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September 21, 2017

The Honorable Jay Clayton
Chairman
U.S. Securities and Exchange Commission
110 F Street, N.E.
Washington D.C. 20549

Re: **Human Capital Management (HCM) Disclosures Rulemaking Petition**
File 4-711 – 07/06/2017

Dear Chairman Clayton,

We write to offer insight from our research relevant to the Human Capital Management Petition filed with the Commission by the Human Capital Management Coalition on July 6, 2017. Larry Beeferman is the Director of the Pensions and Capital Stewardship Project, part of the Harvard Law School's Labor and Worklife Program.[1] Aaron Bernstein is a Senior Research Associate with the Project. We have addressed human capital (HC) issues in studies and through conferences with pension funds and other large institutional investors in conjunction with an Investor Initiative we began in 2008. Of particular relevance to the Petition is a 2015 paper we authored entitled *The Materiality of Human Capital to Corporate Financial Performance*, as well as a follow-up study due to be released next month called ***Corporate Disclosure of Human Capital Metrics***.[2]

The materiality paper surveyed research literature and found 92 empirical studies carried out over the past several decades that examined the relationship between HC polices and financial outcomes such as return on equity, return on investment and profit margins. As we wrote in the paper: "We restricted our review to studies that used conventional investment indicators to emphasize the conclusion that human capital is material under definitions acceptable to the U.S. Securities and Exchange Commission and U.S. securities law."

Our analysis found that the majority of these 92 studies established positive correlations between HC policies and investment outcomes. We discovered just one with only negative findings. We concluded that the evidence for HC materiality was sufficiently compelling to warrant investor requests for companies to report systematically on their policies and practices. Doing so would

1 The Project's website is available at: https://lwp.law.harvard.edu/pensions-and-capital-stewardship-project
2 The paper was written using data from RobecoSAM and funded by the American Society of Safety Engineers and the American Society of Safety Engineers Foundation.

enable investors to enhance capital formation and long-term returns by directing investments toward firms with superior HC policies, and by encouraging their portfolio firms to pursue such policies.

Our forthcoming paper on corporate disclosure reaches the conclusion that mandatory HC reporting requirements would not impose an undue burden on most companies. The study analyzes the prevalence of HC policies using data collected by RobecoSAM through an annual survey used to create the Dow Jones Sustainability Index.[3] The 2016 survey we used provided data on 1,968 global issuers, including more than 550 U.S. ones. Our research exploits a unique feature of the survey, which combined confidential responses with respect to metrics companies report publicly. This yielded a comprehensive picture of the HC data issuers collect that included both public and non-public reporting, a perspective unparalleled in the literature.

Our findings show that a substantial proportion of listed U.S. companies already devote significant resources to HC data collection and assessment. For example, 91% collected data on lost-time injury rates, 70% track the hours of training their employees receive, and 52% calculate the return they earn on their training expenditures. While some of these companies do not make the metrics public, the fact that so many already gather them indicates that mandatory HC disclosure would not be an unduly burdensome undertaking for these firms. The prevalence of these metrics also suggests that the cost would be within the reach of companies that do not currently gather such data.

These findings are consistent with reports by the Boston Consulting Group and the *Harvard Business Review* of companies' use of HR KPIs and workforce analytics for internal management purposes and the link of such use to superior firm performance[4]; and the extensive reporting by companies of workforce-related metrics to and analysis of them by management consulting arms of firms such as Willis Towers Watson, PWC, and Deloitte in aid of better performance.

Such findings and reports reflect a shared recognition on the part of both companies and investors as to the materiality of HC factors to corporate financial importance and, in turn, the importance of the availability and analysis of information about them. That would appear to warrant the Commission taking up the rule-making petition's request to determine which of such information should be reported to investors consistent with the needs and concerns of companies supplying it.

We would be pleased to discuss our findings with your staff and to make our paper available to you when it is published in late October of this year.

Sincerely,

Larry Beeferman
Director
Pensions and Capital Stewardship Project
Labor and Worklife Program

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3 An overview of the RobecoSAM survey, called the Corporate Sustainability Assessment, is available at: http://www.robecosam.com/en/sustainability-insights/about-sustainability/corporate-sustainability-assessment/index.jsp

4 See Strack, Rainer, et. al. 2014. Creating People Advantage 2014-2015. The Boston Consulting Group, pp. 5 and 19 and Harvard Business Review, 2013. Connecting Workforce Analytics to Better Business Results, pp. 1 and 2. https://hbr.org/resources/pdfs/comm/sumtotal/hbr-sumtotal-report-aug.pdf

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