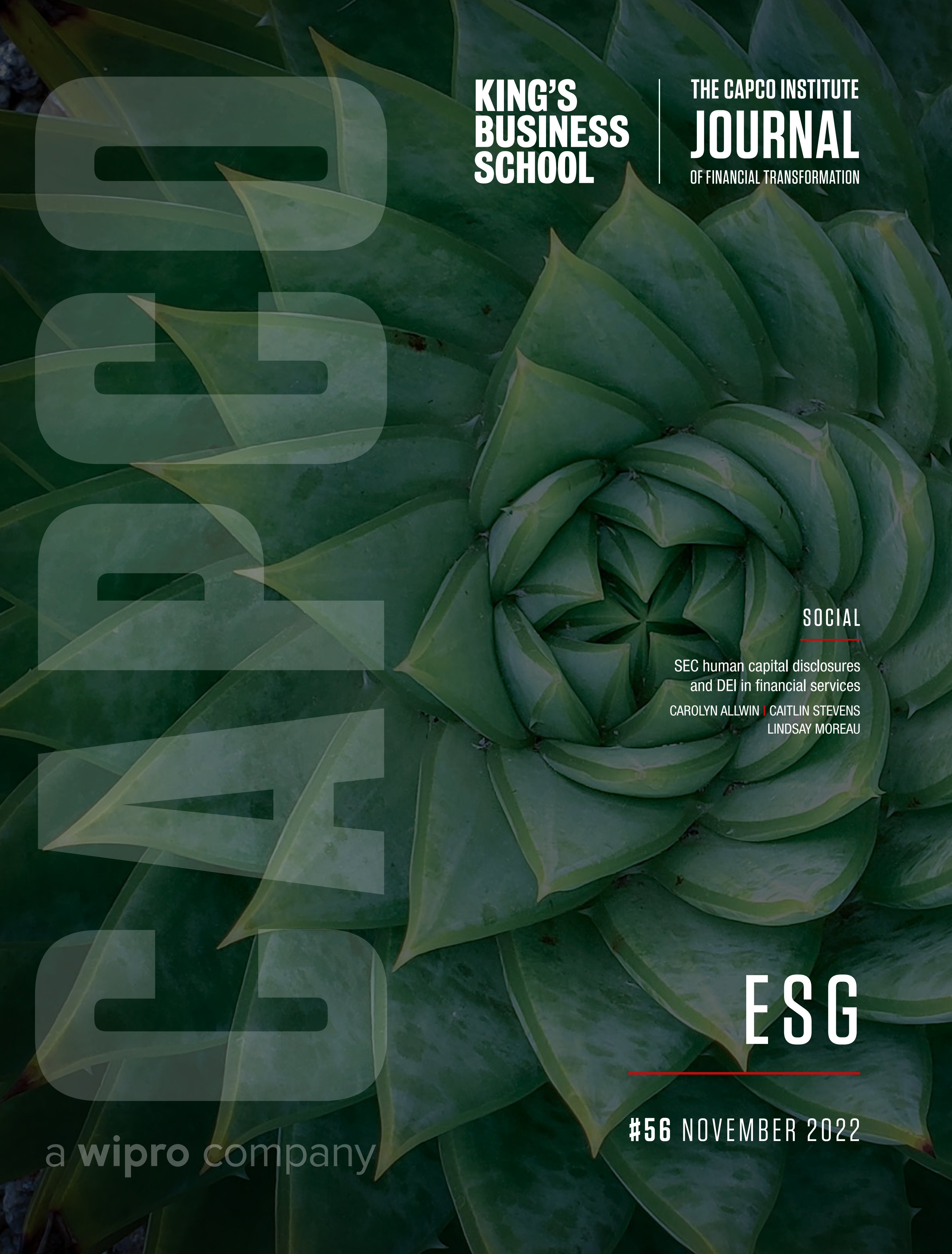

KING'S BUSINESS SCHOOL

THE CAPCO INSTITUTE JOURNAL OF FINANCIAL TRANSFORMATION

SOCIAL

SEC human capital disclosures and DEI in financial services

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ESG

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CONTENTS

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DEAR READER,

Welcome to edition 56 of the Capco Institute Journal of Financial Transformation, produced in partnership with King's Business School and dedicated to the theme of ESG – environmental, social and governance.

We all recognize that transformation towards a green economic system via sustainable finance is needed, welcome and inevitable. Our clients have a crucial role to play here. Acknowledging the scope and complexity of the evolving ESG landscape, we are perfectly positioned to prepare them for the ESG era.

