

December 16, 2019

Mr. Shayne Kuhaneck
Acting Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: FASB Agenda Request – Reporting human capital in the financial statement

Dear Mr. Kuhaneck:

I appreciate the opportunity to submit an agenda request to the Financial Accounting Standards Board (FASB). Specifically, I request that the FASB provide guidance regarding human capital and related disclosures in the financial statement.

Background

Over the past forty years, the portion of intangible assets in a company's market value has significantly increased. According to the 2015 study from Ocean Tomo, intangible assets are responsible for 84% of corporate value while tangible assets comprise only 16% of companies' market value¹. However, under the current Generally Accepted Accounting Principles (GAAP), limited items are reported as intangible assets in the balance sheet. As the importance of intangible assets has increased, more detailed items should be disclosed in the financial statements to provide with useful information: one of the items which can provide decision-useful information would be human capital.

Although employees' skills and experience belong to employees themselves, human capital still conforms the definition of assets under the current GAAP. Statement of Financial Accounting Concepts No. 6 defines assets as "probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events." Since companies can control the workforce and increase the value of human capital by investing and training employees to create probable future economic benefits, human capital meets the definition of assets, and therefore it should be reported in the financial statement.

Benefits of Reporting Human Capital

The most significant benefit of reporting human capital in the financial statements is improving relevance of financial information. Reporting human capital in the financial statements will provide insight into the company's overall performance on utilizing human resources and related investments as well as return on investment in human capital. Furthermore, investors can have clearer picture for the company's intangible assets by adding information on human capital. It will also enhance faithful representation of financial information by explaining how

¹ "Components of the S&P 500 Market Value", Ocean Tomo, LLC, January 2015

the company utilize its human resources and related investments to generate income.

Considerations

Reporting human capital in the financial statements may pose a burden to companies since it may reveal the company's business strategy on utilizing human resources to the public and its competitors. Another challenge for preparers is how to quantify and measure human capital. It will require judgment and estimation which may affect the accuracy of information. Thus, appropriate protections and guidance should be provided for possible issues.

Proposal

I recommend to report following information in the financial statement regarding human capital.

- Employment information
 - Number of employees, full-time and part-time
 - Years of employment
 - Education background of employees
 - Workforce diversity (ethnicity and gender)
- Investment on employees
 - Workforce costs other than payroll expense (compensation, promotion and incentive plans)
 - Productivity (profit per employee)
 - Training costs and average time

Conclusion

For the reasons stated above, I believe that human capital should be disclosed in the financial statements to provide more relevant, decision-useful information to the financial information users.

I appreciate the opportunity to request the FASB's consideration of this issue.

Sincerely,
Jihee Seo