

**From:** Stuart Naifeh  
**Sent:** Monday, March 10, 2014 3:22 PM  
**To:** OFM Performance and Planning  
**Cc:** Liz Kennedy; Brenda Wright  
**Subject:** Comment on SEC Strategic Plan

Please accept the attached comment on the Securities and Exchange Commission's Strategic Plan, 2014-2018.

March 10, 2014

**VIA ELECTRONIC MAIL**  
PerformancePlanning@sec.gov

Ms. Elizabeth M. Murphy, Secretary  
Securities and Exchange Commission  
100 F Street, Northeast  
Washington D.C. 20549

**Re: Draft 2014–2018 Strategic Plan for Securities and Exchange Commission**

Dear Secretary Murphy:

We write on behalf of Demos to offer the following comments on the Securities and Exchange Commission's (the "Commission") draft Strategic Plan for 2014 to 2018 (the "Strategic Plan"). We applaud the Commission's focus on creating an effective regulatory environment and improving investors' access to information about their investments. We urge the Commission, in carrying out the Strategic Plan, to promulgate a rule requiring issuers and other market participants to disclose their political activity. A robust political disclosure rule will help achieve the goals set out in the Strategic Plan by advancing several of its key strategic objectives.

A political disclosure rule will advance the goal of creating an effective regulatory environment in at least two ways. First, a political disclosure rule will help "maintain a regulatory environment that promotes high-quality disclosure, financial reporting, and governance." Currently, political activity is one of the least transparent areas of corporate activity. Political activity, in contrast to other areas of corporate activity, is uniquely susceptible to the agency problem, and when the activity is undisclosed, it becomes virtually impossible for shareholders and directors to supervise. Political activity nearly always has, at best, an indirect relationship to a company's core business. Its impact on corporate finances is difficult to assess, with

studies reaching varying and inconsistent conclusions concerning its effect on shareholder value. Moreover, in the wake of the Supreme Court's decision in *Citizens United v. FEC*, more corporate political activity is now allowed without being subject to any governmental oversight or disclosure mandate. Together, these factors put a great deal of discretion with regard to political activity in the hands of corporate executives, which makes it highly subject to

manipulation by executives for their own ends rather than for the advancement of the interests of shareholders. A robust political disclosure rule would improve the quality of financial reporting and corporate governance by allowing shareholders to better “determine whether their corporation’s political speech advances the corporation’s interest in making profits,” *Citizens United v. FEC*, 558 U.S. 310, 370 (2010), and hold executives accountable when it does not.

Second, a political disclosure rule will serve the strategic objective of “promot[ing] capital markets that operate in a fair, efficient, transparent, and competitive manner, fostering capital formation and useful innovation.” Much corporate political activity amounts to rent-seeking—pursuing increased corporate profits without adding value to the economy—and when the activity is hidden from public scrutiny, this problem is aggravated. One of the most fundamental roles of the Commission—and government more generally—is the correction of market failures such as rent-seeking that interfere with the ability of private actors to engage in efficient transactions. Rent-seeking by corporations distorts capital markets and reduces useful innovation by diverting investment dollars to corporations that achieve returns through investments in political influence rather than in productive economic activity or innovative research. A political disclosure rule will allow investors and the Commission to better assess whether corporations are engaging in political activity in ways that are unproductive—and are therefore producing returns that are unsustainable—which will help foster more efficient allocation of capital and more competitive markets.

A political disclosure rule will also advance the strategic goal of “[f]acilitat[ing] access to the information investors need to make informed investment decisions,” by providing information in a key area of investor interest. The Strategic Plan recognizes that “[u]nderstanding the interests and concerns of investors is critical to carrying out the Commission’s investor protection mission,” and that “not all investors need the same information and that those needs are affected by their backgrounds, resources and goals.” A large number of investors representing billions of dollars of investment capital have already made known their interest in more robust disclosure of information concerning corporate political activity through the nearly 800,000 comments submitted in support of Rulemaking Petition 4-637 as well as in the increasing number of shareholder proposals to require disclosure of political spending and lobbying. Currently, however, the patchwork of voluntary disclosure and incomplete state and federal disclosure requirements fails to provide “a common pool of knowledge” concerning corporate political activity which would allow all investors “to judge for themselves whether a security is an

appropriate investment.” A political disclosure rule will allow investors to make more informed investment decisions by enabling them to better understand the political risks undertaken by the companies they invest in as well as whether their companies’ political activity aligns with their interests.

The Strategic Plan lays out a number of important goals, and it is laudable that the Commission has begun a process of re-examining its disclosure regime to make it more comprehensive and useful to investors. We believe that requiring disclosure of corporate political activity will further the Commission’s strategic goals and objectives by fostering more informed investing, more efficient capital markets, and more robust competition and innovation. We urge the commission to include as part of the Strategic Plan the promulgation of regulations requiring complete and comprehensive disclosure of corporate political activity. Thank you very much for your consideration.

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Stuart Naifeh, Counsel

Elizabeth Kennedy, Counsel