With climate change accelerating and generating physical events on an unprecedented scale, governments and societies are considering measures to mitigate carbon emissions via net zero initiatives. The focus is firmly on greater sustainability and more equitable policies in response to shifting public attitudes. ESG considerations are reshaping investment risks on the one hand, and opening the way for green financing and sustainable technologies and innovations on the other.

This edition of the Journal examines all three pillars – environmental, social, and governance, highlighting efforts by regulators and practitioners to create a unified approach.

Moving forward, compliance with emerging ESG standards will be a critical differentiator for long-term business success. Data will also play a critical role in delivering the transparency and insights required to validate the ESG credentials of businesses, and investment strategies. Advances in areas such as machine learning, artificial intelligence and cloud technologies will be key to establishing a future model of sustainable finance.

This edition draws upon the knowledge and experience of world-class experts from both industry and academia, covering a host of ESG topics and innovations including the value of tracking Return on Sustainability Investment (ROSI) and the importance of moving away from purely external risks to addressing issues that can have positive commercial and societal impacts.

I hope that that the research and analysis within this edition will prove valuable for you as you shape your own ESG strategies, policies, and innovation.

Thank you to all our contributors and thank you for reading.

Lance Levy, **Capco CEO**

SEC HUMAN CAPITAL DISCLOSURES AND DEI IN FINANCIAL SERVICES

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CAITLIN STEVENS | Senior Consultant, Capco
LINDSAY MOREAU | Social Impact Advisor

ABSTRACT

Human capital disclosures and diversity, equity, and inclusion (DEI) are top of mind for investors and companies given today's social climate. Human capital management (HCM) disclosures are next on the SEC's ESG agenda, and these disclosures will require companies to describe their human capital resources. Currently, both regulatory requirements and reporting frameworks and standards are not prescriptive when it comes to these topics, allowing companies flexibility in how they interpret and report their data. The proposed HCM rules are likely to be more prescriptive than existing requirements and could transform the kind of data companies disclose. Human capital management and DEI are significant components of ESG, and specific disclosures would support investors to make better-informed long-term investment decisions.

1. INTRODUCTION

The greater emphasis on the "social" aspect of "environmental, social, and governance" (ESG) arises after a tumultuous few years in the face of marches against social injustices, a global health pandemic, and the Great Resignation. Investors are more interested than ever in how a company treats the workforce they employ and what they do for the community in which they reside. Over the past few years, companies have increasingly expanded the way in which they disclose human capital metrics, whether it is through regulatory fillings or voluntary sustainability reports.

In today's economy, a company's human capital is responsible for the management and innovation of the technologies, physical products, and services companies provide to their consumers. For companies, human capital is also responsible for their competitive edge and the products they bring to market. In alignment with the growing interest in ESG standards for stakeholders and investors, the current chairman of the Securities and Exchange Commission (SEC), Gary Gensler, announced in 2021 the SEC's intention to propose new rules regarding human capital management as part of the SEC's plan to intensify its overall ESG agenda.[1] This comes just a year after Gary Gensler's predecessor, Jay Clapman, put into place amendments to the rules around human capital management (HCM) disclosures that modernized the requirements with a broader principles-based approach. The amendments, which impacted Items 101, 103, and 105 of Regulation S-K, went into effect in November of 2020, and adjusted the description of the business, legal proceedings, and risk factor disclosures, respectively.

2. TENSIONS AND THE EVOLUTION OF HCM

There is growing demand for HCM disclosures across companies from investors and stakeholders alike; however, achieving this goal has created tension between investors and companies. Investors are looking for a baseline of standards to be set that will allow them to easily value companies across

[1] https://bit.ly/3rPyDvY

consistent standards. Companies, on the other hand, say that creating standards run the risk of not being applicable across industries, absorbing resources, increasing compliance burdens, and exposing a certain amount of competitive edge a firm might have in their market. In summary, the concern is that the time, costs, and resources spent trying to report on HCM metrics to comply with standards might distract from the actual advantage of discussing HCM. However, both sides agree that HCM is important to a company's overall profits and purpose.

2.1 The evolution of HCM

Since the creation of the SEC in 1934, there have only been a few major overhauls of the rules that are meant to protect investor interests by regulating and requiring companies to release pertinent information that investors would find useful in making investment decisions. Prior to the financial markets of the early 2000s, the last major update from the SEC was in 1977, when the Commission published a list of 12 items that, along with financial statements, registrants would be required to disclose in the 10-k report. Item number 12 on this list was the requirement to disclose the number of employees.[2]

The amendments of 2020 significantly expanded on HCM requirements by requiring registrants to disclose more than just the total number of employees. In a press release from the SEC regarding the amendments of 2020, the then Chairman, Jay Clayton, stated, "Today we modernized our public company business disclosure rules for essentially the first time in over 30 years. Building on our time-tested, principles-based disclosure framework, the rules we adopt today are rooted in materiality and seek to elicit information that will allow today's investors to make more informed investment decisions. I am particularly supportive of the increased focus on human capital disclosures, which for various industries and companies can be an important driver of long-term value. I applaud the staff for their dedication and thoughtful approach to modernizing and improving these rules and adding efficiency and flexibility to our disclosure framework."[3]

Preceding the amendments made in 2020, the SEC historically viewed human capital as a cost on a business rather than an asset, which was not in line with how financial markets viewed human capital in valuation of firms.

