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The Honorable Gary Gensler
Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Dear Chair Gensler,

We write to you today to encourage you and your colleagues in the U.S. Securities and Exchange Commission (“the Commission”) to take impactful action to require simplified and universal human capital management disclosure for U.S. listed public companies, including 1) a standardized definition of Human Capital 2) a standardized method for capitalizing labor on corporate balance sheets 3) standardizing stakeholder-related reporting metrics, including required reporting on the labor supply chains and 4) standardized reporting metrics related to leadership, governance and workforce representation.

The American Sustainable Business Network (ASBN) is a movement builder in partnership with the business and investor community. ASBN develops and advocates solutions for policymakers, business leaders, and investors that support an equitable, regenerative, and just economy that benefits all – people and planet. As a multi-issue, membership organization advocating on behalf of every business sector, size, and geography, ASBN and its association members collectively represent over 250,000 businesses across our networks. ASBN was founded through the merger of the American Sustainable Business Council and Social Venture Circle.

Human capital management is a cornerstone of our work at ASBN in creating and building a vibrant, broadly prosperous and sustainable economy. This was the focus of our paper published in 2020, [Creating an Economic System that Works for All](#), which enumerates many policy solutions vetted from business owners and leaders in order to promote a systems-first orientation, ensuring long term health and prosperity for all companies up and down the value chain.

ASBN has a long history of supporting businesses that take the High Road when it comes to pledging their benefits to their employees. Our principles for High Road employers are below.

1. Provide Family-friendly Benefits
2. Offer Flexibility
3. Pay a Livable and Fair Wage
4. Invest in Employee Growth and Development
5. Cultivate Inclusion
6. Govern Fairly and Transparently
7. Engage with Communities
8. Manage the Supply Chain Responsibly
9. Drive Environmental Sustainability
10. Promote Health & Safety



Given President Biden’s whole-of-government approach to addressing some of the most pervasive issues in our economy and society, we thought you would also appreciate knowing that we recently helped host an [event with the Department of Labor](#) and Secretary Walsh on the “Good Jobs Initiative: The Business Case for Good Jobs.” Included in this launch were members of ASBN, businesses that value high standards of human resource management, both domestically and throughout their supply chains.

1) Human Capital Definition

In August of 2019, CEO members of the Business Roundtable representing 181 of the largest global corporations, announced a modern standard for business by committing to lead their companies for the benefit of ALL stakeholders — customers, employees, suppliers, communities, and shareholders. As such, it is the belief of ASBN that there is a majority consensus shifting in the business world and that the SEC, among other government agencies as a duty to address these shifts in their regulatory frameworks. Central to the idea of stakeholder-driven business is the inclusion of human capital / human labor. ASBN believes that in order for businesses to address the shift towards stakeholder capitalism, a standardized definition of human capital must be published for standardized comparisons of firms.

2) Capitalizing Labor on a Corporate Balance Sheet

In both the long and short term, the disclosure of employment categorization has been shown to be highly beneficial to a company’s balance sheet. Turnover ratios, part-time, full-time and contracted worker information allows both executives and investors to understand the health of a firm’s workforce.

Additionally, ASBN believes that greater detail of employment categorization is also beneficial in understanding a firm’s level of investment in its people and is of material concern to its stakeholders.

The contribution of human capital inputs are a central driver in increasing or decreasing value to a firm¹. These inputs can be highly instructive as to a company’s overall performance in the marketplace, and so should be accounted for in partnership with our regulators and government offices, rather than solely being treated as intangible assets, as is currently the standard.

Since this investment has long been considered intangible, and therefore chronically undervalued in the marketplace, ASBN advocates further research in how to begin capitalizing human resources in its financial reporting.

Finally, ASBN advocates for the disclosure of executive pay in human resources leadership.

3) Standardizing Stakeholder-Related Reporting Metrics, including required reporting on the labor supply chain

¹Edmans, A. (2011). Does the Stock Market Fully Value Intangibles? Employee Satisfaction and Equity Prices. *Journal of Financial Economics*, 101 (3), 621-640. <http://dx.doi.org/10.1016/j.jneco.2011.03.021>



ASBN believes that metrics utilized across our economy and business landscape should be verifiable, quantitative when possible, and not burdensome to corporate reporting processes. Metrics cited previously by ASBN include workforce demographics, benefits, compensation, turnover, health and safety performance, employee satisfaction and skills and development training. Additional qualitative topics to be treated in a financial narrative could include sourcing strategies, recruitment pipelines and yields, talent development, and other hiring incentives.² The Social Wealth Economic Indicators developed by the Center for Partnership Studies, now being updated and condensed into a Social Wealth Economic Index, show the significant value and return on investment in caring for people, starting at birth, and caring for our natural life-support systems and so should be considered material to a firm's stakeholders.³

Increasing a firm's supply chain traceability and requirements that businesses report on the due diligence they conduct to identify the human rights impacts in their supply chains is imperative.

