



December 4, 2018

The Honorable Michael Crapo
Chair
Committee on Banking, Housing & Urban Affairs
US Senate
Washington, D.C. 20510

The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing & Urban
Affairs
US Senate
Washington, D.C. 20510

RE: Hearing on Proxy Process and Rules, December 6, 2018

Dear Chair Crapo and Ranking Member Brown,

In anticipation of the hearing scheduled for December 6th on the “Proxy Process and Rules: Examining Current Practices and Potential Changes,” we would like to submit our viewpoint as investors concerned about the shareholder proposal process. The Interfaith Center on Corporate Responsibility (ICCR) is a coalition of more than 300 institutional investors collectively representing over \$400 billion in invested capital. Our members are composed of a cross section of religious investors, foundations, asset managers, pension funds, and other long-term institutional investors. Members of ICCR have been involved in the shareholder resolution process since 1971, giving us over 45 years of experience in shareowner engagement and the proxy process.

We believe the current shareholder proposal process is effective, efficient and beneficial to both shareholders and the long term well-being of the companies. We firmly believe that there is no need to revise the rules governing the proxy process. For decades, the shareholder proposal process has served as a cost effective way for corporate management and boards to gain a better understanding of shareholder priorities and concerns, particularly those of longer-term shareholders concerned about the long-term value of the companies that they own. This efficient system of private ordering has led to the widespread adoption of a number of constructive corporate governance practices that have become standard in the field, such as independent directors, declassifying boards, “say on pay” vote requirements, and many others. The history of ICCR demonstrates literally hundreds of examples of companies changing their policies and practices in light of productive engagement with shareowners, including the filing of resolutions.

Several issues have recently been highlighted as of concern to the shareholder community that we would like to specifically address: ownership thresholds, resubmission thresholds, representation of long term retail investors, the cost of proposals to companies, and the influence of proxy advisory firms.

The current ownership threshold of at least \$2,000 worth of a company's shares allows a diversity of voices to be heard including smaller investors. The requirement of ownership for at least one year prior to filing a proposal ensures that investors cannot simply buy shares before the filing deadline and sponsor a resolution. Raising the ownership threshold threatens to exclude smaller investors, which is problematic and raises concerns about the equality of the system. Shareholders big and small can make and have made valuable contributions to the companies that they own.

The issue of resubmission thresholds is also raised as a topic for discussion. We believe the current thresholds provide a framework that has served the process well. Minimum votes of 3%, 6% and 10% in the first, second and third years, respectively, of filing a proposal have provided a reasonable amount of time for emerging issues to receive increasing support among investors, while ensuring that only those proposals that garner meaningful support move forward and can appear in subsequent years.

The argument for raising thresholds has been championed as a means of addressing so-called abuses in the system, including claims that shareholder resolutions are a burden on the markets. However, the evidence tells a different story. In fact, there are relatively few resolutions that are filed and come to a vote each year. Approximately 200 social and environmental resolutions came to a vote this year, hardly a burden on the markets and companies. The vast majority of companies never even see a shareholder resolution. It is also worth noting that often resolutions are withdrawn by their proponent after prompting a productive dialogue and improved understanding between shareholders and management, leading to significant policy changes that can transform businesses. ICCR member experience has shown that approximately one third of resolutions filed result in dialogue and agreements, with resolutions being withdrawn from the proxy.

Increasing thresholds could prevent important issues from being considered. There are many examples throughout the history of shareholder engagement of issues that initially received little support, but went on to be appreciated for the serious risks presented to companies that they produced. 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 best practice.

There are numerous additional examples, including:

Resolutions with oil and gas majors beginning in 1998 requesting reporting on the risks of climate change. In the early years, these resolutions often received below 5% of shareholder support. The 2017 proxy season saw a resolution requesting a business plan in alignment with the 2° C warming threshold established in the Paris Climate Agreement achieve a 67% vote at Occidental Petroleum, 62% at ExxonMobil, 50% at PNM Resources and 48% at Dominion Resources.

Resolutions highlighting human rights risks in corporate operations and global supply chains have brought human trafficking and forced labor to the forefront. As a result of proxy pressure, sector leaders such as Coca Cola, HP, Ford and Gap now have human rights policies and supplier

codes of conduct that help them uncover and eradicate these violations from their supply chains - along with the legal, reputational and financial risks they represent.

Proposals like these and many others could be excluded in increasing re-submission thresholds, potentially inhibiting important contributions to corporate governance that have proven to be beneficial to the long term health and performance of companies.

The influence of proxy advisory firms was also raised as a potential topic for review. Critics have posited misperceptions about these firms; including that they have excessive influence. While institutional investors do look to proxy advisory firms to provide research and guidance to help inform their decisions, the ultimate decision remains in the hands of the investor. There is no obligation to follow the recommendations of the proxy advisors, and there are plenty of examples in which investors vote counter to the recommendations. The real motivation behind the special interests opposed to the proxy advisory firms is to undermine the in-depth analysis that they provide and encourage investors to simply vote in alignment with how corporate boards and management see fit, regardless of fiduciary duty or interest in long-term shareholder value.

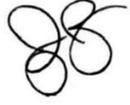
Critics of the shareholder resolution process including major trade organizations like the Business Roundtable, the National Association of Manufacturers, and the U.S. Chamber of Commerce use over-the-top rhetoric to try and discredit resolution sponsors, arguing that their motives are “political” and that they have no interest in creating shareholder value. These industry critics have a clear political agenda of their own – to limit the ability of shareholders to engage with the companies that they own, and to cripple the proxy process that has been in place for over fifty years. The long-term investors who are members of ICCR are deeply concerned about the returns on and growth of the investments in their portfolios. Our members press companies on environmental, social, and governance risks precisely because they are concerned with the long-term health of the companies in which they are invested. Many of the companies that we engage with see the great value that this engagement brings, for example, by enabling companies to identify and address reputational and legal risks in advance, before they become liabilities for the company.

For further consideration, attached is a white paper drafted by Ceres, along with ICCR and The Forum for Sustainable and Responsible Investment (US SIF) entitled, [“The Business Case for the Current SEC Shareholder Proposal Process.”](#) This paper provides an investor perspective on the value to both companies and investors of the shareholder proposal process as currently outlined under SEC Rule 14a-8.

In conclusion, we reiterate ICCR’s support of the shareholder proposal process as it is currently practiced under Rule 14a-8 and believe altering it risks the exclusion of voices that can be vital to this critical accountability tool. The filing of resolutions is a fundamental tenet of shareholder democracy that should be protected.

We appreciate this opportunity to provide input. Please feel free to contact me with any questions.

Sincerely,

A handwritten signature in black ink, consisting of several loops and a trailing line, representing the name Josh Zinner.

Josh Zinner

CEO

Interfaith Center on Corporate Responsibility

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