2.2 But how did we get here?

The Jumpstart Our Business Startups (JOBS) Act, signed by President Obama in 2012, stated that the SEC was required to issue studies and write rules on registration requirements, disclosures, and capital formations. Section 108 of the Jobs Act specifically required a review of Regulation S-K to analyze current requirements and determine necessary updates to simplify the registration process and make it more efficient and cost-effective.[4] Just two years prior, in 2010, the SEC created an Investment Advisory Committee within Section 911 of the Dodd-Frank Act, which would, among other things, advise the SEC on regulatory priorities, the effectiveness of disclosures, and on initiatives that would promote investor confidence and protect investor interests in the marketplace.[5] The JOBS Act, the Investment Advisory Committee, and the SEC's S-K review led to the HCM disclosures currently on the docket.

In 2017, a group of large institutional investors convened to form the Human Capital Management Coalition (Coalition), which issued a rulemaking petition to the SEC requiring human capital disclosures for public companies. The Coalition cited that human capital was essential to long-term value creation and material to evaluating a company's prospects, and that the current requirements, which only required the listing of number of employees in the 10-K report, were not adequate to serve the SEC's core mission of providing investor protection. The Coalition then proposed key categories, new rules, and amendments to existing rules for registrants to disclose their HCM data. In the letter to the SEC, the Coalition included the following categories:

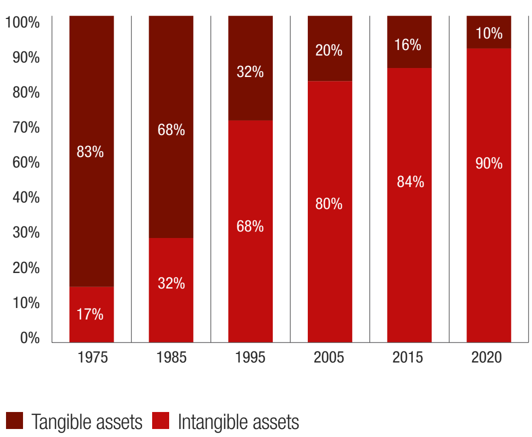
- Workforce demographics
- Workforce stability
- Workforce composition
- Workforce skills and capabilities
- Workforce culture and empowerment
- Workforce health and safety
- Workforce productivity
- Human rights
- Workforce compensation and incentive.[6]

2 https://bit.ly/3yyxsEK
3 https://bit.ly/3Ti46Cv
4 https://bit.ly/3Vm2CsT
5 https://bit.ly/3MnjgnX
6 https://bit.ly/3g08dFg

These initiatives led to February 2019, when SEC Chairman Jay Clayton held a conference call with the Investor Advisory Committee, formed to advise the Commission on regulatory priorities, to discuss the current human capital disclosure requirements and how the requirements could evolve to meet the demands of the marketplace. Paraphrased below, Clayton stated, "Current human capital disclosure requirements date back to a time when companies relied significantly on plant, property, and equipment to drive value. Today, human capital and intellectual property often represent an essential resource and driver of performance for many companies." He later went on to state that within each industry, and possibly each company, were different circumstances in which a company utilized its human capital, and, therefore, rigid metrics for all public companies would not serve the registrants or the investors trying to understand the company. Instead, Clayton proposed the following, "I think investors would be better served by understanding the lens through which each company looks at their human capital. Does management focus on the rate of turnover, the percentage of their workforce with advanced degrees or relevant experience, the ease or difficulty of filling open positions, or some other factors?"[7] This was followed up in August of the same year when the SEC proposed the amendments to modernize the disclosure requirements that were then finalized in November of 2020.

Further evaluation of the disclosures is back on the agenda for the SEC, along with other ESG initiatives.

Figure 1: Components of S&P 500 Market Value



Source: Ocean Tomo, a part of J. S. Held, Intangible Asset Market Value Study, 2020[8]

3. WHAT IS PROMPTING THE CHANGE?

The changes made in 2020, and indeed what will be coming next from the SEC, have been prompted by several market indicators. In this section, we will we highlight three major themes currently applying pressure on the need for more thoughtful HCM disclosures.

