

Corporate Political Responsibility Taskforce

Expert Dialogue with Bruce Freed

Freed - Module #2

Elizabeth Doty: Welcome to the Corporate Political Responsibility Task Force First Expert Dialogue, convened by the Erb Institute at University of Michigan. My name is Elizabeth Doty and I'm the director of the Erb Institute's Corporate Political Responsibility Task Force at the University of Michigan, and I'm delighted to be moderating today's dialogue with Bruce Freed.

The president and co founder of the Center for Political Accountability. The Corporate Political Responsibility Task Force is an initiative of the Erb Institute, a 25 year long joint venture between the Ross School of Business and the School for Environment and Sustainability at the University of Michigan with specialties in teaching and learning, business engagement, and scholarly and applied research. These [00:32:00] dialogues are part of the CPRT's mission to help leaders engage responsibly in the complex civic, societal, and political issues that are in the headlines so often these days, from climate policy to voting rights, to distrust of civic institutions, social justice, and polarization.

Our goal is to help companies better align their approach to political influence With their commitments to purpose and values to sustainability and stakeholders by engaging a diverse ecosystem of academics, business networks, stakeholder advocates, and executives sharing best practices, research and tools, and wrestling with difficult questions.

As first outlined by Erb Faculty Director Tom Lyon and his colleagues, CPR, or Corporate Political Responsibility, requires us to think at three levels. The first level is transparency. Do we disclose our political influences to the relevant stakeholders? Who needs to know what to be able to hold us accountable?

Accountability. Do our political influences align with [00:33:00] our commitments to purpose and values, to sustainability and stakeholders? Does the left hand know what the right hand is doing? Who takes the integrated view? And finally, responsibility. In an environment where so many systems are under threat, do our political influences support the systems on which markets, society, and even life depend?

To keep this practical and focused. We've been exploring these questions in light of four pressing systemic issues. How do we build strong civic institutions? How do we shift to long term shareholder value and innovation? How do we ensure social justice and inclusion? And how do we address the systemic existential threats of climate and the environment?

I'm very excited to be talking with Bruce today. Our friend was part of our kickoff in March and someone I've learned a lot from Bruce is Bruce is widely respected as one of the leading figures in money and politics. Under his leadership, the Center for Political [00:34:00] Accountability produces the annual CPA-Zicklin index, which benchmarks the S& P 500 companies on a set of standards, and now two thirds of the S& P 500 disclose in some form or another have accountability policies.

Drawing on his experience in journalism on the Hill, so he's got firsthand extensive firsthand experience of working in the halls of Congress and in strategic public affairs. Bruce has co

authored numerous CPA reports on things such as the contradictions between companies brands and their political activity, the impact at the state level of political spending from corporate funds, and more recently a report called Corporate Enablers, which we'll learn more about.

He also contributed to the Conference Board's Handbook on Corporate Political Activity, and more recently a report by the CED called Under a Microscope. Which outlines the increased scrutiny of of companies, political spending activities probably most interesting to us, Bruce led the [00:35:00] development of the CPA Zicklin model code of conduct for corporate political spending, which we will go into here.

And we've asked him to focus in our time here on three. particular topics. The model code, which I think will be the most actionable and near term relevant to our audience. But also looking ahead to scenarios for SEC rules around political spending disclosure and thinking about risks and opportunities as 2022 campaigning begins.

So hello Bruce and welcome. Thank you for letting me do that long setup. There was a lot to say about your background.

Bruce Freed: Elizabeth, it's a pleasure to be with you and a pleasure to be with Tom and all of the folks at the herb center. So thank you.

Elizabeth Doty: Welcome, welcome.

We shift to our second topic, we talked about exploring just a little context around this, the history of political spending disclosure as a SEC rule as to whether it's material. Could you provide a little bit of a backstory and what you project. [00:36:00] happening next. How do you see this unfolding? How did we get here? And where might it go next?

Bruce Freed: Well, I'm gonna tell you how you got there. There was a conference that we had at the Wharton School in October of 2010. Citizens United in the changing political role of the corporation. We invited Rob Jackson. Rob Jackson came, is when my colleague Carl Sandstrom and I met Rob.

And during one of the breaks at at the, the conference and then subsequently a month later at a lunch at the Columbia Faculty Club, we raised with Rob an SEC rule requiring companies to disclose their political spending with corporate funds. You know, we found companies were beginning to disclose, but the fact is that, that the disclosure was sort of should we say scattered companies were disclose, certain companies were disclosed more than others, and it needed to be uniform and universal. Rob said, that's a good idea. I'm gonna put together a committee of law professors to to submit a rulemaking petition to the SEC.

