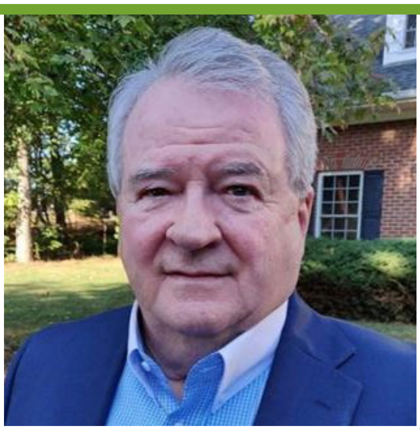
Mandated Human Capital Disclosure is Here for 2021

Pearl Meyer

Ask the Expert.

J. Timothy O'Rourke, *Managing Director*



J. Timothy "Tim" O'Rourke, a managing director in Pearl Meyer's Raleigh office, explains what compensation committees need to know about expanding disclosure rules.

Q. How will the SEC's new Human Capital Disclosure requirement be implemented?

A: The new mandate falls under Regulation S-K, which includes an obligation to describe a company's business. It's effective for the upcoming reporting season in 2021, so compensation committees will need to have a disclosure strategy ready by the current year-end. While the new rule seeks material information on how public companies manage their workforce, the SEC is providing very little guidance. Chairman Jay Clayton stressed a view that companies should use their discretion to outline which Human Capital Management—or "HCM"—practices are material to corporate performance.

Q. Does the new rule include any new metrics?

A: There's no required quantitative data other than total number of employees and that requirement is not new. The rules do state that companies should disclose "…depending on the nature of the company's business and workforce—measures or objectives that address the development, attraction, and retention of personnel." This will evolve over time, we suspect. Compensation committees, which are already increasingly involved in broad HCM issues beyond those considerations at the management level, likely have a strong sense of this, at least qualitatively.

Q. How should compensation committees think about this mandate?

A: Since the new rule only requires disclosure that is *material* and stops short of defining "human capital," it is difficult to judge what the SEC meant by materiality. It's likely many companies will want to see what others, especially peers, disclose. However, the leaders in your industry may want to set the direction for how to think about material policies and practices. For example, in the retail banking industry the pandemic accelerated a previously gradual shift in the distribution strategy from human delivery of services to self-service, and how that impacts human capital practices may be considered material.

"...the leaders in your industry may want to set the direction for how to think about material policies and practices."

About J. Timothy "Tim" O'Rourke

Tim O'Rourke is a managing director at Pearl Meyer in the Raleigh office. He consults to a broad cross-section of industry and not-for-profit organizations, from large and well-established companies to start-ups. In addition to executive and staff compensation strategy and planning, he also helps clients with broader strategic planning, crisis, and turnaround efforts.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management on the alignment of executive compensation with business and leadership strategy, making pay programs a powerful catalyst for value creation and competitive advantage. Pearl Meyer's global clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private companies to the Fortune 500 and FTSE 350. The firm has offices in Atlanta, Baltimore, Boston, Charlotte, Chicago, Houston, London, Los Angeles, New York, Raleigh, and San Jose.