

# SEC Should Protect Investors by Requiring Public Companies to Disclose Political Spending

April 21, 2015

Ms. Elizabeth M. Murphy  
Secretary, Securities and Exchange Commission  
*By SEC Web Comment Form*

Re: Disclosure Effectiveness Review—Disclosure of Corporate Political Expenditures to Shareholders

Dear Ms. Murphy,

We urge the SEC to issue rules requiring the disclosure of political expenditures by publicly held companies. We are 144 business leaders, entrepreneurs, investors, and philanthropists. Some of us are investment professionals. We hold billions of dollars in investments. Consequently, we have interests in having the companies in which we invest avoid potentially unproductive and risky political expenditures. Securities and Exchange Commission action requiring disclosure of such expenditures is necessary to provide the comprehensive information we need to act as responsible owners.

The absence of disclosure of corporate political spending prevents shareholders and investors from assessing corporate legal, reputational, operational, and other risks. As a result:

- Shareholders cannot properly exercise their ownership rights of corporate oversight;
- Investors cannot make informed investment decisions;
- Shareholders cannot monitor whether such spending may be at odds with the best interests of the corporation or other wider economic concerns; and
- Shareholders cannot determine whether corporate political expenditures are supporting individuals or groups that engage in advocacy on other issues to which they object, and therefore cannot exercise their ownership rights by attempting to restrict such spending or by selling their stakes in the company.

Disclosure of corporate political spending is necessary so that shareholders can evaluate whether a corporation's assets are being utilized in the best interests of the corporation. For example, a corporation may contribute to an organization advocating for corporate tax reform, but that organization may also advocate on a number of other issues that would adversely affect the corporation, such as opposing legislation to deal with climate change that could pose a long-term threat to the corporation's facilities. The Supreme Court in its *Citizens United* decision expressly endorsed the concept of prompt corporate disclosure to allow shareholders to "determine whether their corporation's political speech advances the corporation's interest in making profits."<sup>i</sup>

Moreover, corporations may contribute to organizations that support positions or support candidates who take positions contrary to some shareholders' interests or beliefs in a variety of social, economic, and environmental issues. If shareholders are to avoid subsidizing speech they do not support, they need corporate disclosure of political expenditures to be able to take measures to stop or restrict expenditures they may find objectionable and, if necessary, disassociate themselves from such expenditures by selling their shares. As the Supreme Court wrote this year, "except perhaps in the rarest of circumstances, no person in this country may be compelled to subsidize speech by a third party that he or she does not wish to support."<sup>ii</sup>

Disclosure of political expenditures would also give shareholders a means of averting contributions that may damage the corporation's reputation. The risk and the difficulty in evaluating that risk is compounded when the corporation contributes to third parties such as trade associations or politically active 501(c)(4) groups. Target encountered precisely this problem in 2010 when some consumers boycotted its stores after discovering that the company had made a contribution to an organization which supported a gubernatorial candidate who opposed same-sex marriage and other gay rights measures. The matter resulted in considerable news coverage and a public apology from the company.<sup>iii</sup>

And there seems to be no compelling reason why corporations should not disclose their political expenditures. Keeping track of such spending involves minimal outlays for recordkeeping and publication. Merck, which set up a committee to oversee political contributions after consultation with shareholders, apparently developed reporting measures that were quite manageable. Merck's vice president of state government affairs and policy stated: "The administrative burden wasn't much of a problem."<sup>iv</sup>

Shareholder interest in this issue is more than sufficient to justify SEC action. Prior SEC rules have been crafted to require reasonable disclosure of information for any significant number of interested investors, not just at the request of a majority of shareholders. Over the past three years, the 221 shareholder proxy proposals concerning political and lobbying expenditures earned an average of 24.5% support; two proxy proposals adopted with over 50% vote totals in 2013.<sup>v</sup> This level of support is substantially higher than the 11.2% proxy voting support for executive pay proposals cited by the SEC when it expanded those rules in 1992.<sup>vi</sup> It is worth noting that the proxy vote totals may underestimate the number of investors supporting disclosure since management and executives often own large numbers of shares and typically vote against such proposals.

The Commission has the responsibility to protect investors, and disclosure is essential to that protection. Investors must have access to corporate political spending information if they are to make informed decisions, evaluate risks, monitor the effectiveness of the businesses they own as shareholders, take appropriate action when such spending conflicts with their own beliefs, and avoid reputational harm to the company. As the SEC's website points out, "all investors, whether large institutions or private individuals, should have access to certain basic facts about an investment prior to buying it, and so long as they hold it."<sup>vii</sup>

Shareholders and investors will continue to bear unknown risks until the Commission enacts robust rules on disclosure of corporate political spending. We urge the Commission to promulgate such rules as soon as practicable. We are happy to provide additional information on any of the points raised in this letter. If you need any further information, Daniel Simon, [REDACTED], will be happy to assist the Commission.

Sincerely,

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<sup>i</sup> Citizens United v. Federal Election Commission, 130 S. Ct. 867 (2010)

<sup>ii</sup> Harris v. Quinn, No. 11-681, slip op. at 39 (S. Ct. June 30, 2014) <[http://www.supremecourt.gov/opinions/13pdf/11-681\\_j426.pdf](http://www.supremecourt.gov/opinions/13pdf/11-681_j426.pdf)>.

<sup>iii</sup> Wing, Nick. "Target Apologizes For Political Donation To Group Supporting Anti-Gay Candidate." The Huffington Post. Huffington Post, 5 Aug. 2010. Web. 14 July 2014. <[http://www.huffingtonpost.com/2010/08/05/target-apologizes-for-pol\\_n\\_672167.html](http://www.huffingtonpost.com/2010/08/05/target-apologizes-for-pol_n_672167.html)>.

<sup>iv</sup> Rummell, Nicholas. "Political Disclosures: Reaching The Tipping Point." Corporate Secretary. Corporate Secretary, Cross Border, Ltd., 10 Oct. 2013. Web. 14 July 2014. <<http://www.corporatesecretary.com/articles/proxy-voting-shareholder-actions/12556/political-disclosures-reaching-tipping-point/>>.

<sup>v</sup> Sustainable Investments Institute. 2013 Season Poised To Break Records In Filings, Support Levels For Environmental And Social Policy Shareholder Resolutions. 20 Aug. 2013. Web. 14 July 2014.

<sup>vi</sup> Bebchuk, Lucian, and Robert J. Jackson, Jr. "Responding to Objections to Shining Light on Corporate Political Spending (5): The Claim That Shareholder Proposals Requesting Disclosure Do Not Receive Majority Support." Blog Post. Harvard Law School Forum on Corporate Governance and Financial Regulation. N.p., 29 Apr. 2013. Web. 14 July 2014.  
<<http://blogs.law.harvard.edu/corpgov/2013/04/29/responding-to-objections-to-shining-light-on-corporate-political-spending-5-the-claim-that-shareholder-proposals-requesting-disclosure-do-not-receive-majority-support/>>

<sup>vii</sup> United States Securities and Exchange Commission. "The Investor's Advocate: How the SEC Protects Investors, Maintains Market Integrity, and Facilitates Capital Formation." SEC.gov. Web. 14 July 2014.