340 S Lemon Ave #3554
Walnut, CA 91789

**Re: File Number 4-730, Request for rulemaking on environmental, social, and governance (ESG) disclosure**

**From: Corey Rosen, Founder, National Center for Employee Ownership**

Broad-based employee ownership plans have a proven track record of improving corporate performance. For instance, a 2008 study by E, Han Kim and Page Ouiment of the University of North Carolina, "Broad-Based Employee Stock Ownership: Motives and Outcomes," (*Journal of Finance*, February 2014) found that Employee Stock Ownership Plans (ESOPs) have a positive effect on company value. Using Tobin's Q, a ratio of the company's stock value to its book equity value), they found that ESOPs led to an 8.12% increase in company valuation relative to the industry median. Companies with ESOPs with less than 5% ownership showed a valuation increase of 16% relative to the industry median; companies with larger ESOPs showed neither an increase nor a decrease.

In "The ESOP Performance Puzzle in Public Companies," published in the fall 2006 issue of the *Journal of Employee Ownership Law and Finance,* Robert Stretcher, Steve Henry, and Joseph Kavanaugh looked at 196 publicly traded U.S. ESOP companies during the years 1998 through 2004. The ESOP companies had returns on assets that were higher than the matched non-ESOP companies in all seven years, net profit margins that were higher in all of the five years where comparable data were available and better operating cash flows in three of the five years where data were available. The authors present the data for each year, rather than as a single summary measure, but we can calculate the mean of the difference for ESOP companies for the years in question as:

Return on assets: +5.5%
Net profit margin: +10.3%
Operating cash flow to assets: +.0.1%

One of the most comprehensive and convincing studies to date on the effect of broad-based stock option plans on company performance was by Yael V. Hochberg of the Kellogg School of Management at Northwestern University and Laura Lindsey at the W. P. Carey School of Business at Arizona State University, Incentives, Targeting and Firm Performance: An Analysis of Non-Executive Stock Options," *Review of Financial Studies*, November 2010 (Vol. 23, No. 11).

The primary data source for the study was the Investors Responsibility Research Center (IRRC) Dilution Database. That contains company option plan information collected from public filings for firms in the S&P 500, S&P midcap 400, and the S&P small cap 600. The study period was from 1997 through 2004. Looking at non-executive options and the subsequent firm operating performance as measured by the firm's industry adjusted return on assets (ROA), the authors found that "both the existence of a broad based option plan and the implied incentives of an option plan exert a positive effect on firm performance... holding all other variables constant, a move from the 25th percentile of per-employee delta [that is, increased option grants per employee] to the 75th percentile of per employee delta implies an increase of 0.17% in ROA and a 0.15% increase in cost-adjusted ROA. The effect we estimate is approximately a 0.4 percentage point change in industry-adjusted ROA for every $1000 increase in per employee delta. Since the average per employee delta in our sample is about $760, a $1000 increase represents a little over a doubling of pay to performance sensitivity."

By contrast, companies with grants focused on executives did worse: "for both performance measures, the coefficient on aggregate option incentives for firms with broad-based option plans is positive and statistically significant and the coefficient on incentives for firms without broad-based plans is negative." The findings also showed that turnover over three years is lower in broad-based plans, even when controlling for comparison companies without these plans.

There are a number other studies with similar findings. A complete review of the data can be found at [https://www.nceo.org/article/key-studies-employee-ownership-and-corporate-performance](https://www.nceo.org/article/key-studies-employee-ownership-and-corporate-performance).

Aside from corporate performance, the research shows that companies (private and public) that have ESOPs or other broad-based employee ownership plans are significantly less likely to lay people off than other companies, create considerably higher retirement assets for employees, and help create significant wealth for women and people of color (see the data at [www.ownershipeconomy.org](http://www.ownershipeconomy.org)).

An index created by the National Center for Employee Ownership of companies with broad-based employee ownership plans that also have been wimners of major best places to work awards has outperformed other market indexes for the four years it has been in existence. (Details on the index can be found here).

Investors looking to invest in companies with broad-based ownership plans will face serious limits, however. Companies with ESOPs do have to report on these plans to the Department of Labor in their annual Form 5500 filings. This can tell users if the company has a plan, its asset value, and its annual contributions. There are no available data, however, on who gets equity in public companies other than ESOPs beyond the top five officers. To compile our index, we have to search the web sites of major public companies to see if they describe a board-based equity plan in their careers section. This is very imperfect data—some companies that we believe have plans do not report it, some who do not have broad-based plans report something like "stock awards are available for qualifying employees," and some conflate an employee stock purchase plan with stock grants. The data tell us nothing about the frequency, size, or criteria for the

awards. While some companies voluntarily describe their plans in their SEC filings, the vast majority are silent beyond the grants to the top five officers.

As ownership has become more concentrated in the U.S., and real wage growth has stagnated, much of the working population faces significant wealth insecurity. Grants of ownership at work can, as the data, have shown, have a major positive impact on this problem. I would strongly urge, therefore, that the SEC add equity compensation for all employees as an element of ESG reporting.

This would not be difficult to do. Companies already have the ESOP data, and they obviously know how they allocate other kinds of equity awards. The reporting can be limited to these readily available data:

- % of shares held by an Employee Stock Ownership Plan
- % of annual compensation contributed to an Employee Stock Ownership Plan
- Number of restricted stock grant awards, stock options, and/or stock appreciation rights granted in a reporting year
- % of full-time US workforce eligible for equity awards in a reporting year
- % of full-time US workforce receiving awards in a reporting year
- % of total full-time US workforce compensation represented by equity grants in a reporting year, using the accounting methods for deeming the current value of awards under FASB rules

These data could be of great interest to scholars, investors, and policy makers, and I hope you will consider adding them. These comments represent my personal views. The NCEO does not take positions on political issues.