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Gloat's Guide to SEC Human Capital Disclosures



1929

October 25, “Black Friday.” Following the largest sell-off of shares in U.S. history, stock markets crash and send America crashing into the Great Depression.

On November 9, 2020, the SEC introduced a change to their disclosure standards for the first time in 30 years, extending them to encompass human capital alongside physical and financial capital that has been reported up until now. This change, though so far not widely discussed, has huge repercussions for publicly traded companies – and, specifically, for their HR leaders.

The following is a quick rundown of the new SEC Human Capital disclosure regulations, detailing the rationale behind them and the new opportunities they afford. The regulations are effective starting November 9, 2020, with no grace period, and pertain to all financial releases from that date onward.

For many in the HR world, SEC disclosures form a new and unfamiliar terrain.

The following is meant to act as a primer, providing a basic introduction to SEC disclosures, the new SEC human capital metrics, as well as practical recommendations for going forward for HR leaders.

But first, some context.

1933

May 27. The Truth in Securities Act is enacted by the United States Congress, requiring every offer or sale of securities – tradable financial assets – to be registered.

1934

June 6. President Franklin D. Roosevelt signs the Securities Exchange Act, establishing the Securities and Exchange Commission (SEC), a federal agency responsible for enforcement of U.S. federal security law.

What Is the SEC?

To this day, the world's greatest economic trauma and financial crisis is the Great Depression of the 1930s, brought on by the stock market crash of 1929. The crash was caused by a variety of factors, the most significant of which were untethered, speculative investments in stock markets. To prevent similar crashes from ever taking place again – and to protect investors and the national banking system - the United States federal government founded the [U.S. Securities and Exchange Commission](#), better known as the SEC, in 1934.

The SEC has three main missions: to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation.

To accomplish this, publicly traded companies are required to disclose information about their activities, finances and capabilities, gathered

by the SEC in a variety of quarterly and annual reports, containing key information about their business so people are able to make responsible, informed investment decisions.

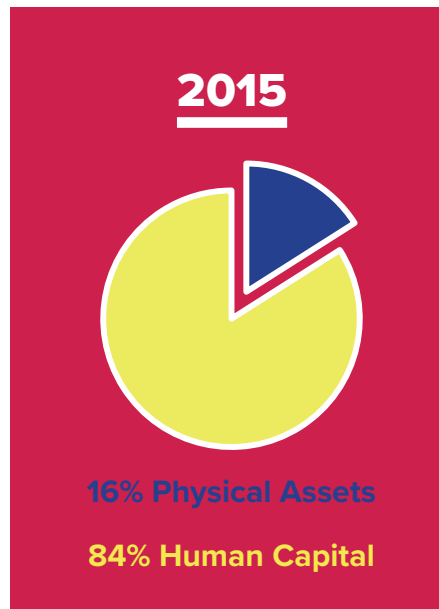
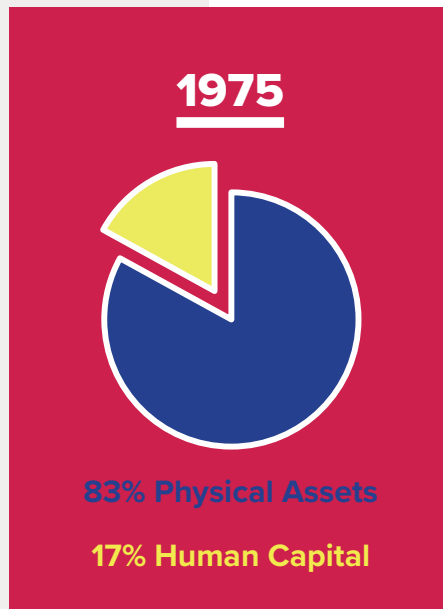
Investors, in turn, have come to rely on the SEC's databases in their decision-making processes, as the information reported therein is, by design, pivotal to the companies' value.

But while the American economy was primarily industry and manufacturing-oriented in the 1930s – and the 1970s, when disclosures guidelines were last updated – ***today, industry and manufacturing have taken a back seat, while services and R&D have moved to the forefront.***

But while the economy has shifted, SEC regulations have remained largely unchanged – until now.

New Regulations

Up until the 1980s, the majority of publicly traded companies' value was tied directly to their physical and tangible assets. But by 2015, only 16% of the value of S&P 500 companies could be explained by these metrics, while the remaining 84% was tied to human capital.



