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ByEmmy Hawker

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A rush of shareholder proposals demanding transparency have been filed for the 2024 proxy season, with a strong emphasis on lobbying alignment.

A coalition of investors is increasing their scrutiny of US-based companies' political contributions and lobbying spend ahead of the presidential election later this year. Members of the Interfaith Center on Corporate Responsibility (ICCR) have filed shareholder proposals at companies across multiple sectors, requesting greater disclosure and transparency on these issues. A **guide** to the ICCR's 2024 proposals read that members are concerned that the risks of corporate political activity are heightened in the run-up to the national election.

US corporate political spending on midterm elections **doubled** from 2010 to 2014 and **doubled again** from 2014 to 2018. **Research** also shows that companies spent US$3.5 billion in federal political contributions during the 2022 cycle, an increase from US$3.3 billion in 2018.

"These issues have been an investor concern for many years, and an election year brings them front and centre," Lauren Compere, Head of Stewardship and Engagement at Boston Common Asset Management, told *ESG Investor*.

“Further, in the aftermath of the 6 January 2021 insurrection, broad misalignment in corporate sustainability strategy and political spending and lobbying activity was evident,” she said. “Shareholders deserve visibility – and a say – into how corporations allocate political and lobbying spending.”

Marcela Pinilla, Director of Sustainable Investing at fellow ICCR member Zevin Asset Management, pointed to the “enormous impact” of corporate lobbying on issues including voter rights, LGBTQ+ rights, and comprehensive health access.

“There is no doubt that more institutional investors see the risk of endorsing boards that continue their memberships to controversial trade associations that have resorted to spreading misinformation without any factual bases,” they said.

According to the US SIF Foundation’s **2022 report** on US sustainable investing trends, shareholders filed 288 proposals on corporate political spending and lobbying between 2020 and the first half of 2022.

“This issue is a concern for investors every proxy season, but given that there has not been any legislative or regulatory action to bring greater transparency to corporate dark money spending, investors are looking to ensure that their company’s political activity is fully disclosed,” said Rachel Curley, US SIF’s Director of Policy and Programmes.

The ICCR is a broad coalition of more than 300 institutional investors collectively representing over US$4 trillion in invested capital.

Big spenders

ICCR members have filed 63 proposals focused on political contributions and lobbying this year, targeting companies including Morgan Stanley, Wells Fargo and Caterpillar. The guide identified the pharmaceutical, fossil fuel, technology, and insurance sectors as top spenders on direct and indirect lobbying across issues such as drug pricing, climate change, and gun safety.

Investors are seeking a return on investment analysis, the ICCR explained, covering the recipient, objective and realised return.

ICCR members are especially concerned about misalignment between companies' political contributions and lobbying spending and their stated ESG-related values, according to Chris Meyer, Manager of Stewardship Investing Research and Advocacy at Praxis Mutual Funds, a faith-based family of mutual funds.

"We believe that lobbying and political spending practices should align with publicly stated ESG-related goals and values," he said. "When ESG goals and company lobbying are incongruent, it shows a lack of commitment to achieving their stated goals and can lead to a lack of trust."

ICCR members are challenging some investee firms to implement the **Erb Principles for Corporate Political Responsibility** and the **CPA-Zicklin Model Code of Conduct for Corporate Political Spending**.

Other frameworks focused on the issue of lobbying include the **Global Standards on Responsible Climate Lobbying** and the Organisation for Economic Co-operation and Development's **Principles for Transparency and Integrity in Lobbying**.

"Considering the US market's politicised **anti-ESG sentiment**, many of these resolutions may not receive high vote counts," Compere admitted. "Our experience, however, is that our portfolio companies tend to acknowledge that this issue demands transparency and alignment with public policy advocacy positions."

Shareholders at risk

The Center for Political Accountability (CPA) has published resources to inform companies and investors in this arena, including **Corporate Underwriters and the Democracy Gap**. It examines how corporate political spending has reshaped state politics and created risks for companies and their shareholders.

The CPA plans to file close to 40 political disclosure and accountability resolutions with its partners this proxy season. “Agreements are being reached and we’re watching to see which ones go to a vote,” said Bruce Freed, CPA’s President.

“We also have a new resolution that calls on companies to require reports from third-party groups on how their money is used, and who the ultimate recipients are, and to post those reports,” he added. “We’re waiting to see how the proxy advisory services recommend on the resolutions.”

Since the ICCR proposals have been filed, there have been “constructive discussions” with companies, including agreements reached with Starbucks and Boeing.

There have been other positive results from ICCR member engagement efforts. Telecommunications service provider **AT&T** published a **Political Congruency Report**, publicly disclosing its political spending and assessing the extent to which state and federal elected officials who received political contributions from the company voted in alignment with legislation identified as important to AT&T’s stated priorities.

Hands are tied

The issue of corporate political spending is more prevalent in the US since the Supreme Court **decreed** in 2010 that political spending falls under free speech, meaning that any limitations to this corporate practice would violate the First Amendment.

“Following [this ruling], corporate money flooded direct and indirect lobbying spending,” said Boston Common’s Compere. “Corporations and unions effectively had no limits on the amounts they could spend to advocate for or against political candidates if such spending was not coordinated with a candidate’s campaign.”

This paved the way for ‘Super PACs’, she explained. These allow money from any entity – foreign or domestic – to influence the US election cycle, thereby increasing investor and company risk.

Lobbying groups, such as the Business Roundtable, have since **spent money** to push back against ESG-related issues like **climate change**, blocking President Joe Biden's **Build Back Better** and delaying the SEC's **climate risk disclosure framework**. Without regulation, corporate transparency and disclosure of corporate political participation and spending will continue to vary in quality and comprehensiveness, experts said.

But new rules are regarded as unlikely due to a rider that **prohibits** the US Securities and Exchange Commission from finalising requirements on political spending disclosures, despite Chair Gary Gensler previously **signalling** his support for developing the rule.