CENTER FOR POLITICAL ACCOUNTABILITY

Spotlight on CPA - June 2017

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TRACK YOUR COMPANY
Center for Political Accountability

High Traffic to New CPA Database

More than 2,000 unique visitors flocked in June to CPA's new **TrackYourCompany.org** database, unveiled in late April. In May, a Wall Street Journal article said the new database makes it easier to "follow your money" in public companies where individuals have invested.

The media are among those getting valuable information about corporate political spending, including payments to trade associations and "social welfare" organizations, and company policies and practices, from the database, which covers companies in the S&P 500. Journalists from such outlets as Maplight, a non-profit organization, and Mother Jones recently confirmed using the database.

House Passes Legislation To Curb Shareholder Rights

The House of Representatives voted 233-186 this month to approve the Financial CHOICE Act, rolling back certain regulations implemented by the 2010 Dodd-Frank Act and threatening fundamental tools currently used by shareholders to keep company management accountable.

The legislation, which still must be passed by the Senate, would make it more difficult for a shareholder to get a resolution on a company's proxy ballot. This process has become an important right for shareholders, as Susan Makos, vice president of social responsibility for Mercy Investment Services wrote in **The Hill**:

"For nearly 50 years, shareholders have used the shareholder resolution process in Securities and Exchange Commission Rule 14a-8 to raise important issues including human rights, climate change, and irregularities in mortgage practices with the company they own."

"As owners of companies, shareholders have earned – and deserve—the right to bring forward issues that have impacts outside the boardroom walls. Shutting down this avenue for most shareholders would eliminate a crucial check and balance in the corporate world."

According to a **New York Times column** by Gretchen Morgenson, "Under the bill, a shareholder would have to own at least 1 percent of a company's shares for three years to get a proposal on a proxy ballot. Currently, an investor must only own $2,000 worth of stock for a year or more."

Morgenson wrote that the Wells Fargo clawback of $60 million in compensation from two top executives following a sham accounts scandal "probably wouldn't have occurred" if the legislation had been law, because the pay recovery "was largely the work of a single Wells Fargo institutional investor – specifically, New York City's pension funds."

"If the Financial Choice Act had been law – which it still is not, for now – it would have required any shareholder seeking to change a company's policies to own far more shares than even a big institutional investor like New York city's pension funds," Morgenson explained.

According to an article from **Pensions and Investments**, Amy Borrus, deputy director of the Council of Institutional Investors, said the act "would crush shareholder proposals, which for decades have been an effective channel for investors to communicate their views to boards and management, (and) would condemn the SEC to endless, redundant busywork. That would cripple its ability to deliver on its mission of protecting investors, policing markets and fostering capital formation."

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Center for Political Accountability president Bruce Freed was **quoted in The American Prospect** last month as calling the legislation "a disaster" for the shareholder movement.

For more opinion about the legislation, see the Guest Column in this issue, written by Bruce Herbert of Newground Social Investment.

Guest Column
The Latest – But Not Only – Threat to Investors' Rights

by

Bruce Herbert, Newground Social Investment

Newground Social Investment is a Seattle-based SRI firm. Bruce Herbert is a leader in the SRI field. They are long-time partners of the Center for Political Accountability in engaging companies to adopt political disclosure and accountability.

In the shadow of constant news reports about health care reform and political scandals, a dire threat to the rights of investors risks getting lost in the shuffle. The Financial CHOICE Act, passed by the House this month and headed to the Senate, includes a provision that would restrict investors' ability to file proposals under SEC Rule 14a-8 to those who own one percent of the company's voting shares over a three-year period. Currently, the ownership threshold is $2,000 worth of stock held for a one-year period.

While one percent may seem like a modest requirement, the change would essentially eliminate the ability of shareholders to file proposals, such as CPA's model political spending disclosure proposal, at the companies they own. Consider, as ***The New York Times*** reports, that one percent of ExxonMobil is 42 million shares, or $3.4 billion worth of stock. Even the largest public pension funds would be barred from submitting potentially beneficial proposals at the companies in their portfolios.

Rule 14a-8 was created to protect the governance and ownership rights of small investors and has resulted in environmental, social, and governance policy changes at companies that benefit society and investors alike. CPA's model resolution, for instance, has resulted in the adoption of political spending disclosure by 305 major companies to date, which detailed over **$219 million** in corporate spending in 2015 alone. Not only has disclosure helped investors hold companies accountable, but a **recent study** suggests it also boosts company performance.

