AGENDA

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BlackRock Reveals View on Political Activity Proposals

By Tony Chapelle February 4, 2019

BlackRock relies on one factor for when it “may decide” to support shareholder proposals demanding that companies disclose political activities. That’s if there’s significant chance of “actual harm” to shareholders’ interests when a company hasn’t offered investors sufficient information to assess the company’s risk management around political activity.

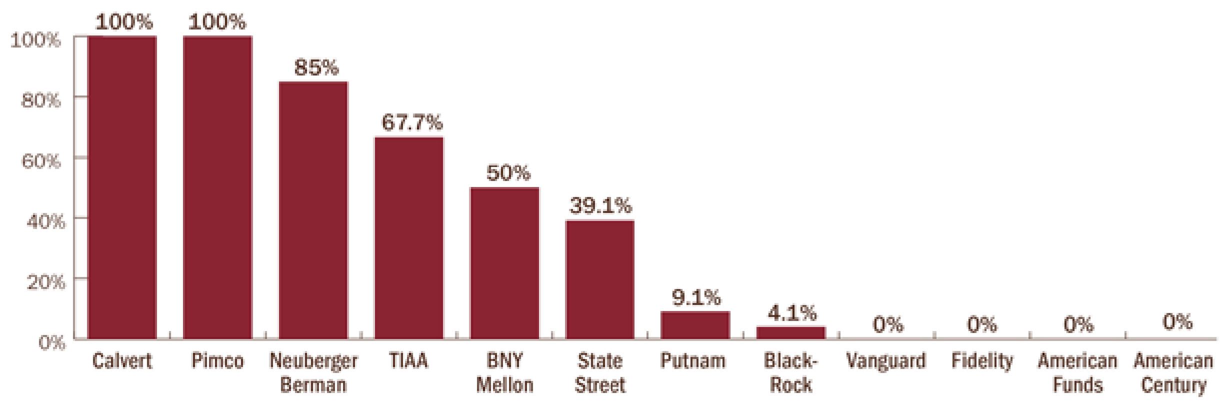
Those are among the details announced by the investment giant recently on how it judges corporate boards’ oversight of political expenditures and activities. This makes 2019 the first time the world’s largest asset management firm has offered commentary on lobbying and election spending in **its proxy voting guidelines**.

Despite BlackRock’s outsize influence, governance insiders are divided over whether the new action will significantly affect U.S. corporate political disclosure.

So far this proxy season, shareholders have filed at least 56 such resolutions on corporate political activity, according to the **Center for Political Accountability** (CPA), a nonprofit group that tracks and scores election-related spending by companies. There were 80 last year and 18 went to a vote, according to ProxyPreview.org, a joint service of nonprofit advocacy groups **As You Sow**, **Proxy Impact** and the **Sustainable Investments Institute**.

A Mixed Bag

Here's the average support that large U.S. mutual funds gave 18 election-spending proposals in 2018 that were modeled on one from the Center for Public Accountability.



Source: Morningstar Fund Votes database, Center for Public Accountability

Ironically, BlackRock is one of this year's targets as well. The firm is among numerous companies — including **Chevron**, **Disney**, **Exxon Mobil**, **Ford Motor**, **General Motors**,**Tyson Foods** and **Verizon**— whose shareholders have filed proposals requesting more transparency on lobbying activity, one of the two types of political activity disclosures. (Election-related spending is the other.) The proposals asked the companies to disclose any payments to third-party groups such as trade associations that lobby on a company's behalf. A religious-group shareholder, the **Unitarian Universalist Association**, brought the lobbying disclosure proposal at BlackRock.

BlackRock's new commentary stated that any company that engages in political activities should develop and maintain robust processes to guide those and reduce associated risks.

Officials at BlackRock insist these investment stewardship guidelines have been in place for some time. "The new commentary is simply meant to provide more context for the clients whose money we manage and the companies with which we engage on this issue on the topic," writes a spokesperson in an e-mail.

The executive director of **The Conference Board** Governance Center does not expect a rush of of new disclosures because of BlackRock's additional interpretation. "To borrow from the old E.F. Hutton commercial, 'When BlackRock speaks; people listen,'" offers **Doug Chia**. Yet he maintains that BlackRock has merely expanded its articulation of previous principles. "It's putting in writing what some of their corporate governance executives such as **Michelle Edkins** have said in public forums about the issue," Chia says.

Bruce Freed, president of the CPA, adds, “[The commentary] should have happened a long time ago. The fact is that this really is in line with what [CEO] **Larry Fink** has called for in his annual letters.”

The BlackRock commentary — which amounted to three paragraphs — defined five factors about political corporate activities that it considers before voting.

Besides explaining that it may support resolutions in the face of actual harm, the commentary said BlackRock will examine the existing level of disclosure and BlackRock’s view of the associated risks. In addition, it stated that the firm accepts that boards and management should determine the proper amount of disclosure. Also, BlackRock generally will not support “overly prescriptive” proposals, according to the commentary.

