

## Dissent by Members of the Investor Advisory Committee Re: Human Capital Disclosure Recommendation

We the undersigned write to dissent from the Human Capital Management proposal adopted by the Investor Advisory Committee on March 28, 2019.

The recommendation would encourage companies to report information in non-financial sections of the annual report that may be inconsistent with financial information provided pursuant to Generally Accepted Accounting Principles (GAAP). The recommendation implies that disclosure required by the proposal may directly contradict the principles of conservatism and matching principles that serve as the foundation for GAAP.<sup>1</sup>

The recommendation is biased toward treatment of human capital as a net asset. This approach is inconsistent with the approach to human capital taken by GAAP, which takes a nonbiased approach to items such as pension commitments to determine whether the human capital resource is a net asset or net liability to the firm. The proposal further risks encouraging companies to estimate a value for human capital items that the Financial Accounting Standards Board (FASB) has already determined are not readily estimable.<sup>2</sup>

The Investor Advisory Committee has previously benefited from a presentation by members and supporters of the Sustainability Accounting Standards Board (SASB). Issuers who choose to do so can report additional information pursuant to frameworks adopted by that and other private groups without need for mandatory rulemaking from the Commission.

An additional concern with this recommendation is that it may directly harm firm and shareholder value. Political activists may use the information contained in the recommended disclosures to harm profitable customer relationships by effectively shaming companies at the expense of shareholders.

Former Commissioner Gallagher voiced this concern during the SEC's adoption of similar pay-ratio disclosure rules when he noted:

The purpose of this rule is not to inform a reasonable investor's voting or investment decision. The AFL-CIO, which lobbied for the rule's inclusion in Dodd-Frank, has explained for us its true purpose: "Disclosing this pay ratio will shame companies into lowering C.E.O.

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<sup>1</sup> See Investor Advisory Committee Recommendation, at fn1.

<sup>2</sup> For example, GAAP does not provide for specific estimates of the value of human capital as a component of goodwill, but instead only permits aggregate estimates of goodwill based on market transactions and subjects those determinations to annual impairment tests.

pay.” And, “They will be embarrassed, and that’s the whole point.” But addressing perceived income inequality is not the province of the securities laws or the Commission. And yet here we are, on the cusp of adopting a nakedly political rule that hijacks the SEC’s disclosure regime to once again effect social change desired by ideologues and special interest groups.<sup>3</sup>

The Human Capital Disclosure recommendation would if implemented similarly risk capturing the SEC’s disclosure regime to effect social change desired by specific interest groups, rather than ensuring investors are protected and informed of materially relevant information.

A more constructive alternative path for ensuring human capital management information is provided to investors in a meaningful way would involve:

- i) Commission dialogue with the FASB regarding their proposed reform of accounting for goodwill;
- ii) Consideration of additional reporting concerning the human capital metrics actually relied on by company executives in their decision-making, in so far as those metrics conform to standardized and objective managerial cost accounting methodologies as determined by appropriate studies.

We the undersigned therefore dissent from the recommendation.

Signed:

J.W. Verret  
Stephen Holmes  
William Lee  
Paul Mahoney  
Lydia Mashburn  
Mina Nguyen

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<sup>3</sup> See Dissenting Statement at an Open Meeting To Adopt the Pay-Ratio Rule, Commissioner Dan Gallagher, August 5, 2015, available at <https://www.sec.gov/news/statement/dissenting-statement-at-open-meeting-to-adopt-the-pay-ratio-rule.html>