Nevertheless, efforts to undercut, restrict, or eliminate this vital SEC provision are rampant – and they are not limited to the pending CHOICE Act. Take, for example, the following structural impediments that act to suppress votes on shareholder proposals:

- Managers, founders, and descendants of founders often control outsized portions of stock and regularly vote their shares against all proposals. In addition, ESOP plans – though owned by employees – are voted by management.
- Proxy ballots typically offer the opportunity to "vote with management on all items." Shareholders who don't have time to study the proxy in detail often follow this easy path, automatically siding with management against shareholder-sponsored proposals.
- Shareholder proposals are strictly limited to 500 words, while companies' Statements in Opposition are unlimited in length. This presents shareholders with limited information on the "for" side but unlimited information on the "against" side.
- Under Delaware law and in most states, companies choose the formula by which votes are tabulated. Unsurprisingly, they frequently include abstentions in the formula which mathematically lowers vote results. (A thorough discussion of structural inequities that suppress votes on shareholder proposals is **available here**.)

At a time when legislative and regulatory oversight of corporations is weakening and the power of unions to provide a backstop has waned, it is imperative that investors remain able to hold their companies accountable and to demand responsible corporate behavior.

Regardless of whether the CHOICE Act passes the Senate, it is a shot across the bow to shareholder advocates. Let us not make light of this serious threat.

Georgia, Virginia Races Push Political Spending into Stratosphere

Spending on the recently concluded special election for Georgia's 6th Congressional District rocketed into the stratosphere, setting a record as the most expense House election in history with at least $56.7 million expended, according to **OpenSecrets.org**.

And in Virginia, a $5 million check from the Republican Governors Association set a record as the largest single political donation ever in the Old Dominion, according to **The Washington Post** .

The contests have been hard fought and closely watched as off-year bellwethers following President Donald Trump's surprise victory last November, with the levels of fundraising and spending that typically bring pressure and opportunities for U.S. companies to spend politically.

Republican Karen Handel defeated Democrat Jon Ossoff in Georgia, with expenditures easily shattering a prior record of $29.5 million from Florida's 18th Congressional District in 2012. One of the big players supporting Handel was the Congressional Leadership Fund, a super PAC affiliated with the House GOP, spending more than $6.5 million.

The Congressional Leadership Fund has received generous corporate donations. Its donors between 2012 and 2017 included Altria and such oil and gas producers as Chevron, Devon Energy, and Occidental Petroleum.

Companies giving more than $2 million each to the Republican Governors Association since 2010, according to data collected by CPA, include Altria Group, Centene Corporation, Devon Energy, Duke Energy, Exxon Mobil, Pfizer, Wal-Mart Stores and Wynn Resorts. The RGA is organized as a tax-exempt 527 organization.

Dark money flowed heavily into the special election, according to a **Moyers and Company report**. It said dark money supporting the Republican candidate came from America First Policies, established by Trump advisers, $1.5 million; Ending Spending, $1.2 million; and the U.S. Chamber of Commerce, $1.1 million. The Democratic candidate benefited from $800,000 in spending by the Planned Parenthood Action Fund, which does not disclose all of its donors.

CPA in the News

When the **Center for Public Integrity** reported recently about the movement for disclosure of corporate political activity gaining ground among stockholders, it mentioned the Center for Political Accountability and CPA's annual index ranking the transparency policies and practices of large corporations.

The Center for Public Integrity's article referred to the CPA-Zicklin Index of Corporate Political Disclosure and Accountability in providing context for a recent vote by Comcast shareholders against a lobbying disclosure resolution.

The CPA-Zicklin Index examines companies' transparency when it comes to political spending (as opposed to expenditures on lobbying). The article noted that Comcast gets high marks for political transparency in the Index.

CPA on the Road at Neuberger Berman

CPA prizes opportunities to meet face-to-face with decision makers at U.S. companies and institutional investors in order to better explain its work, discuss corporate political accountability issues of the day, and make meaningful personal connections.

One June 15, CPA President Bruce Freed and Vice President Nanya Springer traveled to New York City for such a meeting at Neuberger Berman, the private, employee-owned mutual fund. The meeting came at the invitation of Ingrid Dyott, a Managing Director and co-Portfolio Manager on Neuberger Berman's Socially Responsive Investing (SRI) Team. She is responsible for financial, social, and environmental analysis for the SRI portfolio.

Freed and Springer discussed the Center's engagement with companies, the CPA-Zicklin Index of Corporate Political Disclosure and Accountability and its findings, and they fielded questions. Neuberger Berman participants particularly sought specific data to use in helping promote disclosure.

2017 Proxy Season Update

The following annual general meeting votes in support of CPA's model corporate political spending disclosure resolution were available by press time: Allstate Corp., 24.85 percent; AT&T Inc., 30 percent; CMS Energy Corp., 36.24 percent; Emerson Electric, 40.26 percent; Expedia Inc., 13.5 percent; J.B. Hunt Transport Services Inc., 24.32 percent; NextEra Energy In., 41.16 percent; Range Resources Corp., 36.88 percent; and Wyndham Worldwide Corp., 37.74 **percent.**

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