But while human capital is the primary driver of value in the stock market today, the only “human capital” metric companies were required to disclose according to the 1977 SEC rules was the total number of employees

– not a very informative measure of human resources or potential for investors. The new SEC standards change all that, and mandate an expanded set of human capital metrics for disclosure, including (but not limited to) attraction, development and retention, as well as reference topics like health and safety, diversity and inclusion, engagement, and employee satisfaction.

In short, ***the SEC is effectively taking a position that a company's value is dependent on the way it treats its employees as much as it is on financial bottom line.*** Of course, with the new regulations in place, this also means that these human capital metrics will directly affect financial bottom lines as people consider them in their investments.

1930s

Nearly 100% of the value of S&P 500 companies can be explained by the value of their tangible or physical assets.

SEC Human Capital: Possible Reporting Topics

Attraction	Development	Retention
- time to fill critical positions - % of positions filled internally	- % of employees who receive any training - % of leaders who receive leadership development	- Turnover - Turnover for critical positions
Additional Metrics		
- employee engagement score - leadership diversity		

1975

84% of the value of S&P 500 companies can be explained by the value of their tangible physical assets, while the remaining 16% was accounted for in human capital.

1977

Last update to SEC regulations for the next 4 decades. The only human capital parameter which requires disclosure from publicly traded companies: number of employees.

Who Needs Rules, Anyway?

The SEC's Principles-Based Approach

The new SEC Human Capital disclosure requirements may have far-reaching implications for publicly traded companies, but what they don't have is a clear set of rules defining exactly what human capital metrics need to be disclosed. Which In fact, even the term "human capital" isn't clearly defined in the new regulations – but this isn't oversight: it's by design.

Generally speaking, the SEC's approach to these reports is a principles-based one, in which they eschew defined rules, and instead share the desired outcome of the report with companies,

allowing each company to decide for itself

which data is best suited to help investors

make an informed decision.

This allows for a lot of flexibility, based on the understanding that different industries may be served best by different metrics. This also allows companies, investors, and the SEC itself to learn on the go, augmenting and improving the process from one report to the next.

2015

84% of the value of S&P 500 companies can be explained by their human capital, while the remaining 16% was accounted for in tangible or physical assets. A complete inversion of the 1975 statistics. Gloat is founded.

Why It Matters

Adding human capital to the SEC's disclosures requirements represents a shift in the way businesses are assessed and valued.

A company's value is no longer solely dictated by the product or service they offer, but also by the way its human resources are treated and organized. This isn't just an ethical stance – it's a statement regarding the business' capacity to pivot, change and grow based on the talent available to it.

What it also means is that companies' HR leadership has now been elevated to its rightful place, right next to the CFO, COO and CEO.

CHROs' actions and reporting now directly influence stocks and company value – and therefore need to be investment-grade to reflect that.

While that may initially be a little anxiety-inducing, this is, in fact, a phenomenal opportunity for companies' HR departments to demonstrate their worth and contribution to bottom lines – and, with the increased attention they're bound to receive, to push for projects and reforms they'd like to promote.

2020

August 26. The SEC publishes a rule called Modernization of Regulation S-K, governing public disclosure by companies for their initial security offerings (S-1 reports) as well as quarterly (10-Q reports) and annual (10-K) financial releases, mandating disclosure of all material human capital information.

2020

November 9. The new rule comes into effect, requiring all publicly traded companies to disclose all material human capital information starting with their November 30, December 31, or January 31, 2021 quarterly or annual public financial releases.

Moving the Dial

Initially, HR departments are likely going to focus on finding the right metrics to tell the story of their companies' human capital – but once those initial disclosures are submitted, real pressure will be on CHROs to ***demonstrate improvement and progress in the metrics they've reported.***

It's here that technology like Gloat's Talent Marketplace comes in, providing both executive-level insights into workforce, skills and talent, as well as tools to act on those insights and drive real change down to the employee level. Using this technology will not only allow CHROs to more easily report the status of their human capital, but to actually improve performance on everything from internal mobility, D&L and mentoring, to D&I, engagement and employee satisfaction.

This is a big moment for CHROs. With the right strategy, technology and partners, you can enable your organization and its employees to succeed – and advance your own standing.

About Gloat

Gloat is the first-ever Internal Talent Marketplace, used by the world's leading enterprises. Our platform helps enterprises democratize career development, unlock skills, and future-proof their workforces, by utilizing a powerful AI engine and relying on years of experience and implementation.

We enable enterprises to harness the hidden potential of talent throughout the organization by matching people to internal career opportunities that are right for them, and provide mission-critical organizational agility, visibility, and insights.

Learn more at:

www.gloat.com