THE U.S. IMPACT INVESTING ALLIANCE

December 6, 2022

Subcommittee on Investor Protection, Entrepreneurship, and Capital Markets Hearing entitled, "E, S, G and W: Examining Private Sector Disclosure of Workforce Management, Investment, and Diversity Data"

Written Testimony before the U.S. House of Representatives Committee on Financial Services Subcommittee on Investor Protection, Entrepreneurship and Capital Markets Hearing

Fran Seegull
President
U.S. Impact Investing Alliance

Thank you to the Subcommittee for convening today's hearing on a topic as important as private sector disclosures on workforce management, investment and diversity data. Thank you to Subcommittee Chair Sherman and Subcommittee Ranking Member Huizenga for your leadership.

Markets can only exist and operate efficiently when there is a free flow of information, and this is particularly true for our capital markets. Investors depend on clear, comparable and reliable data on material factors to make prudent decisions in the near- and long-term. It is core to the mission of the Securities and Exchange Commission ("SEC") to empower investors by ensuring they are equipped with this kind of decision-useful information. As the head of an organization representing a wide range of investor perspectives, I join you today to share my support for SEC action to promulgate standardized corporate disclosures on material human capital management factors.

I serve as President of the U.S. Impact Investing Alliance ("the Alliance"), a non-partisan organization committed to catalyzing the growth of impact investing in the United States. The Alliance defines impact investing as those that create financial returns alongside measurable and positive social, economic or environmental impacts across asset classes. Members of our boards and councils include institutional investors and high-net-worth individuals collectively owning hundreds of billions of dollars of invested assets, in addition to asset and fund managers collectively managing over one trillion dollars in assets.

At the Alliance, we do not seek to advance any particular set of impact objectives. We have members who are motivated by a range of missions and values. Some impact investors seek to create economic opportunity in historically underinvested communities. Others look to foster the technology and industry that will drive a sustainable 21st century economy. Others are driven by personal religious or moral convictions.

What unites these different motivations and animates the work of the Alliance is the need to develop more effective capital markets, undergirded by enabling public policy, which allow investors to express their individual or institutional priorities and to invest their assets accordingly. Every investor has a unique set of risk and return preferences and time horizons that can only be expressed effectively when they have access to essential, material information about their investment options. So, while I represent an alliance of impact investors, I speak with you today about the broader needs of the capital markets.

The Alliance strongly urges the SEC to pursue a rulemaking on human capital management disclosures for corporations as soon as possible. We echo many investors in supporting the commonsense framework championed by the Human Capital Management Coalition, including disclosures on the total number of employees (including full-time, part-time and contingent labor), the total cost of a company's workforce, workforce turnover and employee diversity demographics by seniority level.[1] In addition to these quantitative measures, the agency should carefully consider what qualitative disclosures would be valuable to investors around other material workforce factors, such as worker health and safety and worker training policies.

Transparency and accountability are the hallmarks of efficient markets. Conversely, the lack of information creates market inefficiencies, which most often accrue first to the detriment of investors who have been kept in the dark. But these inefficiencies also compound over time and weaken the entire market system. In the capital markets, issuers rely on price signals from investors to improve their operational performance over time. It is therefore in the long-term interest of both individual companies and the wider economy to be responsive to emerging disclosure requirements.

Today, investors are increasingly calling for clear and comparable data on material environmental, social and governance ("ESG") factors. There are a variety of reasons that investors seek this information. Some in our network seek to promote specific impact goals, such as improving company workforce practices to create career opportunities for every employee. But in the capital markets, particularly in the public markets most closely regulated

[1] Human Capital Management Coalition, Foundational Human Capital Reporting: Taking a Balanced Approach.

by the SEC, the conversation about ESG factors between investors and company managers is first and foremost motivated by the desires to mitigate risk and pursue opportunities for growth.

On this topic, the Alliance is supportive of the SEC's proposed corporate climate disclosure requirements, which many investors and businesses also expressed support for during the public comment period earlier this year.[2] Most relevant to our conversation today, the Alliance has urged the agency to build upon its progress to-date by also prioritizing human capital management - or workforce - disclosures, inclusive of information on workforce diversity.

It is clearly within the mandate of the SEC to require standardized corporate disclosures on human capital management factors, and indeed, such action is necessary. A company's workforce is in many ways its greatest asset, and investors are eager to understand how a company attracts, manages and retains its talent - factors that relate directly to business performance.[3] The COVID-19 pandemic and its impacts on the economy and the workforce, in particular, helped to further demonstrate the importance of a company's recruitment, treatment and retention of its workers in terms of its short-term success and long-term viability.

As former SEC Chair Jay Clayton wisely stated while pursuing a rulemaking on principles-based human capital management disclosures, we need more information "from public companies on how they think about human capital."[4] The SEC should build upon the progress made during former Chair Clayton's term to better equip investors with high-quality data and in turn, promote transparency, accountability and fairness across the capital markets.

Unfortunately, investors must currently contend with incomplete and sometimes inaccurate information about workforce practices that is not comparable across companies, thus imposing inefficiencies and costs on investors.[5] Further, when companies report this information inconsistently, it can impede investment decision making. The lack of clarity also imposes costs

---

[2] Cynthia A. Williams (Indiana University) and Robert G. Eccles (Oxford University), Review of Comments on SEC Climate Rulemaking, Harvard Law School Forum on Corporate Governance, November 2022.
[3] Investor Responsibility Research Center Institute (IIRCi), "The Materiality of Human Capital to Corporate Financial Performance," April 2015; Shivaram Rajgopal, Labor Costs Are The Most Pressing Human Capital Disclosure The SEC Should Consider Mandating, Forbes, May 2021.
[4] FY 2019 Budget-U.S. Securities and Exchange Commission, Hearing Before the H. Comm on Appropriations, 115th Cong. (2018) (statement of Jay Clayton, Chairman, Securities and Exchange Commission).
[5] JUST Capital, The Current State of Human Capital Disclosure in Corporate America: Assessing What Data Large U.S. Employers Share.

on companies who may face competing and duplicative requests for information on workforce practices from investors, regulators and other stakeholders. It is for these reasons that the Alliance supports a standardized approach to human capital management disclosures.

