



California State
Teachers'
Retirement System
Sustainable Investment &
Stewardship Strategies
100 Waterfront Place, MS 4
West Sacramento, CA 95605

October 26, 2019

Vanessa A. Countryman, Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

RE: [File Number S7-11-19](#) Release Nos. 33-10668; 34-86614
Modernization of Regulation S-K Items 101, 103, and 105

Dear Secretary Countryman:

We are writing on behalf of the California State Teachers' Retirement System ("CalSTRS"). CalSTRS was established for the benefit of California's public-school teachers over 100 years ago and is the largest educator only pension fund in the world, with a global investment portfolio valued at approximately \$242.1 billion.¹ We serve the investment and retirement interests of more than 949,000 plan participants and their beneficiaries. The long-term nature of CalSTRS liabilities and its responsibilities as a fiduciary to our members, make the fund keenly interested in the rules and regulations that govern the securities market. We have a vested interest in ensuring shareholder protections are safeguarded within the Securities and Exchange Commission's ("SEC" or "Commission") rules and regulations.

We commend the SEC on seeking to update its rules to improve disclosures for investors and to simplify compliance efforts for registrants on Regulation S-K, and therefore support a combination of rules-based and principles-based disclosures. CalSTRS believes specific line item disclosures are necessary, specifically regarding human capital management, that allow investors the ability to access timely, accurate, comprehensive, consistent and comparable information that is not boiler plate.

Consistent with CalSTRS' [July 21, 2016 letter](#), we ask the SEC to prioritize the needs of investors as the underlying tenant of any additions and changes to business and financial reporting requirements of Regulation S-K. CalSTRS' 2016 letter emphasized the need for clear, concise language that is meaningful and informative.

Thank you for the opportunity to respond to the questions as outlined in the SEC's rulemaking proposal on the Modernization of Regulation S-K Items 101, 103 and 105. Since CalSTRS responded to the SEC's Concept release in 2016 our views have not changed, we therefore focus on proposed changes to reporting rules governing item 101 (c) in Regulation S-K and specifically the questions on human capital management disclosures. We support and appreciate the Commission's response to the [SEC's Investors Advisory Committee's recommendation](#) which recognizes the significance and need for better human capital management ("HCM") disclosures. CalSTRS is pleased that the SEC is soliciting views from a wide range of market participants and the public at large on this critical issue.

¹ [California State Teachers Retirement System, Current Investment Portfolio as of September 30, 2019.](#)

As companies are increasingly dependent on their workforces as a resource of value creation, it is imperative that boards of companies, and executive management better understand HCM metrics that help drive and fulfill its business strategy. Investors need robust numeric metrics that quantify and exhibit how companies utilize and value their most important asset, their human capital. CalSTRS is a member of the [Human Capital Management Coalition](#) which submitted a [2017 Rulemaking Petition](#) to require issuers to disclose information about their human capital management policies practices and performance.

Explicitly, CalSTRS supports mandatory line item disclosures on human capital management as it is not only critical to investors but underpins the long-term value of a company. CalSTRS recommends that any framework for disclosures should consider five elements of a company's workforce. These numeric metrics include workforce:

- 1. Composition**
 - a. Number of full-time, part-time and contingent workers – internal/external
 - b. Ratio of full-time workers to part-time, and full/part-time to contingent workers
 - c. Diversity
 - i. Gender, orientation, ethnicity/race - percentages of C-suite, management, workforce, board include Labor (position) types - percentages by position classification
- 2. Total Costs**
 - i. Salaries, bonuses and pensions inclusive of all employees - guaranteed pay, variable pay, benefits and equity pay
- 3. Attraction, Recruitment and Turnover**
 - i. Advertisements and recruitment - rate of retention
 - ii. Turnover – voluntary and involuntary – by position, region, age, gender and percentage of voluntary turnover to overall turnover
- 4. Training, Development, and Stability Metrics**
 - i. Return on investments in talent - Total annual training hours per employee, per position type, total dollars invested in training and development, and percentages of retention rates
- 5. Engagement and Wellbeing**
 - i. Engagement index score – percentage of positive opinions/scores, absenteeism rate as a percentage of total hours worked and department/unit – lost days divided by total days of department/unit work days