Finally, BlackRock’s guidelines stated that shareholders should not take upon themselves the role of suggesting or approving their companies’ political activities. “[T]herefore, we generally do not support proposals requesting a shareholder vote on political activities or expenditures.”

That declaration answers a burning query that many shareholder advocates ask every year.

Rachel Curley, an associate at Congress Watch, a division of the consumer rights watchdog group **Public Citizen**, points out that in the past BlackRock has rarely taken the most significant step and voted in favor of these disclosure proposals. “So, now the question is, will they go beyond simply restating their policy and actually hold companies accountable for risky, undisclosed political activity?”

Indeed, Fink has encouraged other chief executives in his annual open letter to raise the level of social involvement and governance. This year, for example, he called for corporate leaders to strive for both purpose and profit and cited how the world’s leading democracies have “descended into political dysfunction.”

Yet, BlackRock rarely votes for shareholder resolutions to push companies to be more transparent on direct and indirect political spending.

For instance, in 2018, it voted for just 4% of such resolutions that were modeled after one supplied by the CPA, according to analysis based on the **Morningstar** Fund Votes Database. **State Street Global Advisors**, the third-largest fund family, voted for 39% of those resolutions. The second- and fourth-largest complexes — **Vanguard Group** and **Fidelity Investments** — didn’t support any of the model resolutions.

Neither a spokesperson for BlackRock nor several of its board members responded about whether the company plans to change its voting pattern this proxy season.

Chia, however, doubts it. “What we might see is the people who write these resolutions adjust the language of their proposals in an attempt to have BlackRock vote in favor of them,” he says.

Eric Talley, a professor at **Columbia Law School**, points out one important caveat: Large institutional investors must be careful with how big a stick they wield to influence governance these days. Last December, the **Federal Trade Commission** held a hearing to consider whether the common-ownership-of-shares model is leading money managers to tamp down competition among the many companies at which they’re stewards in order to stoke profits to the max.

Talley, who is also a faculty co-director of the Millstein Center for Global Markets and Corporate Ownership at Columbia, argues that with such a target on their backs, institutional investors feel they are under more scrutiny when acting as activists.

Talley also divides the field of corporate political activities into two buckets.

When it comes to general public policy, he allows that it’s admirable for corporations to be transparent so as to monitor the untraceable corporate money that’s been unleashed by the Supreme Court’s Citizens United decision. But from a corporate governance perspective, he says, board directors at specific companies must act in shareholders’ best interests. That might mean staying afield of regulatory risks and engaging in political debate and funding, sometimes confidentially.

“It’s hard to have a categorical view on transparency from the corporate governance perspective,” Talley concludes.

BlackRock’s commentary addresses the gamut of possible risks that can attend lobbying and election contributing. The fund company cites potential allegations of corruption; reputational issues associated with a candidate, party or issue; and legal and compliance considerations.

Freed’s organization continually warns of the dangers of corporate political payments to leading U.S. trade associations, which don’t have to disclose donors, and company contributions to so-called “dark money” social welfare groups that are authorized under U.S. Code 501(c)(4). Therefore, he calls it important that BlackRock’s guidelines state that its governance consultants would consider all types of political spending. To provide investors with sufficient information, Freed says, a company should identify the full range of its involvement: contributions to candidates, parties and political committees; payments to trade associations that go to influence elections and to social welfare organizations; and contributions to ballot initiatives.

"Even a small contribution can create serious problems for a company," he says.

Freed recites a short list of public figures including Iowa GOP congressman **Steven King** and Sen. **Cindy Hyde-Smith** (R-Miss.), both of whose comments on race prompted **Land-O-Lakes** and **Purina**, and **Wal-Mart**, **AT&T**, **Pfizer** and a host of other companies, respectively, to withdraw financial support or request refunds for their campaign contributions.

"Political disclosure and accountability go hand in hand. A company needs robust policies in place on what to spend [and] how to spend," Freed summarizes. "That helps boards to oversee and management to know, and creates greater incentive for them to take it seriously."

A former commissioner of the **Federal Election Commission** vehemently disagrees.

"A lot of the people who are pushing for increased [political activity] disclosure are not interested in the welfare of the corporation and returning value to the shareholders. They want to boycott companies or harass officers," explains **Bradley Smith**, now chairman of the **Institute for Free Speech**, an organization he founded to defend discussion in politics.

Smith, who is also a professor at **Capital University** law school, says that many companies contribute to collective lobbying to protect themselves from government or public retaliation.

Since corporate political action committee contributions already are required to be disclosed, Smith says trade association payments should not have to be. "Corporations should think about what's in their best interest. I think BlackRock's new guidelines reflect that. Yes, when companies engage in public affairs and policies, that can lead to risk. But these are individual considerations that companies have to make," he says.

"Our view is that the purpose of forced disclosure should be to monitor our government, and let you know who your officials are getting their money from. But it's not appropriate to force corporations to disclose every grant and expenditure they make to think tanks, trade associations or chambers of commerce."