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The Honorable Jay Clayton, Chair
U.S. Securities and Exchange Commission
110 F Street NE
Washington, D.C. 20549

October 3 2017

Dear Chair Clayton:

I write in support of the Human Capital Management Petition (HCM) filed with the U.S. Securities and Exchange Commission (SEC) by the Human Capital Management Coalition on July 6 2017. I do so as a longtime practitioner affiliated with investing institutions; as an academic at Harvard Law School specializing in corporate and investor governance; and as a non-executive trustee of ShareAction, the research and advocacy group which is managing a related initiative out of the UK entitled the Workforce Disclosure Initiative (WDI).

Thank you for the opportunity to comment on this matter. In my view, the petition is material to the Commission's interest in strengthening the ability of U.S. enterprises to tap capital markets, creating wealth and jobs while protecting investors. It is also timely, as investors who provide liquidity are increasingly joining in a rapid process of transitioning to advanced measures of assessing risk and opportunity. Indeed, regulators and policy makers in other jurisdictions are seeking to identify disclosure frameworks that best enable investors to gain insight on today's drivers of growth, or sources of risk. Behind these trends is a developing consensus among both scholars and practitioners that extra-financial factors are central to the performance of today's business enterprises. Management of human capital is chief among such factors. As Klaus Schwab, founder and executive chairman of the World Economic Forum, put it: 'Talent, not [financial] capital, will be the key factor linking innovation, competitiveness and growth in the 21st century."

Institutional investors over the past two years have incorporated such HCM factors into their own behavior in respect of investment, trading, and asset stewardship. In many cases—notably at the three largest domestic-based fund complexes Vanguard, Blackrock, and State Street Global Advisors—they have doubled internal resources available to address environmental, social, and governance (ESG) variables, including HCM. Just as importantly, many funds have begun redirecting the ESG function from compliance, where it largely resided for decades, to portfolio construction and management.

The SEC should not underestimate the significance of this recent trend; it represents a profound evolution in the discipline of long-term investment. Institutions have revised the criteria they weigh in choosing whether and how to participate in the capital formation process. The SEC can consider the HCM petition as an invitation to ensure that U.S. regulation stays abreast of such change so that the nation's framework for capital markets remains fit for purpose.

I agree with the HCM petition that "Research has shown that differences in human capital management performance can form the basis for successful investment strategies. Human capital management matters not only when it confers competitive advantage and improves firm performance. Material risks related to human capital management can create substantial risks for companies and investors, damaging corporate reputation, generating legal liabilities and undermining relationships with key stakeholders."[1]

It is precisely for this reason that public policy in other jurisdictions has given rise to legislation such as the 2015 UK Modern Slavery Act and the 2014 EU Non-Financial Reporting Directive, which each mandate further disclosure on human capital management factors. It is also the reason why the United Kingdom government, through its Department for International Development's Responsible, Accountable and Transparent Enterprise (RATE) program, is providing nearly £1 million in grant funding for the Workforce Disclosure Initiative.

It is important to note that some 80 institutional investors with more than $8 trillion in assets under management have become founding signatories of the WDI, and the initiative is also endorsed by the UK's Pensions and Lifetime Savings Association (PLSA). The WDI is thus a trenchant example of rising investor appetite for data on human capital management as financial institutions update search tools assessing listed companies. To cite one example, AXA Investment Management has expressed its "strong belief that companies that are more proactive in maintaining an engaged and motivated workforce also have a better ability to sustain their corporate success thanks to higher value creation and lower business risks."

The WDI is equally an indicator that listed companies are likely to receive an increasing number of requests from diverse sources for data on HCM. The SEC may wish to consider the HCM petition as an invitation to help create a common but flexible framework for such disclosure with the aim of enhancing investor insight on material value and risk factors while at the same time reducing the potential for survey fatigue among corporate managements and boards in the United States. A consultation, perhaps with one or more inclusive roundtables, might be a prudent approach to defining a path forward on HCM disclosure.

Thank you again for considering the HCM petition. And please feel free to contact me with any questions or comments.

Sincerely,

Stephen Davis

[1] HCM Petition filed with the SEC, pgs. 4 and 8, July 6 2017 www.sec.gov/rules/petitions/2017/petn4-711.pdf