



*Benedictine*  
*Coalition for*  
*Responsible*  
*Investment*

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February 3, 2020

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

- **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

Chairperson Clayton,

I am writing to you as the Director of the Benedictine Coalition for Responsible Investment (CRI).

The Benedictine Coalition for Responsible Investment was formed in 2003. Some of our member monasteries have been involved in the shareholder engagement process since that time. When our coalition was formed, there was already a long history of faith groups raising concerns, especially as part of the Interfaith Center on Corporate Responsibility which was formed in 1971.

We consider our groups as long-term investors. Stewardship of resources is an important concept. St. Benedict, who wrote his Rule in the fifth century, saw his followers involved in the “local” community. In our day, the local community has become quite extensive, given that our world is so interconnected. We believe that reviewing our ownership in the stock market and raising concerns is part of our ownership responsibility and commitment to long-term stewardship for the common good.

The SEC rules which are proposed would severely limit what is possible for our corporate responsibility endeavors. The current SEC Rule 14a-8 allows for a diverse group of investors to be heard – investors with small holdings, investors with large holdings and everything in-between. This allows for raising our voices and making a difference. Raising questions through the resolution process has long been one effective way of raising the issues all the way to the Corporate Secretary and Board-level of the corporations. It affords the shareholders an opportunity to vote and say whether that is an issue that the corporation needs to look at, needs to take some action, needs to revise some policy.

We strongly oppose the rules proposed by the Securities and Exchange Commission (SEC) on November 5<sup>th</sup>, 2019, which will severely limit the rights of shareholders to engage with corporations using the shareholder resolution process over issues with a distinct impact on long-term value. As long-term investors who engage with companies on critical environmental, social, and governance (ESG) issues, we believe that the proposed rules are unnecessary, and will undermine a corporate engagement process that has been of great value to both companies and investors.

For decades, the shareholder proposal process has served to benefit issuers and proponents alike as an effective, efficient and valuable tool for corporate management and boards to gain a better understanding of shareholder priorities and concerns. The proposed rule changes will make companies far less accountable to shareholders, stakeholders, and the public at large.

The proposed increase in ownership thresholds will 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 biggest players. 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.

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 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 proxy.

The proposed increase in resubmission thresholds threatens to unnecessarily exclude important proposals that gain traction over time, and will ultimately stifle key reforms. There are many examples through the years of resolutions that initially received low votes, but later went on to receive significant support or have led to productive engagement, as shareholders came to appreciate the serious risks they presented to companies.

In recent decades, our groups have filed resolutions with oil and gas companies on the risks of climate change that often received below 5% of shareholder support when first introduced beginning in 1998, 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. Clearly, these and other votes on critical matters signify that investors appreciate the value of the issues being raised in these resolutions. It can take some time for shareholders to get up to speed on

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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)

emerging issues. The proposed changes could prevent significant topics from even being raised and considered, to the detriment of all stakeholders. Our groups have been part of shareholders raising questions about climate change and the company's policies, about human rights policies, what is being done to train workers to recognize signs of human trafficking.

In addition to the Rule 14a-8 proposals, changes regarding proxy advisory firms were approved at the SEC's November 5<sup>th</sup> meeting. We believe these modifications have been proposed to undermine the voice of investors and produce more management-friendly votes, unfairly stacking the deck against shareholders and towards corporate management. The proposal would require that proxy advisory firms allow companies to review and provide feedback on proxy voting advice, and would greatly impede the ability of institutional investors to get independent advice and information about how to vote on director elections, Say on Pay ballot items and shareholder proposals. The fact that the proposed rule does not give shareholder proposal proponents and shareholders conducting "vote no" campaigns the same right of review further underlines that the rule would provide an unfair advantage to company management to the detriment of shareholders.

The current 14a-8 rule has worked well for decades, and there is no need to revise it. Trade associations like the Business Roundtable, the U.S. Chamber of Commerce, and the National Association of Manufacturers have lobbied rigorously for the proposed changes by exaggerating the cost of the process to companies, and by misleadingly painting shareholders raising ESG issues as "activists" imposing a "social agenda" who are "uninterested in shareholder value." This misinformation feeds a political agenda by the trade associations to limit the ability of shareholders to engage with the companies that they own.

We engage as shareholders on ESG risks precisely because we are concerned about the long-term health of the companies in which we are invested. Many of the companies that we engage with understand that this engagement enables them to mitigate reputational, legal, and financial risks, and build value. The filing of shareholders resolutions by investors big and small is a crucial part of the engagement process. An open, structured process for questions to be raised is a necessity in our time. What is suggested in these proposed new rules will not facilitate this, especially for smaller investors as they seek to be involved in the shareholder process.

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

Sr. Susan Mika OSB

Director