

**TAXPAYERS
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July 11, 2023

The Honorable Patrick McHenry
Chairman
Committee on Financial Services
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
U.S. House of Representatives
4340 O'Neill House Building
Washington, DC 20515

Dear Chairman McHenry and Ranking Member Waters,

The Taxpayers Protection Alliance (TPA) is a nonprofit, nonpartisan taxpayer, and consumer watchdog organization, dedicated to educating the public through the research, analysis, and dissemination of information on the government's effects on the economy. On behalf of the millions of taxpayers and consumers we represent, TPA writes to express growing concern over the intersection of corporate shareholder activism and public policy by the federal government.

Companies, in consultation with their shareholders, should be free to manage their businesses as they see fit. This includes efforts regarding various societal issues tangential to their core business. However, it has become clear that public policy, specifically Securities and Exchange Commission (SEC) regulation, is playing a significant role in driving political and policy outcomes pertaining to publicly-traded corporations in an extra-legislative manner. In addition, this dynamic is costing companies millions of dollars in additional compliance costs that are ultimately passed on to consumers. In order to correct this problem, Congress must ensure that SEC regulations regarding shareholder proposals are tightened to prevent frivolous use of the process and that regulation of the shareholder proposal process is anchored to objective metrics, not subjective political or policy judgements.

SEC regulations and guidance on shareholder proposals currently establish a relatively low bar for submission and inclusion of proposals into companies' proxy statements. With this process predominantly governed by regulation and guidance, the SEC has wide latitude to raise or lower this bar unilaterally. Over the last few years, the number of proposals submitted to companies has risen significantly while the numbers excluded by the SEC and those ultimately passed by shareholders have fallen. This suggests that the SEC has recently lowered the bar for shareholder proposals, resulting in an increase in the quantity but decrease in the quality of shareholder submissions.

Even while the overwhelming majority of shareholder proposals continue to fail, the increased volume and the threat of additional proposals in the future has placed enormous resource strains on companies combatting activist shareholder proposals to the point where some acquiesce to activist demands to just avoid the threat. Recent political controversies surrounding some of America's most valuable companies and brands are indicative of this growing problem.

Activist organizations across the political spectrum are increasingly utilizing the shareholder proposal process as a way to pressure companies into desired policy outcomes without the need to advance new legislation or regulatory changes. Many such outcomes are inherently subjective and center on various contentious societal issues, such as those advanced by environmental, social, and governance (ESG) investors. In response, those opposed to ESG measures are increasingly seeking to use the shareholder process to push back or achieve their own political preferences within companies' practices.

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Such political fights may or may not achieve beneficial outcomes for consumers, workers, and shareholders. It is not the business of the federal government to increasingly encourage the politicization of the shareholder proposal process. Further, the SEC (or any other agency) should not hold the power to slant the shareholder proposal process in a way that favors any particular political interest. Unfortunately, this is a power the SEC currently does possess and appears clearly to be exploiting.

In short, an administration's desired political outcomes pertaining to publicly-traded corporations can be advanced through SEC facilitation of activist shareholder pressure in a complete circumnavigation of Congress. Neither political party should ultimately have an interest in letting such weaponization of financial regulation continue. Taxpayers and consumers are increasingly bearing the brunt of the politicized shareholder process through higher prices and reduced investment returns in addition to the ills of general paralysis and politicization of major corporations.

TPA urges your committee to investigate the SEC's role in facilitating shareholder activism. While shareholders' rights to petition companies and demand changes should be protected, the ability of the SEC to unilaterally sway the process through regulatory or guidance changes must be halted. To this end, Congress should pass legislation that ties SEC regulation of shareholder proposals to relatively static and objective measures to prevent future abuses.

Sincerely,



David Williams
President