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22 October 2019

Ms. Vanessa A. Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street NE
Washington DC 20549-1090

Re: Modernisation of Regulation S-K Items 101, 103, and 105 (File No. S7-11-19)

Dear Ms. Countryman,

I am writing on behalf of Hermes Equity Ownership Services to submit this comment in response to the U.S. Securities and Exchange Commission's proposed rule, "Modernization of Regulation S-K Items 101, 103, and 105".

Hermes EOS is a stewardship service that engages with corporations and on policy on behalf of a growing number of asset owners and asset managers from around the world. We are one of the world's leading engagement resources, engaging on approximately £501 billion ($638 billion) (as of 30 June 2019) publicly quoted stock and debt assets, invested in over 10,000 companies worldwide. We believe that to enhance and protect our clients' assets, corporations need to take account of the effects on their decisions on their stakeholders, society, the environment and the wider world. The views expressed in this communication are those of Hermes EOS and do not necessarily represent the views of all clients.

We appreciate the opportunity to share our views on the proposed rule changes. Our comments below focus on proposed changes to reporting rules governing Item 101(c) in Regulation S-K regarding the Narrative Description of Business, and on human capital-related disclosures in particular. We believe that a combination of rules-based combined with principles-based disclosure is the best approach for investors. Our general approach was in our comments on the Concept Release in 2016. We firmly believe that quantifiable metrics are an important baseline for disclosure and that qualitative narrative provides helpful context to investors, and that this approach reflects investors' stated preferences.

We are members of the Human Capital Management Coalition (HCMC) (http://www.uawtrust.org/hcmc), a collaboration between 28 institutional investors and their representatives, with over $4 trillion in assets to further elevate human capital management as a critical component in company performance and in the creation of long-term value because this issue is so important to our clients.

We agree with the SEC's focus on ensuring investors get the information they need to make the best decisions on behalf of their beneficiaries and welcome the progress it has made. We offer our thoughts on the following specific questions to the SEC's proposals. We have focused our response on the human capital questions, but our thoughts on principles and rules do not apply solely to human capital. Given the overlap we have aggregated our answer to the questions:

12. Should we shift to a more principles-based approach for Item 101(c), as proposed? Would registrants find it difficult to apply the principles-based requirements?

13. Would the proposed principles-based requirements elicit information that is material to an investment decision? If not, how might Item 101(c) be further improved? Are there any additional disclosure topics that we should include in Item 101(c) to facilitate disclosure? Alternatively, should we exclude any of our proposed disclosure topics?

21. Should disclosure regarding human capital resources, including any material human capital measures or objectives that management focuses on in managing the business, be included under Item 101(c) as a listed disclosure topic, as proposed? Should we define human capital? If so, how?

24. Should we retain an explicit requirement for registrants to disclose the number of their employees? Alternatively, should we permit registrants to disclose a range of the number of its employees and/or a range for certain types of employees?

Human capital management disclosure is essential to investors. Increasingly, the US economy is knowledge-based and people are companies' most important assets, are accepted as truisms. We think that principles-based disclosure has an important role to play in this disclosure but also believe that rules are also important. We highlight below the instructive experience of the UK Gender Pay Gap reporting legislation which demonstrates that a few data points combined with the opportunity for voluntary narrative disclosure (ie a principles rather than mandatory approach) can provide powerful insights for investors.

Diversity and inclusion are important factors in the success of companies which is why investors find information on this aspect of human capital management useful. According to McKinsey there is a strong correlation between better diversity and inclusion and financial success[1] and the Boston Consulting Group has found how diversity helps to boost innovation[2].

The UK law now requires companies with 250 or more employees to report on their gender pay gap, showing the mean and median gap between women and men's hourly pay and bonus pay with the opportunity, but not the compulsion, to provide a narrative on the issue.