So, you know. It was back in descent, you [00:37:00] know, October, November of 2010, the genesis of the rule. The petition was submitted in August of 2011. Unfortunately, during the Obama administration, it sat at the SEC where there were opportunities to take it up. Those opportunities were not availed. Then in 2015 you had when the Republicans gained full control of the House and Senate, a rider was added to the general government appropriations bill, which covers the SEC that prohibits the commission from addressing from dealing with the political disclosure rule.

There's movement now to lift that rider. It's my understanding that it's been removed from the House Appropriations subcommittee version of the appro general government appropriations bill. We're waiting to see what happens at the Senate, on the Senate side. But

you know, should the rider be removed when it's removed, then the SEC will be able to move ahead on that.

And I think that, you know, there's an expectation that that there's a very, very good chance the rider will be lifted, the SEC will move [00:38:00] forward on that. And I think there's an also a sort of an expectation that that the writer that the disclosures required by the SEC are going to be tracking the disclosure provisions of the CPA sequence index.

You know, I've been speaking with many business groups on it through the conference board and others about. What they could companies could expect with an SEC political disclosure rule. And I say to them, if the company score is a is a trendsetter or very high score on the CPAs if an index on the disclosure side, then it will be in compliance with the SEC political disclosure rule.

They really won't have to do much to be able to to be able to adhere to it. But I think, I think that disclosure rule is, is going to be extremely important because it's also going to complement the ESG reporting standards that the SEC is working on now. Because what it will do, it gets to alignment. You know, if a [00:39:00] company is making commitments, making statements on, on its policies, practices in ESG areas.

then for risk management. It's absolutely essential to know whether the company's spending is in alignment with that or undercutting its policies and its commitments. The two go hand in hand and it's something That we've been having, you know, just, you know, very serious discussions with all of the appropriate players on this, you know, we are deeply involved in what is happening now, you know, is as we wait for the rule.

And, you know, as we begin to, you know, look at at at the framing of it.

Elizabeth Doty: Thank you very much and it's interesting to see and I we just went through the first few items in the model code that track to that right the disclosure and the policies that ensure board oversight and and review. So I think the question is, is this.

And I think what you're saying is that companies can best prepare by adopting the model code or aiming to be a trendsetter with the [00:40:00] index, right. And that and you've already got two thirds right so there are plenty who have made the. Made the journey.

Elizabeth Doty: The the question I have is, is, does this matter to investors? And we've also had a pre conversation question about how might this apply to investment management firms and are they in favor or opposed to such disclosure? So two questions there. Does it matter to investors and how to investment management?

Bruce Freed: Oh, it does manage matter to investors. When you just take a look at this proxy season, the 2021 proxy season has been a banner year for corporate political disclosure. You know, there have got CPA there are 1228 resolutions. CPA resolutions were filed by our partners. 12 went to a vote of those 12 half received majority votes to her at [00:41:00] 80%.

One at 68%. Then at 53, 52 51, the average vote on the CPA resolution, this proxy season is 48.1%. Last year it was 41.9%. The year before it was 36.4%. These are all very high. So it's very clear. Then there have been 10 agreements with companies you know, where the resolution was withdrawn because the company basically adopted the policies on this.

And so, you know, there is a very, very clear message from investors that this is material. Alison Herron Lee had a very good speech on materiality, where she also talked about

political spending as really an essential element of materiality. And she, she made a very strong case for that.

Elizabeth Doty: It's very interesting.

I'd like to turn it to the couple of questions from the audience here. Michael, if you could summarize them. I think there's some that really go along here.

Guest: Definitely. So the first one, why do politicians block disclosure? [00:42:00] Do you see the writer as simply evidence of politicians protecting their revenue streams, or are they trying to cover up unsavory practices, and it makes you wonder if it's really the companies that are the problem or the politicians.

Bruce Freed: When you take a look at the blockage of disclosure, you have to point to one man, Mitch McConnell. Because after the enactment of McCain Feingold, Mitch McConnell made it clear that there was going to be no more legislation on involving campaign finance and Mitch McConnell was for disclosure before he was against disclosure.

These folks, they'll see themselves as depending on. On secret money to be able to raise money for the campaigns that they're running. Just take a look at the at the leadership packs of the of the congressional leaders, you have a super pack that has to disclose, but there's an affiliate 501 c four, and the affiliate 501 c four is [00:43:00] used to raise millions of dollars that are secret, and you take a look at the transfer of money or the contribution of money.

