

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-86722; File No. SR-LTSE-2019-01)

August 21, 2019

Self-Regulatory Organizations; Long-Term Stock Exchange, Inc.; Order Approving Proposed Rule Change to Adopt Rule 14.425, Which Would Require Companies Listed on the Exchange to Develop and Publish Certain Long-Term Policies

I. Introduction

On June 25, 2019, the Long-Term Stock Exchange, Inc. (“LTSE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to adopt new Rule 14.425 (Long-Term Policies), which would require companies listed on the Exchange to develop and publish certain policies that the Exchange believes will facilitate long-term focus and value creation. The proposed rule change was published for comment in the Federal Register on July 12, 2019.<sup>3</sup> The Commission received one comment letter, which supported the proposed rule change.<sup>4</sup> This order approves the proposed rule change.

II. Description of the Proposal

On May 10, 2019, the Commission granted the Exchange’s application for registration as a national securities exchange under Section 6 of the Act,<sup>5</sup> including approval of rules applicable

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See Securities Exchange Act Release No. 86327 (July 8, 2019), 84 FR 33293 (July 12, 2019) (“Notice”).

<sup>4</sup> See Letter from Joe Caputo, Council of Institutional Investors (“CII”), to Vanessa Countryman, Secretary, Commission, dated August 1, 2019 (“CII Letter”).

<sup>5</sup> 15 U.S.C. 78f.

to the qualification, listing and delisting of companies on the Exchange.<sup>6</sup> The Exchange is proposing to enhance its listing requirements by adopting proposed Rule 14.425, which would require companies listed on the Exchange (“LTSE-Listed Issuers”) to adopt and publish the following policies: a Long-Term Stakeholder Policy, a Long-Term Strategy Policy, a Long-Term Compensation Policy, a Long-Term Board Policy and a Long-Term Investor Policy, as described further below (collectively, the “Policies”).<sup>7</sup> These Policies must be consistent with the set of principles articulated in proposed Rule 14.425(b), as described further below.

#### Long-Term Principles

The Exchange proposes that LTSE-Listed Issuers will have flexibility in developing what they believe to be appropriate Policies for their businesses; however, each of the Policies would be required to be consistent with the following long-term principles (collectively, the “Principles”):

- Long-term focused companies should consider a broader group of stakeholders and the critical role they play in one another’s success;
- Long-term focused companies should measure success in years and decades and prioritize long-term decision-making;
- Long-term focused companies should align executive compensation and board compensation with long-term performance;
- Boards of directors of long-term focused companies should be engaged in and have explicit oversight of long-term strategy; and

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<sup>6</sup> See Securities Exchange Act Release No. 85828 (May 10, 2019), 84 FR 21841 (May 15, 2019).

<sup>7</sup> See proposed Rule 14.425(a).

- Long-term focused companies should engage with their long-term shareholders.

### Long-Term Policies

In addition to requiring the Policies to be consistent with the Principles, the Exchange would require each of the required Policies to include certain minimum elements, as described further below.

#### (A) Long-Term Stakeholder Policy

Proposed Rule 14.425(a)(1) would require that each LTSE-Listed Issuer adopt and publish a Long-Term Stakeholder policy explaining how the issuer operates its business to consider all of the stakeholders critical to its long-term success. At a minimum, this policy would be required to include a discussion of (i) the stakeholder groups the LTSE-Listed Issuer considers critical to long-term success, (ii) the LTSE-Listed Issuer's impact on the environment and its community, (iii) the LTSE-Listed Issuer's approach to diversity and inclusion, (iv) the LTSE-Listed Issuer's approach to investing in its employees, and (v) the LTSE-Listed Issuer's approach to rewarding its employees and other stakeholders for contributing to the LTSE-Listed Issuer's long-term success.

#### (B) Long-Term Strategy Policy

Proposed Rule 14.425(a)(2) would require that each LTSE-Listed Issuer adopt and publish a Long-Term Strategy Policy explaining how the LTSE-Listed Issuer prioritizes long-term strategic decision-making and long-term success. The Long-Term Strategy Policy would be required to define the LTSE-Listed Issuer's long-term time horizon and include a discussion of how this time horizon relates to the LTSE-Listed Issuer's strategic plans, how the LTSE-Listed Issuer aligns success metrics with that horizon, and how it implements long-term prioritization throughout the organization. According to the Exchange, the disclosure of this policy is designed to increase transparency for shareholders on the strategic goals of the

company's managers and to provide for greater alignment and accountability between a company's long-term vision and investor expectations.