There are also tangible financial benefits to enhanced HCM disclosures. In 2018, research from Embankment Project on Inclusive Capitalism (“EPIC”) linked financial value to human capital reporting. The study found that measurable HCM metrics and narratives provide critical information that contributes to a company's long-term value. The study found firms that disclose data on their ability to create value by leveraging human capital perform better than non-disclosers. In the United Kingdom, where issuers are required to report detailed human capital information, firms with stronger human capital reporting show a return on invested talent (“ROIT”) – defined as the dollar return per one dollar invested in talent – that is nearly 3 times higher than the ROIT of non-disclosers and operating margins that are 33 percent higher than those of non-disclosers.²

As a member of the HCM Coalition, we are pleased to see the momentum for better HCM disclosures is growing. Earlier this year, the Corporate Secretary platform published an article on how boards and companies should approach human capital management.³ The article highlights large institutional investors like BlackRock, State Street, Generali and others, who are asking portfolio companies to provide better human

² Embankment Project for Inclusive Capitalism. (2018). *The 2018 EPIC Report*, 42. Retrieved from: <https://www.epic-value.com/#report>.

³ Corporate Secretary, “[How boards can approach human capital management.](#)” Melissa Sawyer, Partner & Jared Snyder, Associate of NY Office of Sullivan & Cromwell, March 12, 2019.

Vanessa A. Countryman, Secretary
Securities and Exchange Commission
Reg. S-K - File S7-11-19
Page 3

capital management disclosures including metrics and practices. The discussion supports increasing involvement of company boards and multiplying requests by investors.

To ensure a concise response, we refer you to CalSTRS 2016 letter regarding the broad questions asked on disclosure framework and narrative descriptions. We continue to believe robust metric and narrative disclosures are necessary for informed investment and voting decisions. Please see the following addendum for CalSTRS response to questions outlined in this rulemaking proposal.

We hope our summary perspective as a long-term investor provides insight to what we deem critical to this rule making proposal on Regulation S-K. If you would like to discuss this letter further, please feel free to contact me at AMastagni@calstrs.com or Mary Hartman Morris at 916-414-7412, MMorris@CalSTRS.com.

Sincerely,



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Portfolio Manager



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CalSTRS – ADDENDUM to Regulation S-K Rulemaking Proposal –

Pointedly, we respond to the following questions:

Narrative Description of Business (Item 101 (c)(1)(xiii))

12. Should we shift to a more principles-based approach for Item 101(c), as proposed? Would registrants find it difficult to apply the principles-based requirements?

The SEC should strive for a combination of rules- and principals-based disclosures. Specifically, for human capital management disclosures, we believe numeric metrics are necessary in order to allow for comparability as outlined above. We believe in addition to mandatory metrics that an open-ended principles-based disclosure regime may allow for differences in industry and individual company practices. As investors and stewards of capital on behalf of our beneficiaries, CalSTRS believes it is critical, that disclosures need to be consistent and comparable. It is important for the SEC to outline metrics that are helpful in explaining a company’s approach to human capital management in the context of long-term value creation. Furthermore, companies need to share the metrics that are important to their board and their sector/industry. It is unlikely that a strictly principles-based disclosure regime for human capital management would result in information that is consistent, comparable, or efficient for investors to collect and use as part of their investment process.

CalSTRS agrees with recent remarks from Commissioner Jackson at the Council of Institutional Investors (CII) Fall Conference “...that purely principles-based standards could unwittingly increase costs for investors, and in turn, the cost of capital for companies, by reducing comparability and consistency in information provided by issuers. As Commissioner Jackson also pointed out, risk factor disclosures – which are currently principles-based –tend to be heavily boilerplate, occupy significant real estate in financial statements, and often are of limited utility to investors.”

13. Would the proposed principles-based requirements elicit information that is material to an investment decision? If not, how might Item 101(c) be further improved? Are there any additional disclosure topics that we should include in Item 101(c) to facilitate disclosure? Alternatively, should we exclude any of our proposed disclosure topics?