Investors in the Alliance's network tell us that information on diversity demographics, the total cost of a company's workforce, and turnover and retention statistics are material factors in their investment decision-making. In June of this year, nearly 50 investor and business organizations joined us in writing to SEC Chair Gensler encouraging the agency to prioritize standardized disclosures on human capital management factors specifically.[6] I am confident that public comments around a future rulemaking on human capital management disclosures would be strongly in favor and point to clear areas of consensus for disclosures.

Disclosures related to workforce diversity data are particularly important to investors. This is because there is a growing body of evidence to suggest that diversity across corporate boards, senior management and overall workforce corresponds with better financial performance and resiliency, as well as a company's ability to attract and retain talent.[7] The Alliance has not supported blanket quotas on matters such as board representation, but the investors we work with do seek to understand how issues of diversity are broadly addressed by companies in which they invest. Specifically, investors in our network have emphasized the importance of workforce diversity disclosures by race, gender, LGBTQ+ and disability status. The Alliance has advocated for the inclusion of disability status when considering diversity factors, given the compelling evidence base that good corporate disability inclusion practices are linked to improved business performance.[8]

Human capital management disclosure would not create significant burdens on issuers. We are mindful that policymakers may be wary of regulatory changes that could burden U.S. companies. Careful consideration of impacts on issuers is critical, though we strongly believe that human capital management disclosure requirements would not be overly burdensome to companies and would instead result in overall benefits to investors, companies and the broader markets.

---

[6] U.S. Impact Investing Alliance, Letter to SEC Chair Gensler on Investor and Business Group Support for Mandated Human Capital Management Disclosures for Corporations, June 2022.
[7] McKinsey & Company, Diversity Still Matters, May 2020; Morgan Stanley, Why it Pays to Invest in Gender Diversity, May 2016; Glass Door, What Job Seekers Really Think About Your Diversity and Inclusion Stats, July 2021.
[8] Accenture, Getting to Equal: The Disability Inclusion Advantage, 2018.

The SEC's cost-benefit analysis of its proposed corporate climate disclosure rulemaking revealed that the costs to implement would be limited. This finding was also validated by an independent study finding the agency's estimates in line with corporate issuers' current average spend on climate-related disclosure activities.[9] It stands to reason that the costs of a human capital management disclosure rule would also be minimal.

Broadly speaking, publicly listed companies will already have access to extensive information on their workforce. Collection of diversity data in particular is already required through the U.S. Equal Employment Opportunity Commission in the form of EEO-1 data, covering data by race/ethnicity, sex and job categories.[10] Therefore, a requirement to publicly disclose data that is already collected would not impose significant incremental burdens on companies.

Further, absent a federal standard, corporate leaders are currently having to navigate a complex web of overlapping and duplicative private disclosure standards to meet investor demands. The SEC has the opportunity to standardize these disclosures and create clarity for both issuers and investors alike.

How the SEC proceeds on standardized corporate workforce disclosures is also a matter of American economic competitiveness. The United States is a global economic leader because investors have ample confidence in the transparency and accountability of our public capital markets. However, global regulators are moving forward with their own disclosure regimes, placing those seeking to invest in U.S. corporations at an information disadvantage if we do not pave our own path forward. American businesses would, in turn, face barriers to raising capital without a streamlined process for disclosing information investors increasingly expect and demand. Conversely, mandated, clear and consistent disclosure of human capital management factors will make existing issuers stronger, and it will attract more capital into industries that will, in turn, create pathways to economic opportunity for American workers.

The SEC has made significant strides in promoting regulations that would instill more transparency in the capital markets on material sustainability issues like climate change, but we risk losing momentum without a complementary rulemaking on human capital management disclosures. Across the federal government, we encourage policymakers to consider their collective role in cementing American leadership and U.S. economic competitiveness on these issues.

---

[9] The Sustainability Institute by ERM, Costs and Benefits of Climate-Related Disclosure Activities by Corporate Issuers and Institutional Investors, May 2022.

[10] U.S. Equal Employment Opportunity Commission, EEO-1 Data Collection.

Conclusion: Changes to the rules underpinning our capital markets deserve careful consideration. The Alliance and the investors in our network are encouraged by the thoughtful consideration of human capital management disclosures demonstrated by the SEC over the past several years, guided by the expertise of those such as the experts sitting on the Investor Advisory Committee.[11]

The Alliance and the investors in our network strongly support SEC action to require standardized corporate disclosures on workforce management, investment and diversity data. Empowering investors with clear, comparable and decision-useful data on material ESG and specifically human capital management factors is squarely in line with the SEC's critical mission to protect investors; ensure fair, orderly and efficient markets; and facilitate capital formation.

A streamlined and standardized disclosure framework from the SEC will cement the transparency, accountability and efficiency of our capital markets and enhance American economic competitiveness for many years to come. Thank you to the Subcommittee for this opportunity to speak on such an important topic for U.S. investors.

[11] Recommendation of the Investor Advisory Committee Human Capital Management Disclosure, March 2019.