We use these data and qualitative reporting to inform our research into companies, including US issuers. For example, Citigroup provides a detailed report into its diversity and inclusion strategy and programme[3], as does Exxon[4]. We note that Costco has chosen not to provide a narrative report, just the mandatory data. From this mandatory quantitative and voluntary qualitative data, or lack thereof, we are able to inform our engagement with these companies. This helps us paint a picture of the relative importance of the issues to the company's management and board. From this we are able to form a view of its human capital management, its governance, its

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1 https://www.mckinsey.com/~/media/McKinsey/Business%20Functions/Organization/Our%20Insights/Delivering%20through%20diversity/Delivering-through-diversity_full-report.ashx

2 https://www.bcg.com/en-gb/publications/2018/how-diverse-leadership-teams-boost-innovation.aspx

3 https://citigroup.com/citi/about/data/uk_gender_pay_gap_report_2018.pdf

4 https://www.exxonmobil.co.uk/-/media/UnitedKingdom/Files/2018-Gender-pay-report.pdf

relationships with important stakeholders and so on. This view can be tested from other disclosures, comparison with other companies and in dialogue with the company. This is not possible from the raw quantitative data alone, important as they are. This is why we prefer both quantitative and qualitative data and voluntary, principles-based disclosures.

We note that Citigroup now provides global gender pay gap data in its reporting, which prima facie demonstrates to us that it is taking this issue seriously, with the attendant performance benefits, globally and not just as a compliance issue in the UK. Again, this provides us with a basis for developing our hypothesis about the company which we can test in our dialogue with it.

We further argue that there appears to be a wider correlation to human capital management disclosure. The Embankment Project on Inclusive Capitalism (EPIC) has found that firms that disclose data on their ability to create value by leveraging human capital perform better than non-disclosers. Firms with stronger human capital reporting show a return on invested talent[5] (ROIT) almost three times higher than the ROIT of non-disclosers and operating margins that are 33% higher than those of non-disclosers[6].

We note that such combination of rules and principles elucidate information for investors to help them make informed decisions about a company's prospects, opportunities and risks that narrative or quantitative data on their own cannot provide. Securities regulation should reduce information asymmetries and regulation that encourages a mixture of quantitative and qualitative information helps to close this gap as investors need both. While companies should be free to report on those metrics that they find most important to their business strategy, regulation that requires the disclosure of some data points that are easy to find and consistently comparable is hugely helpful to investors. The UK legislation, described earlier, has worked well in this regard. Without some consistent data over time, issuers may use different metrics making comparison difficult. They may even choose to disclose metrics that paint an inaccurate picture of performance.

We believe that a model whereby the SEC mandates a combination of a limited set of well-defined, baseline disclosure standards for information that is of particular interest to investors and universally-applicable across issuers, regardless of industry or business strategy is important. These could include: the number of full-time, part-time and contingent workers; workforce costs; employees paid the national minimum legal wage in each country of operation; workforce diversity (by seniority, gender and ethnicity); employee turnover; the gender pay gap as defined by the UK legislation; a similar report showing the pay gap for aggregated ethnic minorities compared to the white population. We note that the current requirement to report on the number of employees by itself is of limited use to investors. We note that some of this information was suggested by the SEC's Investor Advisory Committee[7].

This mandatory information should be provided in addition to other information on material aspects of human capital management which a company could report based on its industry and business strategy, perhaps using SASB defined metrics (or explaining why it does not use them to run the business), plus other metrics that the issuer uses as KPIs. We note that we and others will draw inferences from the lack of

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[5] ROIT is the return per pound sterling invested on talent management.

[6] https://www.epic-value.com/#report

[7] https://www.sec.gov/spotlight/investor-advisory-committee-2012/iac032819-investor-as-owner-subcommittee-recommendation.pdf

a coherent set of metrics and narrative disclosure as well as inferences from those issuers that report in a more convincing way. In turn we believe that disclosure will help to improve practices, ultimately performance and returns to shareholders.

These and other human capital-related disclosures, including the metrics we propose above as well as other information material to a company's operations, should be provided in a way that helps investors understand the workforce strategy and how it relates to the achievement of the company's business strategy. This discussion should also include risks and opportunities related to the workforce in pursuance of the corporate strategy.

We believe that most public companies should be collecting most of this data for their own internal purposes and current Department of Labor reporting requirements. We believe that additional narrative to contextualise the data provides an important opportunity for companies to describe how they are seeking to obtain competitive advantage from their human capital management strategy. This is best achieved by a principles-based approach.

Thank you for the opportunity to share our thoughts on the proposed rule. We are happy to answer any questions or provide additional information that may be useful to the SEC on these issues. You can contact us at [redacted].

Yours sincerely,

Tim Goodman

Tim Goodman

Director

Hermes Equity Ownership Services Limited