For example, the existence of human rights abuses in the supply chains of U.S. brands hit the public consciousness in the 1990s, with exposés about poor working conditions in Nike's supplier factories in Indonesia and Walmart's in Honduras. The United States' government took a leadership position then by convening leaders from industry, nongovernmental organizations and universities for discussions that resulted in the creation of the Fair Labor Association (FLA), incorporated in 1999. (Apple was the FLA's highest-profile new member in 2012, after a front-page New York Times investigation about labor abuses in Foxconn supplier factories in China, where iPads were manufactured). Since then, numerous initiatives in the U.S. and internationally have encouraged - and in some cases mandated - reporting by companies on their efforts to discover and address labor abuses in their supply chains. One of the most prominent of these efforts was the United Nations Guiding Principles on Business and Human Rights, unanimously endorsed by the Human Rights Council in 2011 with support from stakeholders as diverse as the U.S. Council for International Business.

Numerous governments have applied the U.N. Guiding Principles in legislative, regulatory, and judicial settings. The U.K. and Australia passed Modern Slavery Acts in 2015 and 2018, requiring entities to report on the risks of modern slavery in their operations and supply chains. France and Germany's requirements for corporations to conduct and report on supply chain due diligence on human rights (with, in some cases, fines and civil liability for non-compliance and resultant harm), has led the European Union to develop a proposal for mandatory requirements.

In the U.S., the draft Corporate Human Rights Risk Assessment, Prevention, and Mitigation Act of 2019 echoes those initiatives. The Act creates an annual requirement for public companies to assess their human rights risks, including in their supply chains (which the bill refers to as "value chains"). The Act also mandates that companies identify approaches they have taken to prevent and mitigate violations and to justify instances where, despite being aware of an operational or supply chain vulnerability, the company

²Andrew Gordon, David Larcker, Courtney Yu, "Human Capital Disclosure: What do Companies Say About Their 'Most Important Asset?'" (Harvard Law School Forum on Corporate Governance) 2021

³Indradeep Ghosh, "Social Wealth Economic Indicators for a Caring Economy," *Interdisciplinary Journal of Partnership Studies*, Vol. 1, Issue 1, available at <https://pubs.lib.umn.edu/index.php/ijps/article/view/90/84>; Social Wealth Economic Indicators, available at <https://centerforpartnership.org/programs/caring-economy/indicators/>; Social Wealth Index, available at <https://centerforpartnership.org/programs/caring-economy/social-wealth-index/>; Riane Eisler, *The Real Wealth of Nations: Creating a Caring Economics* (San Francisco: Berrett-Koehler, 2007).



has taken no action at all. This “comply or explain” approach was taken by both the California’s Transparency in Supply Chains Act, which went into effect in 2012 and the conflict minerals provision in the Dodd-Frank Act of 2010.

In July 2019, the House Subcommittee on Investor Protection, Entrepreneurship and Capital Markets heard testimony in support of the Act from organizations including the Global Reporting Initiative and CalPERS (the California Public Employees' Retirement System, the largest public pension fund in the country with \$372.6 billion under management in 2019). In his testimony, Degas A. Wright, CEO of Decatur Capital Management, said: “We have found that those firms with positive human rights media news compared to firms with negative human rights news outperform one year later. Based on our research, we have found human rights risk to be [a] material item in making investment decisions.”

In the long term, a firm working together with industry regulators will be able to develop and retain its value expressed through its workforce and labor supply chains in the marketplace.

4) Standardized reporting metrics related to leadership, governance and workforce representation

As the report, *Creating an Economic System that Works for All* notes, ASBN champions the advocacy of reporting a firm’s board constitution, both for diversity on corporate boards as well as disclosing on corporate boards the presence of workforce representation. ⁴ ASBN recommends that the Securities and Exchange Commission work with the Department of Labor as well as the National Labor Relations Board work together to jointly develop rules

ASBN will continue to advocate for stronger and more regulated corporate transparency and ESG disclosure and will be monitoring and commenting on the issues that relate to these matters.

Sincerely,

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Head of Membership, Chief of Staff &
ESG Policy Co-Lead

⁴ Leo Strine, [“Toward Fair And Sustainable Capitalism: A Comprehensive Proposal To Help American Workers, Restore Fair Gainsharing Between Employees And Shareholders, And Increase American Competitiveness By Reorienting Our Corporate Governance System Toward Sustainable Long-Term Growth And Encouraging Investments In America’s Future. \(2019\)”](#)