The proposed principles-based requirements alone are unlikely to yield the more robust human capital information investors need to make well-informed investment decisions. Specifically, as outlined in CalSTRS letter, we ask the SEC to consider for HCM disclosures the five dimensions of workforce metrics. We support the SEC establishing a limited set of well-defined, baseline human capital management disclosure standards that are universally-applicable across issuers, regardless of industry or business strategy.

Beyond the baseline HCM disclosures, we believe an industry-specific disclosure standard would be helpful to both, investors and issuers, to identify the most material environmental, social and governance risks. We believe a framework such as the Sustainability Accounting Standards Board would help move issuers away from boiler-plate language and at the same time allow for comparability, which is important to investors.

Additionally, we reinforce the need for better disclosures on the diversity composition of a company’s workforce. Companies should report on diversity of the workforce, with a limited exception for workforce composition outside the United States, to the extent that local laws may restrict such disclosure. Increased diversity – especially increased diversity among leadership – has been statistically correlated with stronger financial performance across a number of metrics, including firm profitability, Earnings before Interest and Taxes (EBIT) and overall value creation while companies that lack diversity can suffer a performance penalty relative to their peers (see [McKinsey Delivering through Diversity report](#)).

Lastly, and most importantly, the EPIC report found that high quality human capital disclosures need not be excessively long and verbose to be of use: firms that produce human capital metric disclosures that investors find the most useful do so with a third of the narrative than companies with lower-quality disclosures.

21. Should disclosure regarding human capital resources, including any material human capital measures or objectives that management focuses on in managing the business, be included under Item 101(c) as a listed disclosure topic, as proposed? Should we define human capital? If so, how?

Disclosure of human capital resources should include both material HCM measures or objectives that management focuses on in managing the business. CalSTRS believes that all human capital-related disclosures, including the baseline metrics we propose in our letter, as well as other information material to a company's operations, should be provided in a way that helps investors understand the workforce strategy and how it relates to the company's business strategy. CalSTRS also supports disclosures that include risks and opportunities related to the workforce strategy.

The SEC may find the [HCM Coalition's high-level questions](#) investors are using in company engagements instructive and helpful in developing disclosure requirements. Additionally, we believe that the SEC should provide a basic definition of human capital. The HCMC provided the following definition of human capital in its 2017 rulemaking petition:

"There is broad agreement that human capital encompasses the knowledge, motivation, skills and experience of a company's workforce, as well as its alignment with the company's mission and values."⁴

23. With respect to human capital resource disclosure, should we include other nonexclusive examples of measures or objectives that may be material, such as the number and types of employees, including the number of full-time, part-time, seasonal and temporary workers, to the extent disclosure of such information would be material to an understanding of the registrant's business? Could other examples include, depending on the nature of the registrant's business and workforce: measures with respect to the stability of the workforce, such as voluntary and involuntary turnover rates; measures regarding average hours of training per employee per year; information regarding human capital trends, such as competitive conditions and internal rates of hiring and promotion; measures regarding worker productivity; and the progress that management has made with respect to any objectives it has set regarding its human capital resources? Would providing specific examples potentially result in disclosure that is immaterial and not tailored to a registrant's specific business? Would not including such examples result in a failure to elicit information that is material and, in some cases, comparable across different issuers?

We believe examples would be helpful to issuers for illustrative purposes. We'd be glad to share some specific company examples that we believe provide initial steps towards more informative HCM disclosures. We understand, the forthcoming report by [UK Financial Reporting Council's Financial Reporting Lab](#) provides a number of high-quality reporting examples on HCM disclosures from large global firms.

24. Should we retain an explicit requirement for registrants to disclose the number of their employees? Alternatively, should we permit registrants to disclose a range of the number of its employees and/or a range for certain types of employees?

CalSTRS believes the SEC should require the five metrics outlined in our letter.

⁴ Human Capital Management Coalition. (2017) *Rulemaking Petition to Require Issuers to Disclose Information About Their Human Capital Management Policies, Practices and Performance*, as submitted to the U.S. Securities and Exchange Commission on July 6, 2017. Retrieved from <https://www.sec.gov/rules/petitions/2017/petn4-711.pdf>.