3.1 The shift in the economy

Since the 1970s, there has been a dramatic change in the way companies view their workforce, as well as an increased interest in human capital and "diversity, equity, and inclusion" (DEI) within the social climate of the world we live in today. In a study completed in 2020 of the components of the S&P 500 market value, the data revealed that the intangible asset market value of the S&P 500 grew to 90 percent by 2020, from under 20 percent in 1975 (Figure 1).

The data illustrates the shift of our economy from being industrial based to technology and services based and a focus on intangibles such as human capital and intellectual property. The rising interest in how a company manages their, arguably, most valuable asset, workforce, has incentivized regulators to take a closer look at how companies disclose HCM.

3.2 Impact of COVID-19

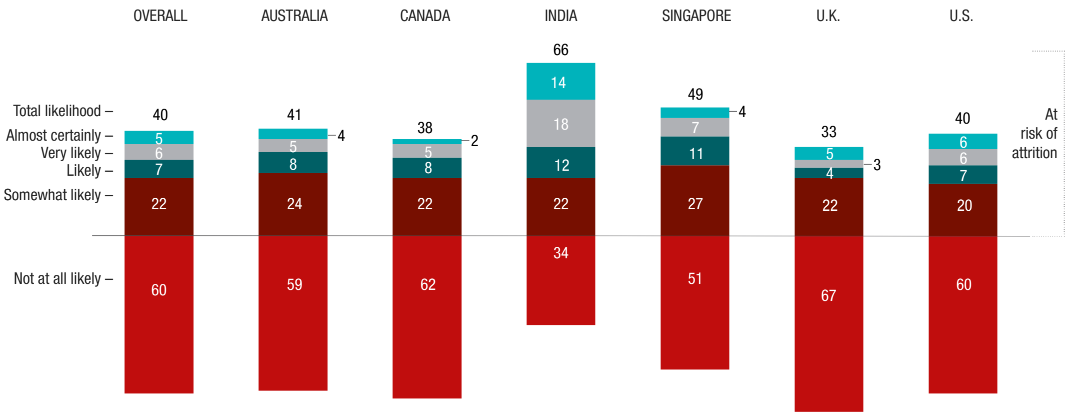
To further highlight the shift from tangible to intangible assets, the outbreak of the COVID-19 pandemic highlighted how essential it has become to the public for companies to disclose what steps they are taking to ensure the health and safety of their workforce. It is important to acknowledge here that health and safety also refers to the company's ability and willingness to protect the employee in and out of work. As the pandemic raged, child and other healthcare concerns rose. In fact, some of the leading causes of employees quitting their jobs during the pandemic were poor responses to COVID-19, to care for children or elderly relatives during the pandemic, the ability to have a flexible schedule, the ability to have a work-anywhere schedule, and vaccination requirements.

3.3 The Great Resignation

However, the pandemic is not the only reason the U.S. market is experiencing the Great Resignation or the Great Reshuffle. Earlier this year, the U.S. Bureau of Labor Statistics Job Openings and Labor Turnover survey (JOLTS) revealed a new record was set for nonfarm sector (nonfarm excludes farm

[7] https://bit.ly/2BrenHg
[8] https://bit.ly/3fYinpK

Figure 2: Likelihood that respondents will leave their current job in next 3-6 months (%)



Note: Figures may not sum to total because of rounding.
Source: Subset of respondents from McKinsey's 2022 Great Attrition, Great Attraction 2.0 global survey who were employed at the time of the survey, which was conducted between Feb 2022 and Apr 2022 (n = 12.378).[9]

workers, some government workers, private households, proprietors, and non-profit employees) quits rate as 4.53 million people voluntarily left their jobs, beating the previous record of November 2021 when 4.51 million people quit their jobs. The quit rate stayed at around 3.0 percent.[10] To put these numbers in perspective, the JOLTS data, which were first reported in December of 2000, reveal that, excluding times of extreme financial events (i.e., when the stability of having a job outweighs any concerns with that particular job), the rate of quits, or voluntarily separations made by employees, is generally below 2.5 percent and varies month by month. With the onset of the pandemic, we saw the rate fluctuate quite a bit while trending upwards to the 3.0 percent we are still seeing today. In the June publication of the JOLTS, the quits reported were at 4.2 million, with a rate of 2.8 percent. In addition, the number of job openings as of the June report were at 10.7 million while the number of hires was at 6.4 million, indicating that there are more job openings than are being filled.[11]

