

Putting New HCM Disclosure Rules into Practice



SEC Rules Change One Part of Regime on HC

Section	Prior Regime	New Regime
101 (Description of Business)	Number of employees (S-K Item 101(c))	<p>Description of a registrant's human capital resources, including # of employees</p> <p>Any human capital measures or objectives that the registrant focuses on in managing the business</p> <p>Only to the extent such disclosure is material to an understanding of the registrant's business taken as a whole (amended S-K Item 101(c))</p>
303 (MD&A)	Known trends, events demands or uncertainties that are reasonably likely to have material effect on the company's financial condition and/or results of operations (S-K Item 303),	Same
402 (Compensation)	<p>Risks from executive compensation policies or practices that are reasonably likely to result in a material adverse effect (S-K 402(s))</p> <p>CEO pay ratio (S-K Item 402(u))</p>	Same
502 (Risk Factors)	"Significant" risk factors (S-K Item 502(c))	Same



Context for New HC Disclosure Requirements

- **Part of broader overhaul of disclosures**, shifting from proscriptive to principles-based disclosure.
- **HC now includes as one of seven non-exclusive, illustrative topics** for description of business:
 - ✓ Revenue-generating activities, including products and/or services;
 - ✓ New or enhanced products, trends in market demand and competitive conditions;
 - ✓ Resources material to a registrant's business
 - ✓ Portion of the business that may be subject to renegotiation of contracts;
 - ✓ Seasonality of business;
 - ✓ Compliance with government regulations, including environmental regulations;
 - ✓ Human capital resources and human capital measures or objectives that the registrant focuses on in managing the business
- Recognizes **importance of human capital**
 - ✓ “We believe that, in many cases, human capital disclosure is important information for investors. Human capital is a material resource for many companies and often is a focus of management, in varying ways, and an important driver of performance”



Specifics on new HC disclosure requirements

- Does not define “human capital”
 - ✓ “This term may evolve over time and may be defined by different companies in ways that are industry specific. This approach is consistent with the view expressed by a number of commenters that noted that there are many definitions of human capital and that the concept, while generally well understood, is often tailored to the circumstances and objectives of individual companies.”
- Description of human capital resources
 - ✓ While not required, SEC does note that metrics can include part-time employees, full-time employees, independent contractors and contingent workers, and employee turnover, *in all or a portion of the registrant’s business*.
- Human capital measures and objectives include those that address the development, attraction and retention of personnel.
- Companies have flexibility to tailor their disclosures to their unique circumstances, including by providing disclosure in accordance with some or all of the components of any current or future standard or framework that facilitates human capital resource disclosure.
- As is the case with non-GAAP financial measures, companies should maintain any human capital metric definitions used constant from period to period or prominently disclose any changes to the metrics or definitions used



Preparing your board and management

- Define human capital overall
- Determine what HC topics are key to your business & metrics (Appendix)
- Ideally, engage board
 - ✓ Educate board on importance of HC, key issues, new regulations
 - ✓ Present board with HC strategy tied to business strategy – what are needs, capabilities, gaps, steps to close gaps, and ways to measure progress
 - ✓ Clarify role of board
 - Achieve consensus on level of board engagement
 - Discuss multiple board levers
 - Determine which committee(s) take the lead - update committee charters and governance documents
 - ✓ Develop board reports
 - ✓ Assess board's own capabilities with respect to HC
 - ✓ As desired, update compensation plans for HC metrics



Focus on Disclosure

- Review existing disclosure with respect to HCM and where such disclosure is located
- Review context (law, frameworks, investor expectations, other disclosures, TCB report):
 - [Lockheed Martin 2020 Proxy Statement](#);
 - [Prudential 2020 Proxy Statement](#)
- Develop updated HC story
 - ✓ Importance of HC
 - ✓ Key areas
 - ✓ HC strategy: Goals, pans (including gaps), metrics, rewards
 - ✓ Role of board
- Determine where you tell the story
 - ✓ Externally (Form 10-K, CSR Report, website, etc)
 - ✓ Internally
- Determine when you tell the story – likely to unfold over time
- Develop Form 10-K Disclosure
 - ✓ Draft more tailored HC business, compliance, and risk factor disclosure
 - ✓ Examine disclosure controls and procedures relating to HC
 - ✓ Preview with board and relevant committee



Appendix: HC Topics for Consideration

- Human Capital Efficiency (multiple metrics can be used to based on performance and cost)
- Workforce Composition & Capabilities
- Worker Health and Safety
- Workforce Diversity, Equity and Inclusion
- Compensation and Benefits
- Culture (including compliance), Engagement and Workforce Experience
- Talent Acquisition and Deployment
- Workforce Development
 - ✓ Training/Learning & Development
 - ✓ Performance Management
 - ✓ Mobility and Advancement
 - ✓ HR Tech and Operations

