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September 11, 2022

Gary Gensler, Chairman
U.S. Securities and Exchange Commission
100 F Street NE
Washington, D.C. 20549

Dear Chair Gensler:

I am writing in support of the rulemaking petition submitted by the Working Group on Human Capital Accounting Disclosure petition on June 7, 2022.

As a scholar in the area of Strategic Human Capital, I am deeply aware of the impact human assets have on a company's prospects and on economic activity more broadly.

Accounting standards treat virtually all expenditures associated with people as "expenses." Technically, an expense is an outlay that has no value beyond the current accounting period (generally the current year or quarter). Arguably, that assumption did not distort reporting of firm performance in the economy that existed in 1939 when "modern" accounting standards originated in the U.S. While these standards have evolved considerably over the last 80 years, expenditures associated with people are still treated as having no future value.

However, in today's knowledge-based economy, this assumption is often a gross distortion of a company's position. Critical resources and capabilities extend well beyond the physical assets that were once the mainstay of economic activity.

I came to this problem early in my career when I was asked to value human assets acquired in M&A transactions for the purpose of accelerating the amortization of the intangible asset. At the time, for a human capital-intensive target, such a transaction would often create substantial "goodwill" since the purchase price was well in excess of the tangible assets. At the time, such goodwill could be amortized over 50 years. Adopting very conservative valuation methods, I found that the human asset value was often more than 1/3 of the purchase price. Arguably, in many of today's businesses, human asset value far exceeds that level.

In terms of policy, this can discourage investments in human assets. If tangible assets were acquired in M&A transactions, it is relatively routine to step up the basis to assets' fair market value for amortization purposes. Put another way, this policy was effectively a tax penalty for

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acquiring a firm with human assets since such assets were not recognized in the same manner as tangible assets.

While it may not be practical to alter accounting standards to properly reflect human asset value, additional reporting can improve the information available to investors and policy makers. This, in turn will be reflected as actors begin to properly appreciate the true engine of economic activity.

In conclusion, I hope you will consider the possibility that this proposed policy could mark a significant leap forward in recognizing and promoting the very factors that drive the economy the most.

I hope this letter has been useful in your process. If you have further questions, please don’t hesitate to contact me.

Sincerely,

Russell Coff
Thomas J. Falk Distinguished Chair in Business