Since the start of the pandemic, the quits rate has been on a steady incline. When surveyed regarding the reasons behind the Great Resignation, results revealed nine factors: toxic corporate culture, job insecurity/reorganization, high levels of relentless innovation, failure to recognize person, poor response to COVID-19, better work-life balance, higher pay, new career path, and child or elder care.[12] In a market in which a company's greatest asset is their people, few companies can sustain high levels of employee attrition. To gain an edge with employee recruitment and retention companies need to consider what is important to their workforce which includes, pay and benefits, an inclusive culture, community engagement, and flexibility in time and location.[13]

The impact of the Great Resignation is being felt globally. In the U.K. the labor market experienced an all-time high of 4.4 vacancies for every 100 jobs in the first quarter of 2022. In a survey from McKinsey & Company, found that "40 percent of workers globally say that they might leave their jobs in the near future" (Figure 2).[14]

4. CURRENT STATE

The amendments of 2020 were a part of a much larger effort from the SEC to modernize registrants' disclosure requirement. In November of 2020, the SEC, under Chairman Jay Clayton, announced that they voted three to two to amend Item 101 of Regulation S-K regarding the description of the business, legal proceedings, and risk factor disclosures pursuant to Regulations S-K, respectively. That following June, Chairman

[9] https://mck.co/3rOiKWx
[10] U.S. Bureau of Labor Statistics, 2022, "Job openings and labor turnover," March, https://bit.ly/3D0afyh
[11] U.S. Bureau of Labor Statistics, 2022, "Job openings and labor turnover," June, https://bit.ly/3CRc2FJ
[12] Sull, D., C. Sull, and B. Zweig, 2022, "Toxic culture is driving the Great Resignation," Sloan Review, January 11, https://bit.ly/3yvptsc; The Adecco Group, 2021, "Resetting Normal: defining the new era of work 2021," https://bit.ly/3MrBm8h; Tappe, A., 2022, "A record number of Americans quit their jobs in 2021," CNN, https://cnn.it/3RThWdM
[13] https://mck.co/3yA3CzY
[14] https://cnn.it/3CQOmkJ

Gary Gensler, announced his agenda regarding additional rules around ESG and HCM. Revisions to Item 101 resulted in adjustments to the reporting timeframe as well as a reframing of human capital disclosures.

4.1 Amending Item 101(a)

A summary of the revisions to Item 101(a) stated that the revisions were to be, "largely principles-based, requiring disclosure of information material to an understanding of the general development of the business, and eliminating the previously prescribed five-year timeframe."[15] Effectively letting a company decide what it believes warrants a disclosure, or is material to their business operations, that a reasonable investor would find important when making their decision on whether to buy a company's stock. The previous rule required that a company provide a general development of the business over the previous five years, or however long the business had been in operation if less than five years. The amendment removed the five-year time-period, with the intent to provide registrants the ability to choose a time-period that is perceived as relevant in describing their business to investors.[16] When the SEC proposes amendments to existing rules or new rules, there is a period in which it must receive comments on the ruling before it is final. Comments received on proposed amendments to Item 101(a), the removal of the five-year timeframe, were reported by the SEC to be generally supportive, citing comments such as, "the one-size-fits all, fixed time period under the current rule may discourage registrants from providing relevant disclosure relating to periods outside of the five-year timeframe or result in an inadequate discussion of meaningful recent developments."[17] Other comments in support were similar in that they believed the five-year time frame was too prescriptive and might inadvertently limit companies from disclosing relevant updates that were outside of the five year time frame. Comments that opposed the elimination of the five-year time frame stated that, "the current five-year timeframe is appropriate because it corresponds with other financial reporting requirements in Regulation S1K that have similar five-year disclosure timeframes, such as the selected financial data required by Item 301."[18] Those opposed to the elimination of the five-year time frame felt that elimination of the five-year time frame unnecessarily complicated the reporting process by not being prescriptive enough. It was felt that the removal of the prescriptive timeframe will allow businesses to disclose the most relevant information.

