

January 31, 2020



Hon. Jay Clayton  
Chairman  
U.S. Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549

*Trustees of Donations*

*Episcopal Diocese of  
Massachusetts*

*138 Tremont Street  
Boston, Massachusetts 02111  
Tel: 617 482 5800  
Fax: 617 482 8431  
[www.trusteesofdonations.org](http://www.trusteesofdonations.org)*

Re:

S7-23-19 Procedural Requirements and Resubmission Thresholds under Exchange Act Rule 14a-8

S7-22-19 Amendments to Exemptions from the Proxy Rules for Proxy Voting Advice

Dear Chairman Clayton,

I am writing to you on behalf of the Trustees of Donations to the Protestant Episcopal Church to oppose the rule changes proposed by the Securities and Exchange Commission (SEC) on November 5<sup>th</sup>, 2019. Our two-hundred-year-old corporation, which oversees the endowment assets of the Episcopal Diocese of Massachusetts and its affiliated churches, has a long history of engaging with companies through shareholder proposals on critical environmental, social, and governance (ESG) issues. We believe that these efforts, in concert with those of our partners in the Interfaith Center on Corporate Responsibility and the Investor Network on Climate Risk, have increased the long-term value of the companies we own.

For decades, the shareholder proposal process has served to benefit issuers and proponents alike by providing corporate boards and their managements with an effective tool to better understand shareholder priorities and concerns. By reducing the effectiveness of this tool, the proposed rule changes would render companies less accountable to their shareholders, stakeholders, and the public at large. Our concerns are threefold.

First, the proposed increase in ownership thresholds would make it difficult for smaller investors to voice important concerns and raise issues of risk to the companies they own. The current ownership threshold of \$2,000 ensures that a diversity of voices are heard, not just the

voices of large investors. Small investors have contributed a multitude of now commonplace best practices. According to data compiled by the Sustainable Investments Institute, 187 resolutions on social and environmental topics came to a vote at US companies in the spring of 2019. Many of these were filed by investors with relatively small stakes consistent with the existing filing thresholds. The proposals received an average of 25.6 % support (about the same as the average of 25.4% for resolutions of this kind in 2018, and 21.4% in 2017). These numbers demonstrate that proposals of interest to a large portion of a company's shareholder base can and do originate with smaller individual and institutional investors.<sup>1</sup> Excluding this group of shareholders until they have held the requisite shares for three continuous years raises serious questions about the equity of the proposal process and leaves smaller investors who can make valuable contributions without access to the process.

Second, the proposed increase in resubmission thresholds threatens to stifle important reforms by excluding proposals that gain support over time. There are many examples of shareholder proposals that initially received few votes, but went on to receive significant support. The issue of declassified boards is just one example – in 1987 proposals on this issue received under 10% support; in 2012 - 81%, and it is now considered to be best practice. Other examples include proposals submitted to oil and gas companies on climate change risks that received below 5% of shareholder support when first introduced in the 1990s, but which now receive substantial, and even majority shareholder votes, and have been adapted by numerous companies.

Resolutions highlighting human rights risks in global supply chains initially received low votes at companies, but as a result of engagement prompted by the proposals, sector leaders have adopted human rights policies and supplier codes of conduct that help minimize legal, reputational, and financial risks. These and other votes on critical matters clearly evidence that it can take time both for investors and for corporations to appreciate the importance of resolutions addressing emerging issues. In short, the proposed changes could prevent significant topics from being raised and considered, to the detriment of all stakeholders.

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<sup>1</sup>Si2 'FACT SHEET: Shareholder Proposal Trends', *Sustainable Investments Institute*, Oct.17, 2019, [https://siinstitute.org/special\\_report.cgi?id=80](https://siinstitute.org/special_report.cgi?id=80)

Finally, we are concerned that the proposed rule change in connection with proxy advisory firms would reduce management accountability to shareholders. We believe that giving companies the right to preview proxy advisory firm reports and to lobby their authors to make revisions would inappropriately bias the resulting reports in favor of management. Moreover, we question the factual basis of the issuer claims cited in support of this rule change – i.e., that proxy advisory firms wield excessive influence over how institutional investors vote and that institutional investors vote in lockstep with proxy advisor recommendations. We would point out, for example, that in 2018 investors voted in favor of roughly 80% of the say-on-pay proposals opposed by ISS recommendations. Moreover, according to ISS, 85% of its top 100 clients use a custom voting policy, something that our organization also does. Custom voting policies are created by investors who do not wish to vote in lock step with proxy advisor recommendations. In short, we write in opposition to this change both because it threatens to make management less accountable to shareholders and because of the questionable claims on which it is based.

For the above reasons, we strongly urge the SEC to reconsider the proposed rule changes.

Sincerely,

A handwritten signature in black ink that reads "Richard Blakney". The signature is written in a cursive, flowing style.

Richard Blakney  
SRI Committee Chair, Trustees of Donations to the Protestant Episcopal Church