Chairman, Investor Advisory Committee, U.S. Securities and Exchange Commission, regarding Recommendation from the Investor-as-Owner Subcommittee on Human Capital Management Disclosure Presented at the March 28, 2019, IAC Meeting (Mar. 21, 2019), at 2-4 and Appendix, <https://www.sec.gov/comments/265-28/26528-5180428-183533.pdf>.

(“Hesketh IAC Letter”) (Presenting empirical research generated for the Embankment Project for Inclusive Capitalism analyzing over 2,000 public reporting documents from 700 firms from 2012-2017, including financial statements and other SEC disclosures, quantifying the value of human capital management disclosure.).

⁸ Hesketh also found that S&P 500 firms disclosing material human capital information (such as workforce cost) outperformed non-disclosing firms from 2012-2017, as measured by mean excess return and the Sharpe Ratio. *See Ibid.*, Appendix at 12.

⁹ *Ibid.* at 3 (“In line with *International Accounting Standard IAS 19*, it has been compulsory for firms in the European Union (EU) since 1998 to report their total human capital costs in relation to salaries, bonuses and pension benefits.”).

¹⁰ *Ibid.*

¹¹ *Ibid.*

¹² *See* FN2, *Regier and Rouen*, at 1 (“As defined in IAS 19, [“personnel expense” or “personnel expenditure”] includes, among others, the costs for hiring, wages, salaries and bonuses, social security and insurance costs, costs for employee training and development, perquisites like catering and work wear, and post-termination benefits.”).

¹³ *Ibid.* at 22-23.

¹⁴ *See, e.g.*, Jack Ciesielski, *In Search of Practical Information*, Barron’s (Oct. 12, 2013) (“Managers like to say that ‘our greatest assets are our people,’ yet they tell their shareholders nothing about the total cost of those greatest assets – until they are eliminated in restructuring actions.”); Shivaram Rajgopal, *Why the Public Reporting Model is Broken and How to Fix it*, Fortune (Jan. 24, 2020) (“[L]abor costs . . . are tangled up in every functional line item on the income statement where labor is employed, leaving pieces to a puzzle scattered throughout a disclosure. . . . Very few U.S. firms gather the puzzle pieces together for the investigating investor or analyst to provide a cohesive, total picture of labor costs, stripped away from function.”).

¹⁵ *Stakeholder Capitalism and ESG with Professor Shiva Rajgopal*, Voice of Corporate Governance (Nov. 19, 2020), available through <https://www.cii.org/podcasts/> (subscription required) (“One of the distressing things to me as a fundamental analyst is that only 15 percent of American companies actually tell us what their labor costs are, which to me is astonishing.”).

¹⁶ *Ibid.*

¹⁷ *Letter from John Streur*, President and CEO of Calvert Research and Management, to Hon. Gary Gensler, Chair, U.S. Securities and Exchange Commission regarding Human Capital Disclosure (“Calvert Letter”) (Aug. 30, 2021), 5, <https://www.sec.gov/comments/climate-disclosure/cll12-9190246-249462.pdf>.

¹⁸ *Calvert Letter* at 5 (“Since retention and turnover data is not widely available but has been determined to be financially material, Calvert analysts have developed proxies for turnover to support our analysis of companies and their ESG performance. One example of such a proxy is an in-house proprietary indicator that was developed for the real estate sector to measure and track the forfeiture of stock option grants in order to glean the level of professional turnover at companies that offer stock options as a component of compensation. There are obvious limitations to this approach, as it would not apply to sectors and companies where stock options are not a component of compensation. Having a standardized, publicly reported metric for turnover would enhance our ability to more directly measure performance of this important human capital management factor across all sectors.”).

¹⁹ *Letter from Sandra J. Peters*, Senior Head of Global Financial Reporting Policy Advocacy, CFA Institute, to the Hon. Gary Gensler, Chair, U.S. Securities and Exchange Commission, responding to the Commission’s Request for Public Input on Climate Change Disclosures (Jul. 31, 2021), <https://www.sec.gov/comments/climate-disclosure/cll12-9104674-246948.pdf>.

²⁰ “Contingent” may include (but is not limited to) independent contractors and so-called “gig” workers. FASB may consider defining “independent contractor” using the ABC test (*see, e.g., Dynamex Operations West, Inc. v. Superior Court*, 4 Cal.5th 903 (Cal. 2018)) or a definition covering all natural persons whose income is reported by a company to the IRS on a 1099 form.

²¹ *See Staff Costs presentation in TUI AG Annual Report* (2020), 176, <https://bit.ly/3tzTun3>.

²² ISO 30414:2018: *Human resource management – Guidelines for internal and external human capital reporting* (2018), <https://www.iso.org/standard/69338.html>.

²³ *Coalition for Inclusive Capitalism and EY*, *The Embankment Project for Inclusive Capitalism (EPIC)* (2018), <https://www.coalitionforinclusivecapitalism.com/epic/>.

²⁴ *See Hesketh IAC Letter* (providing robust evidence for deeper and wider human capital disclosure).

²⁵ *Hesketh IAC Letter* at 4.

²⁶ *See* final pay ratio rule (<https://www.sec.gov/rules/final/2015/33-9877.pdf>), SEC staff interpretive guidance (<https://www.sec.gov/rules/interp/2017/33-10415.pdf> and

[kinterp.htm#128c.01](#)), and *Division of Corporation Finance Guidance on Calculation of Pay Ratio Disclosure* (<https://www.sec.gov/corpfin/announcement/guidance-calculation-pay-ratio-disclosure>).

