

Via Hand Delivery

October 10, 2017

The Honorable Jay Clayton
Chairman
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Re: Human Capital Management (HCM) Disclosures Rulemaking Petition, File 4-711 – 7/06/2017¹

Dear Mr. Chairman:

I am writing in response to the above referenced petition for rulemaking on human capital management disclosures (HCM Petition). The Council of Institutional Investors (CII or Council) is a nonprofit, nonpartisan association of public, corporate and union employee benefit funds, and other employee benefit plans, agencies charged with investing public fund assets, foundations and endowments with combined assets under management exceeding \$3 trillion. Our member funds include major long-term investors, including those with a duty to protect the retirement savings of millions of workers and their families. Our associate members include a range of asset managers with more than \$20 trillion in assets under management.²

CII believes that the HCM Petition provides the U.S. Securities and Exchange Commission (Commission or SEC) with a thoughtful resource for further exploration of the need for enhancements to HCM disclosures. As we stated in response to the Commission's 2016 Concept Release entitled "Business and Financial Disclosure Required by Regulation S-K:"³

Many companies tout their employees, or "human capital," as among their most valuable assets. Executives surveyed in 2011 by The Conference Board ranked risks related to human capital fourth out of 11 categories of risks, above supply chain, IT and reputational risks.

Although registrants may disclose general human-capital-related material risks in their filings, the Commission's only specific disclosure requirement on human capital

¹ Letter from Human Capital Management Coalition to William Hinman, Director, Division of Corporation Finance, Securities and Exchange Commission (July 6, 2017), <https://www.sec.gov/rules/petitions/2017/petn4-711.pdf>.

² For more information about the Council of Institutional Investors ("CII"), including its members, please visit CII's website at <http://www.cii.org/members>.

³ Business and Financial Disclosure Required by Regulation S-K, Securities Act Release No. 10,064, Exchange Act Release No. 77,599 (Apr. 13, 2016), <https://www.sec.gov/rules/concept/2016/33-10064.pdf>.

is Item 101(c)(1)(xiii)'s mandate to disclose the registrant's number of employees. Given the importance of employee engagement, knowledge and organization to corporate performance, the Council believes that this is an area the Commission should evaluate for enhanced disclosure.⁴

Good disclosure by companies on key drivers of value is critical in fostering appropriate investor allocation of capital. Although human capital and talent development clearly is a key value driver and potentially a key competitive advantage for a company (and a critical risk if mismanaged),⁵ many of our members have concerns that public company disclosures in this area are not sufficiently robust. The HCM Petition asserts that companies often mention human capital-related risk factors in periodic SEC filings, but these disclosures "tend to be boilerplate, designed to limit liability rather than convey meaningful information."⁶

We agree with the HCM Petition that the Commission should "solicit input from all affected constituencies, with an emphasis on the needs of investors, to identify the matters on which disclosure would be most useful."⁷ The HCM Petition suggests useful categories of information important to analysis on human capital as a starting point for dialog. We agree with the HCM Petition that for any new disclosure requirements the Commission would need to "find the appropriate balance" between specific rules-based quantitative information that provides for some level of consistency and comparability and more principles-based qualitative information that provides the context for understanding how HCM benefits long-term shareowner value.⁸

Thank you for consideration of our views. If we can answer any questions or provide additional information, please do not hesitate to contact me at 202.822.0800 or jeff@cii.org.

Sincerely,



Jeffrey P. Mahoney
General Counsel

CC: The Honorable Michael S. Piwowar, Commissioner
The Honorable Kara M. Stein, Commissioner
William H. Hinman, Director, Division of Corporation Finance
Brent J. Fields, Secretary

⁴ Letter from Kenneth A. Bertsch, Executive Director, Council of Institutional Investors to Brent J. Fields, Secretary, U.S. Securities and Exchange Commission 7-8 (July 8, 2016) (footnotes omitted), <https://www.sec.gov/comments/s7-06-16/s70616-49.pdf>.

⁵ See, e.g., Haig Nalbantian, *Human Capital: Risk v. Uncertainty*, CFO.com, Oct. 5, 2017, at 3 (describing "a new era of enterprise risk management where the identification and mitigation of HC risk . . . are every bit as prominent as the management of financial, operational, and hazard risks"), <http://ww2.cfo.com/risk-management/2017/10/human-capital-risk-vs-uncertainty>.

⁶ Letter from Human Capital Management Coalition at 11.

⁷ *Id.* at 25.

⁸ *Id.* at 27.