



# Americans for Financial Reform Education Fund

October 30, 2023

Hillary H. Salo  
Technical Director  
File Reference No. 2023-ED500  
Financial Accounting Standards Board  
801 Main Avenue  
PO Box 5116  
Norwalk, CT 06856-5116

## **Re: Disaggregation of Income Statement Expenses**

Dear Ms. Salo:

The Americans for Financial Reform Education Fund (AFREF) appreciates the opportunity to comment on the proposal by the Financial Accounting Standards Board (FASB) to improve the disclosures about a public company's expenses. Our comment will focus on the proposed disaggregation of employee compensation from expense captions, which is critical to improving investor access to important information and we strongly support. We make recommendations for how to improve the usefulness and comparability of the information, as well as recommendations for further FASB action.

### **Importance of workforce information**

Accounting principles have not kept pace with drastic changes in how companies create value. Over 90% of the S&P 500 market capitalization is attributed to intangibles,<sup>1</sup> the majority of which include and/or are derived from human capital. This is in stark contrast to S&P 500 value in 1975, over 80% of which was attributed to tangibles such as plants and equipment.<sup>2</sup> However, only about 15% of public companies disclose labor costs in their financial statements,<sup>3</sup> and the

---

<sup>1</sup> Ocean Tomo, "Intangible Asset Market Value Study," <https://oceantomo.com/intangible-asset-market-value-study/>.

<sup>2</sup> *Id.*

<sup>3</sup> Shivaram Rajgopal, "Labor Costs Are the Most Pressing Human Capital Disclosure the SEC Should Consider Mandating," *Forbes*, May 17, 2021, <https://www.forbes.com/sites/shivaramrajgopal/2021/05/17/labor-costs-are-the-most-pressing-human-capital-disclosure-the-sec-should-consider-mandating/?sh=4e889b365192>.

overall current state of workforce information is “inconsistent, incomparable, and unreliable.”<sup>4</sup> This has resulted in repeated calls by investors and academics alike for consistent, comparable, and decision-useful workforce information.<sup>5</sup> FASB’s proposal to disaggregate employee compensation costs from expense captions is a significant and important step that is responsive to investor needs and demands.

### **Workforce composition**

While employee compensation cost disclosures are valuable, the drastic changes in companies’ workforce models that have occurred in the last decades means workforce cost disclosures beyond employees as defined in Topic 718 are necessary for investors to have a complete and accurate picture of a companies’ workforces. A full picture of a company’s workforce costs is critical for investors’ ability to assess a company’s business, risks, and prospects for investment purposes.

In a letter to the Securities and Exchange Commission (SEC), several union presidents made a strong case for disclosures that encompass “the entire workforce that is material to investors,” which they refer to as the “material workforce.”<sup>6</sup> The material workforce can include “workers who are either not directly employed by the issuer or are not claimed by the issuer to be its employees.”<sup>7</sup> The letter provides four concrete examples of workers who are part of a company’s material workforce without being claimed as employees by the company: 1) an estimated 150,000 Amazon delivery drivers, typically classified as employed by a contractor; 2) over two million workers who work in McDonald’s-branded restaurants owned by franchisees; 3) hundreds of thousands of Uber drivers classified as independent contractors; and 4) hospitality workforces employed through third-party hotel operating companies that create value for hotel real estate investment trusts (REITs).<sup>8</sup>

---

<sup>4</sup> Colleen Honigsberg and Shivaram Rajgopal, “Wage Wars: The Battle Over Human Capital Accounting,” 296, Harvard Business Law Review, Vol. 12, 2022,

<https://law.stanford.edu/wp-content/uploads/2021/10/HBLR-12-2-Honigsberg-Rajgopal-Wage-Wars.pdf>.

