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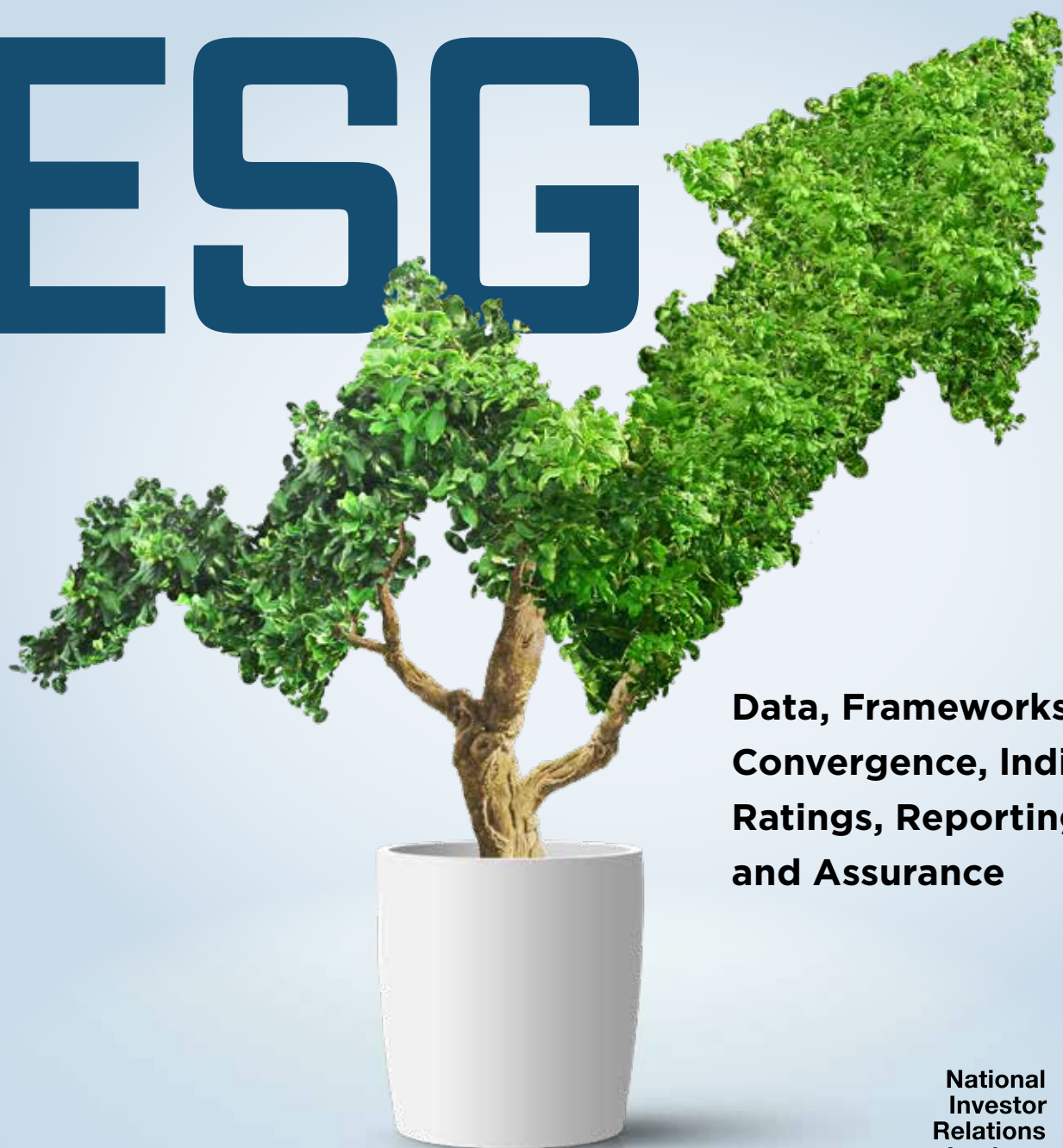
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# IR UPDATE

THE VOICE OF THE INVESTOR RELATIONS PROFESSION WINTER 2021

# ESG



**Data, Frameworks,  
Convergence, Indices,  
Ratings, Reporting,  
and Assurance**

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Founded in 1969, the National Investor Relations Institute ([www.niri.org](http://www.niri.org)) is the professional association of corporate officers and investor relations consultants responsible for communication among corporate management, shareholders, securities analysts, and other financial community constituents. NIRI is the largest professional investor relations association in the world, with more than 2,800 members representing more than 1,350 publicly held companies. NIRI is dedicated to advancing the practice of investor relations and the professional competency and stature of its members.

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## ESG and Corporate Reporting

**A NIRI Philadelphia chapter virtual meeting addressed new SEC “human capital” disclosure requirements and stricter proxy advisor policies on board diversity that will shape corporate reporting during the coming year.**

BY LAUREN LUPTAK AND SHELLI WILLIS

In 2020, many large public companies in the United States used the twin crises of COVID-19 and social injustice to highlight their existing ESG programs, leading to a heightened focus on these areas.

Now, mid-cap and smaller cap public companies face increased pressure to put ESG programs in place from shareholders and external institutions such as Institutional Shareholder Services (ISS) and Glass Lewis, both of which recently adopted more stringent voting guidelines regarding board diversity and disclosure.

Adding to this pressure is the recent Securities and Exchange Commission Regulation S-K amendment requiring disclosure regarding human capital in annual reports on Form 10-K, which highlights the progression toward increased

regulatory disclosure obligations regarding ESG.

The NIRI Philadelphia chapter addressed these issues in a recent virtual meeting.

Based on recently announced increased expectations for board diversity, starting in 2022, ISS will recommend an “against” or “withhold” vote for the chair of the nominating committee for boards with no racially or ethnically diverse directors at companies in the Russell 3000 and S&P 1500. Also starting in 2022, Glass Lewis will recommend a vote against the nominating committee chair for companies that have a board of more than six members with fewer than two female directors.

So how does all of this translate into public companies’ disclosure obligations and best practices for the 2021 reporting season?





Most companies are first facing these issues in their 10-K with human capital disclosure. While often the decision to incorporate ESG factors in the 10-K is still based on a “materiality” analysis, Regulation S-K now specifies that a company must include in the 10-K Business section “a description of the registrant’s human capital resources, including the number of persons employed by the registrant, and any human capital measures or objectives that the registrant focuses on in managing the business.” For smaller public companies, a sentence or short paragraph regarding the number of employees and any relevant measures or objectives will likely suffice.

On the other hand, larger public companies may take advantage of this section to include more robust disclosure about education/training programs, employee wellbeing metrics, or COVID-19 employee safety protocols that companies have in place.

We have seen some early filers use their 10-K filings to highlight their ESG programs and reference their corporate sustainability/ESG report.

For example:

- [Qualcomm’s November 2020 10-K](#) highlights its human capital program and directs readers to its online Corporate Responsibility Report for more information.
- Starbucks’ [November 2020 10-K](#) explores employee benefits provided in the wake of COVID-19.
- HP’s [December 10-K](#) highlighted its DE&I (Diversity, Equity and Inclusion) initiatives and COVID-19 responses, referencing its 2021 proxy statement for more information.

As public companies develop and advance their internal ESG programs, we will likely see more integration with these types of regulatory filings and disclosure, such as references to corporate sustainability reports and proxy statement disclosure in the Human Capital section of the 10-K. [IR](#)

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