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Do not stifle shareholder voices

SEC proposals on proxy questions would damage efforts to hold companies accountable

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American companies are under pressure to be more responsive to their workers, communities and the environment. But US business groups and regulators are trying to gut one of the main tools that shareholders have used to hold them accountable on issues including climate change, political spending, pay, diversity and gun control.

Over the past two decades, shareholder proposals to put specific questions to a vote as part of the annual proxy process have served as a driving force for greater corporate awareness of environmental, governance and social risks. Research by proxy advisers Institutional Shareholder Services credits such campaigns with helping bring about important major shifts in corporate governance practices.

But the US Securities and Exchange Commission is pressing forward with proposals that would make it much harder to use the proxy process to call for investor votes on specific issues. The rule changes would disproportionately hit small investors and their ability to wage multiyear campaigns for improved disclosure and policy changes.

This radical shift would undermine the way shareholders have historically pushed public companies adapt to evolving demands and manage new risks. This means of gentle engagement has worked effectively since 1942, but it is now under threat.

The SEC voted 3-2 earlier this month to propose changes that would make it far more difficult to resubmit questions to a shareholder vote if they have failed the first time. This strikes a sour note given the long history of low-vote proposals that win acceptance in subsequent years. Would we ever accept a stricture that prevents candidates from running for office again if they do not win on the first try?

The SEC has also proposed setting higher investment requirements for shareholders who want to submit proposals for a vote. Rather than a simple ownership threshold of $2,000 in company stock, the new rule would require investors to hold that much for three full years before trying to put a question to a vote. Big investors, who have $25,000 worth of shares, would be able to submit proposals after only one year.

The rule changes have drawn support from the US Chamber of Commerce, the National Association of Manufacturers, and the Business Roundtable. That last group is seeking to disenfranchise shareholders even as it touts plans to promote "an economy that serves all Americans".

Ironically, the SEC's move comes at a time when more shareholders are engaging with companies, and many board members have become more responsive to investor perspectives. There is no need to undercut a long-held shareholder right when it has provided companies the benefit of lower risks, better investor relations.

As someone who has worked with shareholders on convincing companies to become more politically accountable, I am deeply concerned. Our campaign to push companies to disclose the hundreds of millions of dollars they spend [[on lobbying and]] to influence elections has made big inroads since it started in 2003. Thanks in part to the proxy proposal process, these disclosures are becoming a corporate governance norm and are a positive example of campaign finance reform achieved through private, not public, channels.

The SEC's shareholder proposal process has borne strong dividends for corporations. It provides an early warning system for management, alerting them to problems or issues that may have evaded their radar. The process also serves as a pressure release valve, allowing investors to push for incremental change without the burden and costs of newly imposed regulation.
The proxy process also allows companies to engage with shareholders on specific issues, helping to avert unhealthy escalation of conflict.

The SEC rule changes are out for public comment until January. If they are approved without changes, investors will be deprived of an effective voice. That would not only strip them of an important shareholder right, but also throttles the future of capitalism. If shareholders cannot effect change, public pressure for costly new regulation of business will rise. Undermining the proxy process would also remove an important non-legislative avenue for starting to address some of society's most vexing issues.

Given these dangers, the SEC and trade organizations must stand down and back off before they cause irreparable damage.

The writer is president of the Center for Political Accountability. Eleanor Bloxham, founder of the Value Alliance Company and the Corporate Governance Alliance also contributed.