(C) Long-Term Compensation Policy

Proposed 14.425(a)(3) would require that each LTSE-Listed Issuer adopt and publish a policy explaining the LTSE-Listed Issuer's alignment of executive financial and non-financial compensation and of board compensation with the LTSE-Listed Issuer's long-term success and long-term success metrics. According to the Exchange, long-term focused companies seek to align the compensation of their executive officers with the long-term performance of the company. In addition, the Exchange believes that since the boards of such companies play an active role in long-term strategy, such companies seek to align the compensation of their boards to long-term performance as well. The Exchange notes that much of the information that the company would need to disclose under proposed Rule 14.425(a)(3) also would be required by Rule 402 of the Commission's Regulation S-K.<sup>8</sup> Nonetheless, the Exchange believes that requiring LTSE-Listed Issuers to publish a Long-Term Compensation Policy would still be helpful to long-term investors.

(D) Long-Term Board Policy

Proposed 14.425(a)(4) would require that each LTSE-Listed Issuer adopt and publish a policy explaining the engagement of the LTSE-Listed Issuer's board of directors in the LTSE-Listed Issuer's long-term focus, including discussion of whether the board and/or which board committee(s), if any, have explicit oversight of and responsibility for long-term strategy and success metrics. The Exchange believes that the board of directors should be engaged with the

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<sup>8</sup> 17 CFR 229.

LTSE-Listed Issuer's forward-looking long-term strategy and that investors would find this information useful.

(E) Long-Term Investor Policy

Proposed 14.425(a)(5) would require that each LTSE-Listed Issuer adopt and publish a policy explaining how the LTSE-Listed Issuer engages with long-term investors. The Exchange believes that forward-thinking companies value long-term investor input and consider their perspective on company governance as important to the development of the company's long-term strategy.

Disclosure of Policies and Enforcement

Proposed Rule 14.425(c) would require that each LTSE-Listed Issuer review the policies required by proposed Rule 14.425(a) at least annually and make such policies available publicly and free of charge on or through its website. In addition, each LTSE-Listed Issuer would be required to disclose in its annual proxy statement or, if it does not file an annual proxy statement, in its annual report on Form 10-K (or if a foreign private issuer, Form 20-F) filed with the Commission, that these policies are available on or through its website, and to provide the website address. According to the Exchange, these requirements are intended to ensure that investors are aware of and have access to the Policies required by the proposed rule.

The Exchange has represented that it will enforce the provisions of proposed Rule 14.425 by ensuring that each LTSE-Listed Issuer has addressed all of the elements enumerated in each of the Policies, consistent with the Principles, and has made the Policies publicly available without cost.

As noted above, the Commission received one comment letter received regarding the proposal.<sup>9</sup> The commenter supported the Exchange's focus on a long-term vision for its listed companies and stated that “. . . the long-term policies described in the filing are thoughtful, well-structured, and generally aligned with CII's membership approved corporate governance policies.”<sup>10</sup>

### III. Discussion and Commission Findings

After careful consideration, the Commission finds that the proposed rule change is consistent with the requirements of the Act<sup>11</sup> and the rules and regulations thereunder applicable to a national securities exchange.<sup>12</sup> In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>13</sup> which requires, among other things, that rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest, and that those rules are not designed to permit unfair discrimination between customers, issuers, brokers, or dealers. The Commission notes that the Exchange's proposal would impose additional requirements for its listed issuers, beyond those contained in its existing listing rules. Specifically, the proposal would require issuers to adopt and publish certain Policies that are consistent with the Principles articulated in the proposed

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<sup>9</sup> See note 4, supra.

<sup>10</sup> See CII Letter at 2.

<sup>11</sup> 15 U.S.C. 78f.

<sup>12</sup> 15 U.S.C. 78f(b). In approving this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>13</sup> 15 U.S.C. 78f(b)(5).

rule. The Exchange has represented that it will enforce the provisions of the proposed rule by ensuring that each LTSE-Listed Issuer has addressed all of the elements enumerated in each of the Policies, consistent with the Principles, and has made the Policies publicly available without cost.

Based on the foregoing, the Commission finds that the proposed rule change is consistent with the Act.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>14</sup> that the proposed rule change (SR-LTSE-2019-01) is approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>15</sup>

Jill M. Peterson  
Assistant Secretary

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<sup>14</sup> 15 U.S.C. 78s(b)(2).

<sup>15</sup> 17 CFR 200.30-3(a)(12).