<sup>5</sup> Human Capital Management Coalition, “Rulemaking Petition to Require Issuers to Disclose Information About Their Human Capital Management Policies, Practices and Performance,” Jul. 6, 2017,

<https://www.sec.gov/files/rules/petitions/2017/petn4-711.pdf>; Human Capital Management Coalition, “FASB File Reference No. 2021-004 – Invitation to Comment: Agenda Consultation,” Sept. 22, 2021,

[https://www.hcmcoalition.org/\\_files/ugd/ee804c\\_53b7be8712c14111b976951d3e38689f.pdf](https://www.hcmcoalition.org/_files/ugd/ee804c_53b7be8712c14111b976951d3e38689f.pdf); Working Group on Human Capital Accounting Disclosure, “Petition for Rulemaking,” Jun. 7, 2022,

<https://www.sec.gov/files/rules/petitions/2022/petn4-787.pdf>; SEC Investor Advisory Committee, Recommendation Regarding Human Capital Management Disclosure, Sept. 14, 2023,

<https://www.sec.gov/files/20230914-draft-recommendation-regarding-hcm.pdf>.

<sup>6</sup> Elizabeth H. Shuler, James P. Hoffa, Lee Saunders, Mary Kay Henry, Christopher M. Shelton, and D. Taylor, “File 4-711 (Rulemaking Petition to Require Issuers to Disclose Information About Their Human Capital Management Policies, Practices and Performance),” Jan. 18, 2022,

<https://www.sec.gov/comments/4-711/4711-20112177-265269.pdf>.

<sup>7</sup> *Id.* at 1.

<sup>8</sup> *Id.* at 1-3.

Because many workers beyond those who fall under a typical “employee” definition (including the Topic 718 definition) are critical to assessing company value, investors and academics have repeatedly requested workforce information (including workforce costs) disaggregated by full-time, part-time, and contingent.<sup>9</sup> Contingent workers could be defined based on the SEC Investor Advisory Committee’s recommendation of “all similarly situated persons whose work contributes to a material level of revenue or income” not already captured under the Topic 718 employee definition.<sup>10</sup> The definition could also be based on the standard for determining joint employer status under the National Labor Relations Act,<sup>11</sup> such that workers for whom the company would be considered a joint employer who are not already captured under the Topic 718 employee definition would be contingent workers.

FASB could require this information by either creating additional categories such as “part-time workers’ compensation” and “contingent workers’ compensation” in addition to the proposed “employee compensation” category, or creating a “total workforce compensation” category that would be further disaggregated into the three categories.

### **Employee compensation**

Investors have repeatedly argued that disclosures should be comparable. For that reason, companies should not have discretion over what to include in the employee compensation category. We therefore oppose the proposal that “an entity may elect, but is not required, to include amounts attributable to other transactions entered into for the benefit of employees (for example, the provision of subsidized goods or services) in employee compensation.” FASB should either include this in the definition of employee compensation that applies to all companies, or exclude it.

Additionally, we support the recommendation of the SEC Working Group on Human Capital Accounting Disclosure to further disaggregate employee compensation by type of compensation “because different labor-related expenditures are more likely to reflect investments than

---

<sup>9</sup> Human Capital Management Coalition, “Rulemaking Petition to Require Issuers to Disclose Information About Their Human Capital Management Policies, Practices and Performance,” 26, Jul. 6. 2017, <https://www.sec.gov/files/rules/petitions/2017/petn4-711.pdf>; Human Capital Management Coalition, “FASB File Reference No. 2021-004 – Invitation to Comment: Agenda Consultation,” 5, Sept. 22, 2021, [https://www.hcmcoalition.org/\\_files/ugd/ee804c\\_53b7be8712c14111b976951d3e38689f.pdf](https://www.hcmcoalition.org/_files/ugd/ee804c_53b7be8712c14111b976951d3e38689f.pdf); Working Group on Human Capital Accounting Disclosure, “Petition for Rulemaking,” 6, Jun. 7, 2022, <https://www.sec.gov/files/rules/petitions/2022/petn4-787.pdf>; SEC Investor Advisory Committee, Recommendation Regarding Human Capital Management Disclosure, 9, Sept. 14, 2023, <https://www.sec.gov/files/20230914-draft-recommendation-regarding-hcm.pdf>.