4.2 Amending Item 101(c)

In addition, Item 101(c), was amended to "including, as a disclosure topic, a description of the registrant's human capital resources to the extent such disclosures would be material to an understanding of the registrant's business";[19] Item 101(c)(1)(xiii) requires that registrant disclose the number of persons employed. This requirement has resulted in a variety of responses, including disclosing just the total number, distinguishing between full-time or part-time, or specifying the number of employees within each department. The SEC published a Concept Release to solicit feedback on whether this disclosure requirement was useful to investors and if any improvements could be made. The Human Capital Management Coalition rulemaking petition was received after the issue of the Concept Release and received a significant number of comments supporting increasing HCM disclosure. Incorporating the feedback the SEC received, it proposed to amend Item 101(c) "to replace the current requirement to disclose the number of persons employed by the registrant with a requirement to provide a description of the registrant's human capital resources, including in such description any human capital measures or objectives that management focuses on in managing the business, to the extent such disclosures would be material to an understanding of the registrant's business taken as a whole."[20] The amendment removed the lone human capital requirement of stating the total number of employees with the intent that the changes would require companies to expand upon human capital reporting by allowing registrants the freedom to disclose what they perceive as being material to their business when considering HCM. For investors, information on HCM is a valuable metric in making their investment decisions. For companies, deciding what is material to their business operations in reporting would cut down on unnecessary reporting costs and resources, removing the need to comply with a strict guideline, which might have requirements in reporting that would not be material to their business.

[15] https://bit.ly/3g0KrZl
[16] ibid
[17] ibid
[18] ibid
[19] ibid
[20] ibid

Comments received regarding the proposal to make the disclosures more principles-based were favorable. Those who opposed did so because they believed that the proposed amendment would not "elicit meaningful information about human capital practices, or provide sufficiently comparable disclosure, unless grounded in standardized metrics."[21] In addition, much of the feedback was related to concerns regarding the fact that companies might disclose human capital differently, making it impossible to compare the information across companies for investors.

The final amendment was adopted largely as proposed and requires within the disclosure a description of human capital resources, including any measures or objectives for managing the business. The final amendment included examples of material measures and objectives that included addressing the attraction, retention, and development of personnel, while also acknowledging that each registrants' disclosures must be personalized to their business. The SEC also stated that prescriptive requirements were intentionally not included as "the exact measures and objectives included in HCM disclosures may evolve over time and may depend, and vary significantly, based on factors such as the industry, the various regions or jurisdictions in which the registrant operates, the general strategic posture of the registrant, including whether and the extent to which the registrant is vertically integrated, as well as the then-current macroeconomic and other conditions that affect human capital resources, such as national or global health matters."[22] Effectively stating that having prescriptive disclosure requirements may become outdated quickly, and may not be material across all industries and registrants; even a prescriptive framework to follow might still not produce comparable results. Critics argue that by being more principles-based and excluding prescriptive requirements, the amendments have not considered the needs of investors to be able to compare companies more easily across investor values.

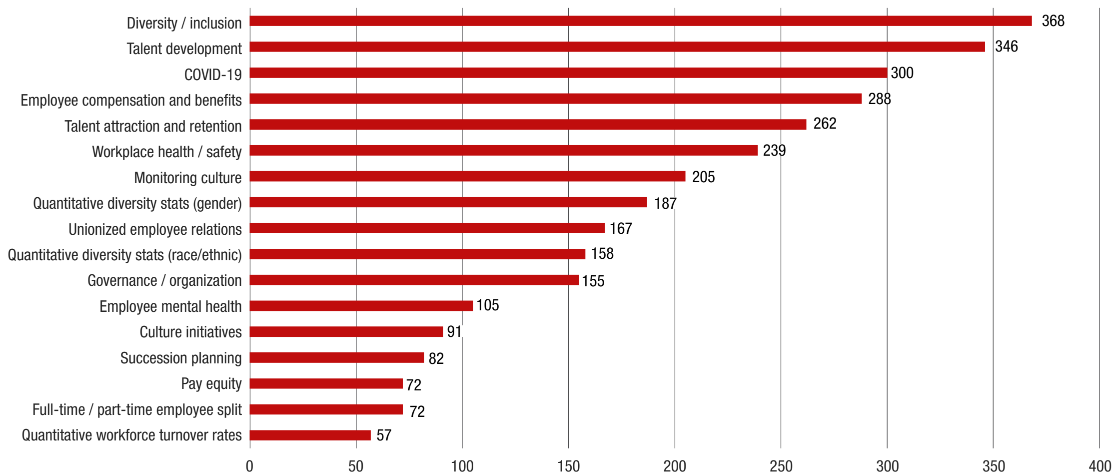
5. SIGNIFICANCE OF THE AMENDMENT AND EVOLUTION OF STANDARDS

While the current amendments from the SEC offer flexibility to the disclosure framework for registrants, critics argue that the changes are less prescriptive than previous requirements, making compliance to the disclosures vague. This results in a variety of interpretations from registrants, making it challenging for comparative analysis across companies.

In 2021, Gibson Dunn surveyed 451 S&P 500 companies' annual reports filled between November 9, 2020 and July 16, 2021.[23] The survey examined how companies addressed the topics, materiality, and format of human capital disclosures following the amendments from the SEC. As predicted, the results were varying. The survey broke down the responses into 17 topics (Figure 3).