²⁷ See *Rulemaking Petition from Human Capital Management Coalition to William Hinman, Director, Division of Corporation Finance and Brent J. Fields, Secretary*, to require issuers to disclose information about their human capital management policies, practices and performance, File No. 4-711 (Jul. 6, 2017), <https://www.sec.gov/rules/petitions/2017/petn4-711.pdf> (establishing the investor case for higher-quality human capital information from issuers across several key dimensions, including workforce demographics, composition, and stability).

²⁸ Defined as the £1 return per £1 invested in talent. See *Hesketh IAC Letter at 2*.

²⁹ *Ibid.* at 7.

³⁰ *Ibid.* at 5.

³¹ Other participating HCMC members included: APG Asset Management, the California State Teachers' Retirement System, Domini Impact Investments, New York City Employees' Retirement System, SOC Investment Group (formerly CtW Investment Group), UAW Retiree Medical Benefits Trust, UFCW Pension Plan for Employees, and Wespith Benefits and Investment.

³² Each conversation lasted between 30 and 60 minutes, and typically included a combination of analytical and engagement staff. A comprehensive deck outlining the Coalition's approach to human capital disclosure was sent in advance. Coalition representatives had an open dialogue with participating teams, followed by two questions: (1) Does the firm currently use human capital data in investment decision-making, and if so, how is it used; and (2) Does the fund support the HCMC's four foundational metrics, and if so, how would the fund use the information if available? An up-to-date version of the presentation deck is publicly available on the Coalition's website under "Engagement Resources": <https://www.hcmcoalition.org/engagement-resources>.

³³ In both cases, Coalition members spoke with engagement staff at each firm. One firm asked about the relationship between turnover and employee engagement; shortly after the dialogue, Morgan Stanley Investment Management published a paper using turnover as a proxy for employee engagement that found companies with better employee retention saw cumulative stock returns that were 25 percent higher, or 2.8 percent annualized, than those with the lowest retention. See FN3, *MSIM Counterpoint Global Insights*. The second firm questioned the utility of total workforce cost in engagement and stewardship activities but confirmed that investment analysts would incorporate workforce cost data into fundamental financial analyses, if made available.

³⁴ See, e.g., *Calvert Letter* ("Calvert agrees that disclosure of the [Human Capital Management Coalition's] four metrics would provide the type of specific and reliable data that is needed to evaluate and compare company performance"); *Letter from Jonathan Grabel*, Chief Investment Officer, LACERA, to Vanessa A. Countryman, Secretary, U.S. SEC re: Proposed Rule: Modernization of Regulation S-K Items 101, 103 and 105 (Nov. 27, 2019), <https://www.sec.gov/comments/4-711/4711-6403561-198430.pdf> ("To complement a principles-based approach (and address its shortcomings), we suggest that the Commission incorporate rules-based disclosures for a select number of consistent, universally applicable human capital metrics, to facilitate a base level of disclosures and broad comparability. In this regard, the Commission should consider core metrics related to workforce composition and structure (such as the number of full-time, part-time, and contingent workers, as well as diversity data consistent with Equal Employment Opportunity EEO-1 reporting, where permissible), indicators of workforce stability (such as turnover), and data points enabling investors to assess a registrant's return on human capital investments."); *Letter from Sandra J. Peters*, Senior Head, Global Financial Reporting Policy, CFA Institute, to Vanessa A. Countryman, Secretary, U.S. SEC re: Proposed Rule: Modernization of Regulation S-K Items 101, 103 and 105 (Nov. 27, 2019), <https://www.sec.gov/comments/s7-11-19/s71119-6490515-199568.pdf> ("We are supportive of universal disclosures proposed by the Human Capital Management Coalition.").

³⁵ *New human capital disclosure rules: Getting your company ready*, PwC (Oct 8, 2020; updated Apr. 29, 2021), https://viewpoint.pwc.com/dt/us/en/pwc/in_the_loop/in_the_loop_US/New-human-capital-disclosure-rules-Getting-your-company-ready.html.

³⁶ See Karen Weise and Kate Conger, *Gaps in Amazon's Response as Virus Spreads to More Than 50 Warehouses*, *The New York Times* (Apr. 5, 2020), <https://www.nytimes.com/2020/04/05/technology/coronavirus-amazon-workers.html>; and Amazon, *Creating More Job Opportunities: Amazon Hiring 100,000 New Full- and Part-Time Employees Across the U.S. and Canada*, Press Release (Sep. 14, 2020), <https://bit.ly/3Abii00>.

³⁷ *The Amazon That Customers Don't See*, *The New York Times* (Jun. 15, 2021), <https://nyti.ms/3hAviMv>.

³⁸ Sharon Terlep and Micah Maidenberg, *Walgreens to Cut 4,000 Jobs in U.S. Boots Stores, Suspend Buybacks*, *The Wall Street Journal* (Jul. 9, 2020), <https://on.wsj.com/2XtO1T3>.

³⁹ Maia Anderson, *Walgreens seeks to fill 9,500 jobs, offering bonus pay amid COVID-19 pandemic*, *Becker's Hospital Review* (Mar. 24, 2020), <https://bit.ly/2XkkSdc>.

⁴⁰ Kathryn Mayer, *CVS Health adding benefits as a result of coronavirus*, Human Resource Executive (March 30, 2020), <https://bit.ly/3EibpDL>.

⁴¹ Joe Erlinger, *New U.S. COVID-19 Safety Precautions*, McDonald's USA (July 24, 2020), <https://bit.ly/2XqDGqX>.

⁴² McDonald's Form 8-K, filed July 28, 2020, <https://bit.ly/3tIzSgM>.

⁴³ See, e.g., David Autor, *Good News: There's a Labor Shortage*, The New York Times (Sep. 4, 2021), <https://nyti.ms/2XqEoo7>.