HCM Coalition Rulemaking Petition to the U.S. SEC Requesting Enhanced Human Capital Management Disclosure SUMMARY July 2017

The Human Capital Management Coalition (HCM Coalition), a global group of 25 institutional investors representing over $2.8 trillion in assets, submitted a rulemaking petition to the U.S. Securities and Exchange Commission (SEC) urging the adoption of standards that would require listed companies to disclose information on human capital management policies, practices, and performance. The petition builds the investor case for enhanced disclosure while providing a foundation upon which the SEC can develop consistent and comprehensive standards that would allow investors to better understand and assess how well the companies they own are managing their talent. Current SEC workforce reporting rules only require companies to disclose employee headcount.

In creating a more robust reporting framework, the petition encourages the SEC to engage in a public standard-setting process that seeks input from all investors, the business community, and other stakeholders and interested parties. The SEC rulemaking petition process allows for public comments by other stakeholders which often fosters public dialogue on the issue and creates a record for the Commissioners to consider.

Human capital management can create long-term value as well pose serious risks. A large body of empirical evidence underscores the link between the effective management of human capital and better corporate performance across a number of metrics. Research has shown that investments in training and development, health and safety, employee engagement, diversity and inclusion and workforce composition and staffing are associated with increased workforce productivity, reduced turnover, and higher customer satisfaction. Academic studies and literature reviews from Harvard,[1] The Wharton School,[2] and MIT,[3] among others, also report evidence

[1] The majority of the 92 studies reviewed by the Harvard Law School Pensions and Capital Stewardship Program found that human capital management policies were associated with better financial performance using metrics of value to investors, such as total shareholder return, return on assets, return on capital, profitability, and Tobin's Q. See Aaron Bernstein and Larry Beeferman, "The Materiality of Human Capital to Corporate Financial Performance," Pensions and Capital Stewardship Project, Labor and Worklife Program, Harvard Law School, Apr. 2015.

[2] Investing in a value-weighted portfolio of companies in the Fortune 100 America's Best Companies to Work For from 1984 through 2009 generated excess risk-adjusted returns of 3.5% per year. See Alex Edmans, "Does the Stock Market Fully Value Intangibles," Journal of Financial Economics, Vol. 101, 621-640 (2011), at 621 (http://faculty.london.edu/aedmans/Rowe.pdf).

[3] High-performing retailers use cross-training to provide flexibility and address variability in demand—thus better satisfying customers—without resorting to practices like last-minute ("just-in-time") scheduling and extremely short

that better human capital management practices are associated with higher shareholder returns, profitability and overall firm performance against benchmarks.[4]

Conversely, poor human capital management practices can create substantial risks for investors, including reputational and legal risks that can lead to depressed financial performance.

The petition does not define specific metrics for reporting; instead, the petition offers nine broad categories of information deemed fundamental to human capital analysis as a starting point to dialogue: workforce demographics; workforce stability; workforce composition; workforce skills and capabilities; workforce culture and empowerment; workforce health and safety; workforce productivity; human rights; and workforce compensation and incentives. The petition notes that specific data points will be developed as part of the rulemaking process, acknowledging that the relevance and applicability of some metrics may vary between industries and companies in the same industry.

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shifts that lead to higher turnover and lower motivation. Conversely, cutting labor hours—a common strategy among retailers looking to control expenses—often backfires in the form of reduced profitability. See Zeynep Ton, The Good Jobs Strategy (2014).

[4] E.g. Mark Huselid, "The Impact of Human Resource Management Practices on Turnover, Productivity, and Corporate Financial Performance," Academy of Management Journal, at 645-47 (1995), at 658-659 (http://www.markhuselid.com/pdfs/articles/1995_AMJ_HPWS_Paper.pdf) (High performance workplace practices are associated with lower turnover as well as better productivity and firm financial performance, including increases in Tobin's Q and gross rate of return on capital); Laurie Bassi & Dan McMurrer, "Human Capital Management Predicts Stock Prices," at 1 (June 2010) (http://mcbassi.com/wp/resources/documents/HCMPredictsStockPrices.pdf) (Two portfolios of large-capitalization companies created using criteria related to training and employee development outperformed the S&P 500 on an annualized basis by at least 3.1%); and Aon Hewitt, "2015 Trends in Global Employee Engagement," at 4 (2015) (http://www.aon.com/attachments/human-capital-consulting/2015-Trends-in-Global-Employee-Engagement-Report.pdf) (A 5% increase in employee engagement leads to a 3% increase in revenue growth the following year).