Diversity and inclusion, and COVID-19 were among the most popular categories of disclosures with turnover rates and workforce composition the least.

Figure 3: Companies' human capital disclosures



Source: Gibson Dunn (2022)

[21] ibid

[22] ibid

[23] Gibson Dunn, 2021, "A survey of the S&P 500's compliance with the new SEC disclosure requirement one year after adoption," November 10, https://bit.ly/3EviNOG

In addition, disclosures varied by word count, metrics, and graphics. Disclosure lengths varied greatly. Other findings concluded that 25 percent of companies did not choose to include quantitative metrics beyond headcount – the original requirement. The study found that while 82 percent of companies chose to disclose DEI commitments, only 41 percent and 35 percent disclosed metrics related to gender and racial diversity, respectively.

Investors are looking for standards to be set that enables access to data that is easily comparable across companies and regions. Companies are pushing for required disclosures to align with accepted standards to streamline data collection and reporting efforts. Without prescriptive requirements from regulatory bodies, like the SEC, the quality and comparability of data is further challenged by existing disclosure frameworks and reporting guidelines, which have historically varied in recommendations. As the SEC explores its requirements, companies and investors have started to team up to create organizations that will help drive the global standards of self-reporting. Focusing Capital in the Long Term (FCLT) Global was created by CCP Investments, McKinsey, BlackRock, Dow, and Tata Sons. In October of 2019, FCLT Global published research on human capital metrics that would be universally relevant for companies to report on across countries, sectors, and context. These metrics are, "personnel turnover, leadership diversity, gender pay gap, employee health and safety, employee training, and monetary losses from legal proceedings."[24]

In addition, the International Sustainability Standards Board (ISSB) is simultaneously building a global set of ESG standards. The ISSB was created in June of 2022 as a result of a merger between Climate Disclosure Standards Board (an initiative of CDP) and the Value Reporting Foundation (which housed the Integrated Reporting Framework and the SASB standards). The mission of ISSB is to deliver a globally recognized baseline of sustainability disclosures.

As part of those efforts, SASB has already launched research initiatives to explore the evolution of its standards, with a particular focus on "S" issues including DEI and HCM data. In 2021, the Rights CoLab, in partnership with SASB, completed a study on standard-setting within corporate financial fillings. The study had two objectives, which it outlined as two workstreams: **the extension workstream**, to support the extension of SASB's existing DEI metrics to the standards for industries that currently do not contain them, and **the addition workstream**, to define new DEI metrics to incorporate as standards in relevant industries. In the study's October 2021 update, the findings were particularly focused on "diversity" and "inclusion" through the lens of disclosing workforce composition details, which SASB defines as, "Percentage of gender and racial/ethnic group representation for executive management, non-executive management, professionals, technical staff, and all other employees."[25] SASB currently considers diversity and inclusion as material to only 12 industries, which means the remaining 65 industries are not currently required to disclose diversity and inclusion metrics under SASB's guidelines. Within the extension workstream, the study reviewed 10-K fillings, proxy statements, and earnings calls for how often diversity was mentioned from 2014 to 2020. The study explored companies within industries where the topic is currently deemed material as well as industries where the topic is not yet identified as material by SASB's standards. The findings reported that mentions of diversity and inclusion within 10-Ks increased noticeably in 2020 across nearly all industries. This indicates that the topic of diversity is material to far more industries than the nine SASB currently requires, also evidenced in the Gibson Dunn survey of the S&P 500 companies.

In addition to the research project with Rights CoLab, SASB is continuing to invest in research across other human capital topics and issues as it (as part of the ISSB) seeks to create a comprehensive baseline of global disclosures. In addition to the ISSB standards, the Workforce Disclosure Initiative, created by ShareAction and the U.K. Government's Foreign, Commonwealth, and Development Office, "allows companies to demonstrate to their investors, clients, and other stakeholders how they manage their staff and supply chain workers and show how their approach to workforce management is aligned with their business strategy."[26] Investors and companies can participate in the survey and actively engage in addressing workforce issues. Alignment with ISSB and Workforce Disclosure Initiative standards could help the SEC gain more support when its new HCM disclosure requirements are first released for review.

