



ICGN

International Corporate Governance Network

Inspiring good governance & stewardship

Chairman Jay Clayton
Ms. Vanessa Countryman
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC
20549-1090
USA

Via email: chairmanoffice@sec.gov and comments@sec.gov

26 August 2020

Subject: Modernization of Regulation S-K Items 101, 103, and 105

Dear Chairman Clayton and Secretary Countryman,

Led by investors responsible for assets under management in excess of US\$54 trillion, ICGN is a leading authority on global standards of corporate governance and investor stewardship. Our membership is based in more than 45 countries and includes companies, advisors and other stakeholders. ICGN's mission is to promote high standards of professionalism in governance for investors and companies alike in their mutual pursuit of long-term value creation contributing to sustainable economies world-wide.

ICGN offers an important investor perspective on corporate governance to help inform public policy development and the encouragement of good practices by capital market participants. As you may know, roughly 35% of US stock market capitalisation is owed by non-US investors, and ICGN serves in many markets as a voice of the overseas investment community with regard to corporate governance and stewardship matters.

We are writing today to continue a dialogue relating to the Modernization of Regulation S-K Items 101, 103, and 105. This is a follow up letter to one we sent this past October relating to ESG disclosures.¹ In the letter of 19 October 2019 we raised a several issues for your consideration. With this letter, we would like to focus specifically on disclosures relating to human capital management.

Covid-19 has elevated the importance of ordinary workers as pivotal to a company's long-term success, particularly as our economies have shifted away from manufacturing to knowledge-based industries with an increasing reliance on people, often considered a company's most valuable asset. This fact was recognised by SEC Chair, Jay Clayton, when he emphasized the importance of human capital in a statement discussing the need to maintain connections amongst markets, businesses and workers in managing the COVID-19 crisis. He highlighted a range of areas where companies are encouraged to start reporting including the issue of health and safety for workers and the knock-on effect on communities and customers and said

"I believe that the strength of our economy and many of our public companies is due in significant and increasing part to human capital and, for some of these companies, human capital is a mission critical issue."

¹ See: <https://www.sec.gov/comments/s7-11-19/s71119-6322592-194457.pdf>

It is important for you to appreciate how investors in the US market, but also around the world, are focusing increasingly on the importance of human capital in contributing to the sustainable value creation of companies and economies more generally. Particularly given the limitations of financial accounting to explain the market valuation of companies, investors need enhanced disclosures and perspectives to inform them on a company's human capital, as well as other intangible factors that influence company long-term performance.

In this context we have been in dialogue with the [Human Capital Management Coalition](#) ("HCMC"), a group of 30 institutional investors with \$5.9 trillion in assets, many of whom are ICGN Members, and we share with them the view that disclosures around things like workforce stability, composition, diversity, skills, human rights and compensation are critical for better understanding human capital in individual companies. While many of the most relevant disclosures may be company (or industry) specific, we believe there is merit in establishing a few basic items as standard disclosure to build a better foundation in human capital disclosure in listed companies.

Accordingly, we would encourage the following items to be subject to universal and mandatory disclosure:

1. **The number of people employed by the issuer**, broken down by full-time and part-time employees along with contingent workers who produce its products or provide its services;
2. **The total cost of the issuer's workforce**, including wages, benefits and other transfer payments, and other employee expenses;
3. **Turnover** or similar workforce stability metric; and
4. **Workforce diversity data**, concentrating on gender and ethnic/racial diversity across different employment bands/employee levels

In addition to helping companies, boards and investors better understand and address human capital issues in individual companies, we believe this additional disclosure will also provide a basis for more academic research into human capital management and the evidence on its impact on sustainable value creation. This is an evidence trail that is important to develop further, and more mandatory disclosures can facilitate this.

We hope that our input is helpful in your decision-making, and we look forward to engaging with you in this or other matters where we could provide meaningful input. Should you wish to discuss our comments further, please contact me or George Dallas, ICGN's Policy Director, by email at george.dallas@icgn.org.

Yours faithfully,



Kerrie Waring,
Chief Executive Officer, ICGN

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