From the 501 c four to these to the super PAC, whether it's one nation is one nation, which is the super PAC, the Susie, the C four affiliate to the Senate leadership fund, or it's the American action network, which is the soup, the C four affiliate of the congressional leadership fund. Those are the two Republican ones.

The Democrats have their, their same type you know, C four super PAC relationship. So, you know, they do rely on those to launder money.

Elizabeth Doty: And what do you think about this idea that the companies are held hostage but here?

Bruce Freed: You know, you know, having worked on the Hill. You know what I found that you know, come members of Congress are going to be responsive to companies that are constituents, or they have, you know, facilities in their state or in their district.[00:44:00]

You know, I think it doesn't wash anymore that you basically have to pay for access you. It's like you know buying an admission, buying a ticket to the movie, you know what, you know, by the way was streaming today, you know, you can go ahead and you can get a hell of a lot live. Well, you know what, You know, members of Congress, I think that, you know, the fact is This is a case of a hostage situation where the hostage is allowing itself to be taken hostage, and there's something known as free will, whether it's in religion or it's in politics.

Elizabeth Doty: Very interesting and the tipping points that you know that you and I have talked about it potentially as the cost gets high, you reconsider any assumptions there. Let's go to this questions.

Guest: really great discussion. [00:45:00] Yeah, I was, I, I was curious about the question that previously came up about do investors, I guess I interpreted it differently. So I thought that the question being asked was do investors. Opposed disclosing themselves what their spend is.

And I think that the way that question was answered there may be intended to be asked even was, you know, do investors support corporate disclosure now, when you're talking about investors, you know, what are you talking? Who are the investors? Institutional investors, individual investors. So really institutional investors, but that can also be an unclear term.

So asset managers for sure. And then I'm not really clear on whether asset owners and allocators actually engage in Political spending it to any degree. So that's the question, I guess, at that level is, is that activity actually happening?

Bruce Freed: before [00:46:00] you have State Street, which is, which is You know, a public company.

That's a trendsetter in the CPA Zicklin index. So it means that they have disclosure and they have good policies then you have BlackRock, you know, BlackRock, you know, BlackRock has always lagged behind on that. And you know, I'd have to go back and take a look at the score of their index, you know, I think they may be in the second tier.

Don't hold me to this, but I know I've looked at it recently and You know, BlackRock has held back in terms of the policies that it is at. It's not in the basement, but it may be in the 70 percent range for the CPA Zicklin Index score. You know, so you do have, you know, the asset managers that that give, you know, for instance, a company like Goldman Sachs does not engage in political spending itself, but the money comes in through its partners.

I mean, that's the, you know, what they've done is they can say, you know, the company itself is virtuous, but it's the money, you know, comes out is made through donations from the donations via [00:47:00] partners.

for the mega ETF managers, that's a different story. But for some of the private equity firms, they're engaging in political spin. They present a real problem because that's where you have millions and millions of millions of dollars coming in.

You can take a look at Ken Griffin, or Paul Singer. I mean, you, you know, Steve Schwartzman. You know, you do have a major problem with the private equity firms and who they are underwriting and the amounts that they are giving to underwrite.

Elizabeth Doty: Bruce, thank you for addressing the question so far. There are a few ways to continue the conversation with the CPRT.

Contact us there. For those of you associated with companies, we are, we are looking to work together to shape those principles for corporate political [00:48:00] responsibility and what companies commit to jointly. So that it's not any company going alone and the model code will be part of that conversation. So there are contact information at the bottom of the screen here.

Two Erb students just created a fantastic resource list that will be available to you just on this topic and we will continue to add to it. And if you'd like to propose additions, please let us know. Bruce, let me offer you an invitation. What one thing would you ask people to do coming out of this this conversation, whether they are In an academic setting a stakeholder advocate setting or in a company,

Bruce Freed: I would urge companies to take very [00:49:00] seriously a very serious look at their political disclosure and accountability policies and really adopt rigorous policies for governing their spending.

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I'd also urge them. to take a look at the model code. And the fact is, and you know, and we are, we welcome the opportunity to speak with them about the code to see how it applies to them and how it is going to help them. Because one of the things that I've found with companies has that increasingly companies say to us, we need policies governing our spending.

We need policies that give us greater control over our spending. And that's where the model code and adoption of policies. Are very important. They give companies autonomy and it gives them really the ability to say no and to really frame what they're gonna [00:50:00] do.