[24] https://bit.ly/3RTSB3h
[25] https://bit.ly/3EyqzY0
[26] https://bit.ly/3MpA25S

In December of 2020, the Nasdaq Stock Market filed a rule proposal with the SEC to amend the current standards around board diversity for Nasdaq listed companies. The proposal, which was accepted by the SEC on August 6, 2021, if approved, will require companies listed on Nasdaq to annually disclose board diversity statistics and explain why a company does not have a minimum of two diverse board members. The proposal itself cited over two dozen studies demonstrating the impact a diverse board can have upon a company's performance.[27]

6. WHY NOW? HOW THE SEC PROPOSED HCM DISCLOSURES SUPPORTS THE SEC'S OVERALL AGENDA FOR IMPROVED ESG DATA

In the spring of 2021, the SEC released their regulatory agenda that included almost 50 items that it would prioritize over the coming months and years. On the short-term agenda this included ESG related rules regarding HCM, corporate board diversity, and climate change. In an interview with CNBC in February of 2022, Amy Lynch, President of Frontline Compliance and former SEC compliance officer, said of Gensler's agenda, "This is one of the largest regulatory agendas we have seen from the SEC in many years."[28] Regarding HCM, proposed rules would possibly expand the amendments of 2020 to include more specific topics around, "workforce turnover, skills and development training, compensation, benefits, workforce demographics including diversity, and health and safety."[29] Two congressional representatives in favor of expanding mandated HCM disclosure, Congresswoman Maxine Waters and Senator Sherrod Brown noted several topics in a letter sent to Gensler in May of this year.[30] Waters and Brown encouraged consideration of enterprise-wide HCM disclosure, from board and executive leadership to the broader workforce and supply chains. Their letter discussed the nuances of diversity data, noting that in addition to disclosure on race, gender, and ethnicity across a workforce, the SEC should consider disclosure of disabilities, as well as diversity across suppliers and procurement. The SEC's Investor Advisory Committee dedicated a panel to the topic of HCM at its recent meeting held on September 21, 2022. The panel's speakers, which included academic and industry researchers, an investor, and a corporate executive, presented an even broader set of topics, including employee wage data, contractors and gig workers, and a restructured approach to HCM accounting costs verses investments that would more fully represent human capital expenses in today's overweighted intangible asset market. Gensler sees the discussion and exploration of HCM disclosure, and broader ESG data, as an important element of the SEC's mission – to protect investors and maintain efficient markets through "full, fair, and truthful disclosure, transparency, and market integrity."[31]

7. CONCLUSION

As of August 12, 2022, the SEC's ESG agenda has been limited to proposing rules on climate change. There is a notable amount of interest in the market for more regulatory requirements around the "social" aspects of ESG, which could mean that proposed rules around HCM and DEI is next on the SEC's docket. In the interim, registrants will continue to comply with the SEC's rulings to the best of their abilities, ultimately producing a variety of results for investors to shift through when looking to align their investments to their evolving values. Values that continue to trend towards ESG and DEI concerns. If the SEC continues to allow companies to identify what is most material to their company, then it will likely result in less pushback from the registrants. However, the issue will remain that investors will continue to have data that is not consistent across companies, industries, and sectors. As noted earlier, the market's shift from physical goods and physical capital to intellectual capital and innovation (i.e., 90 percent of S&P 500) is proof that a company's human capital is, and will remain, a vital asset. The financial services industry, which is heavily reliant on HCM for its success, should prepare for, at minimum, one of the following scenarios: either more prescriptive HCM metrics to be proposed through Gensler's aggressive SEC agenda or prepare for increased investor demand for HCM metrics that align to global reporting frameworks.

[27] https://bit.ly/3TjMczD
[28] https://cnb.cx/3fU4zMR
[29] https://bit.ly/3S30R16
[30] https://bit.ly/3yBRPkK
[31] https://bit.ly/3Tdn5OD

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Capco, a Wipro company, is a global technology and management consultancy specializing in driving digital transformation in the financial services industry. With a growing client portfolio comprising of over 100 global organizations, Capco operates at the intersection of business and technology by combining innovative thinking with unrivalled industry knowledge to deliver end-to-end data-driven solutions and fast-track digital initiatives for banking and payments, capital markets, wealth and asset management, insurance, and the energy sector. Capco's cutting-edge ingenuity is brought to life through its Innovation Labs and award-winning Be Yourself At Work culture and diverse talent.

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ABOUT KING'S BUSINESS SCHOOL

King's Business School, the ninth and newest faculty at King's College London, opened in 2017. It is accredited by AACSB and EQUIS and was rated one of the top 10 business schools for research in the U.K. based on the Research Excellence Framework 2021. It is rated fifth in the U.K. for Business Studies by the Times and Sunday Times Good University Guide. Based in the heart of London, the School is part of an internationally renowned research-intensive university with a track-record of pioneering thinking and the limitless energies of the city's businesses, policy-makers, entrepreneurs and change-makers to draw on. The School's commitment to drive positive change is at the heart of its research and education.

KING'S BUSINESS SCHOOL

KING'S College LONDON