<sup>10</sup> SEC Investor Advisory Committee, Recommendation Regarding Human Capital Management Disclosure, 9 n.33, Sept. 14, 2023, <https://www.sec.gov/files/20230914-draft-recommendation-regarding-hcm.pdf>.

<sup>11</sup> Office of Public Affairs, National Labor Relations Board, “Board Issues Final Rule on Joint-Employer Status,” Oct. 26, 2023, <https://www.nlrb.gov/news-outreach/news-story/board-issues-final-rule-on-joint-employer-status>.

others.”<sup>12</sup> The Human Capital Management Coalition also recommended further disaggregation of “salaries/wages, benefits such as health care, employer’s contribution to Medicare and Social Security, value of equity-based compensation, commissions and bonuses, perquisites, overtime, severance payments, and retirement,”<sup>13</sup> and pointed to IFRS International Accounting Standard (IAS) 19: Employee Benefits, which requires companies to disaggregate wages and salaries, social security contributions, and pension costs from staff costs.<sup>14</sup>

### **Additional recommendations**

Disaggregation of workforce costs from expense captions is a significant, important, and welcome step in making the income statements of public companies useful to investors. We also want to call attention to the importance of additional recommendations the Human Capital Management Coalition made in its letter in response to FASB’s invitation to comment on its agenda in 2021, and urge action to further implement its recommendations, including disclosure of headcount, turnover, and diversity data.<sup>15</sup>

Lastly, we urge FASB to take action on private company workforce disclosures, including by expanding the applicability of the proposed expense disaggregation disclosures to private companies. The number and size of private companies has skyrocketed in the last decade, while their operations have remained opaque to investors. As of last summer, private markets assets under management reached \$11.7 trillion, having grown at an annual rate of almost 20% since 2017.<sup>16</sup> While the SEC has recently taken important steps to bring transparency to this area of the market for investors, investors still lack basic consistent, comparable, and decision-useful workforce information about private companies.

We thank FASB for engaging in this important process to improve the disclosures about a public company’s expenses. We appreciate FASB’s consideration of our recommendations to improve the disclosures’ usefulness and comparability. For further discussion, please contact Natalia Renta at [natalia@ourfinancialsecurity.org](mailto:natalia@ourfinancialsecurity.org).

---

<sup>12</sup> Working Group on Human Capital Accounting Disclosure, “Petition for Rulemaking,” 6, Jun. 7, 2022, <https://www.sec.gov/files/rules/petitions/2022/petn4-787.pdf>.

<sup>13</sup> Human Capital Management Coalition, “FASB File Reference No. 2021-004 – Invitation to Comment: Agenda Consultation,” 5, Sept. 22, 2021, [https://www.hcmcoalition.org/\\_files/ugd/ee804c\\_53b7be8712c14111b976951d3e38689f.pdf](https://www.hcmcoalition.org/_files/ugd/ee804c_53b7be8712c14111b976951d3e38689f.pdf).

<sup>14</sup> *Id.* and “Staff Costs presentation in TUI AG Annual Report,” 176, TUI Group, 2020, <https://bit.ly/3tzTun3>.

<sup>15</sup> Human Capital Management Coalition, “FASB File Reference No. 2021-004 – Invitation to Comment: Agenda Consultation,” 7, Sept. 22, 2021, [https://www.hcmcoalition.org/\\_files/ugd/ee804c\\_53b7be8712c14111b976951d3e38689f.pdf](https://www.hcmcoalition.org/_files/ugd/ee804c_53b7be8712c14111b976951d3e38689f.pdf).

<sup>16</sup> McKinsey & Company, “McKinsey Global Private Markets Review: Private markets turn down the volume,” Mar. 21, 2023, <https://www.mckinsey.com/industries/private-equity-and-principal-investors/our-insights/mckinseys-private-markets-annual-review>.

Sincerely,

Americans for Financial Reform Education Fund