March 28, 2012

Honorable Charles Schumer, Chairman
Honorable Lamar Alexander, Ranking Member
United States Senate Committee on Rules and Administration
305 Russell Senate Office Building
Washington, DC 20510

Chairman Schumer and Ranking Member Alexander,

On behalf of the Investor Responsibility Research Center (IRRC) Institute and the Sustainable Investments Institute (Si2), attached please find a statement for the record regarding S. 2219, Democracy Is Strengthened by Casting Light on Spending in Elections Act of 2012, or DISCLOSE Act of 2012.

The statement focuses on the organizations' recent report, *Corporate Governance of Political Expenditures: 2011 Benchmark Report on S&P 500 Companies*. This report is important to the Committee's deliberations as it offers a complete, objective and non-partisan analysis of what S&P 500 companies actually are doing with regard to political expenditures and disclosures. The study does not take a position on the disclosure of political expenditures. Instead, it offers the most comprehensive data analysis to date, supplemented by two case studies.

The study finds that oversight and disclosure of corporate accountability and disclosure of political expenditures is on the upswing, with the boards of 31 percent of S&P 500 companies now explicitly overseeing such spending. Yet, the study shows that this increased oversight and transparency does not necessarily translate into less spending. In fact, companies with board oversight of political expenditures spent about 30 percent *more* in 2010 than those without such explicit policies.

The analysis also tallies S&P 500 political expenditures – some $1.1 billion from corporate treasuries in 2010. It uncovers inconsistencies between companies' stated political expenditure policies and what is actually spent. That is, fifty-seven of S&P 500 companies state they will not make political contributions. But an in-depth search of federal and state records shows that only 23 of these companies actually refrained from giving to candidates, parties, political committees and ballot measures in 2010.

We appreciate your review of the statement and full report. We hope that having such a wealth of independent, non-partisan data will help your deliberations. We stand ready to respond to any questions or provide additional information.

Respectfully submitted,

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Statement of
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on behalf of
The Sustainable Investments Institute
and
The Investor Responsibility Research Center Institute
submitted to
The United States Senate Committee on Rules and Administration
Hearing on the DISCLOSE Act of 2012
March 29, 2012
Washington, D.C.

Thank you Chairman Schumer, Ranking Member Alexander, and Members of the Committee for the opportunity to submit a statement for the record regarding S. 2219, the Democracy Is Strengthened by Casting Light on Spending in Elections Act of 2012, or DISCLOSE Act of 2012.

In the wake of the landmark *Citizens United* Supreme Court decision, numerous organizations are providing input on the highly contentious policy debate regarding the disclosure of political expenditures. As the Committee examines each side of the debate and potential legislation, we believe an important element of the decision making process is a careful examination of neutral, non-partisan data on what companies actually are doing with regard to disclosure of political expenditures.

Such an examination recently was conducted by the Sustainable Investments Institute (Si2) with funding from the Investor Responsibility Research Center (IRRC). This statement provides the Committee with a summary of this study, "Corporate Governance of Political Expenditures: 2011 Benchmark Report on S&P 500 Companies." The study (attached) offers the most comprehensive study of corporate political spending to date and is intended to help policymakers, investors and other interested parties make informed decisions with an impartial, complete, and non-partisan benchmark data analysis. Importantly, this study does not advocate for particular policy solutions and does not take a position on the legitimacy of corporate spending. It also provides two case studies. The first examines ballot measure spending in California by Pacific Gas & Electric, while the second looks at indirect support for independent expenditures in Ohio judicial elections by Procter & Gamble.

The study finds that many companies have voluntarily heeded the call for increased disclosure, transparency and oversight. Given the high impact and high risk nature of this spending, that's probably appropriate. But, while many assume that strong disclosure and governance practices will reduce corporate political spending, the data show that's far from a foregone conclusion.

Indeed, on a revenue-adjusted basis, while companies with greater board involvement in the process clearly have more robust oversight of such spending in place, they also actually spend *more*. But it's important to note that the causation is unclear. For example, heavily regulated companies spend disproportionately. Boards of highly regulated companies could both be more concerned with such spending, and could view such spending as a necessary cost of business.

Overall, we found quite a complicated landscape. On the one hand, there's been real movement towards disclosure. But on the other, a huge part of the picture remains obscured. For example, two-thirds of the companies that appear to spend from their treasuries don't report to investors, although we put many of the pieces together for direct political spending using data from the Center for Responsive Politics and the National Institute on Money in State Politics. However, reporting on indirect spending depends on voluntary corporate disclosures. The 39 companies that disclosed such spending for 2010 reported a total of $41.1 million that went to political purposes. Most of it probably went to lobbying, yet not broken out is how much may have gone to political campaigns.

We also found a small but growing number of firms shying away from exercising their new right to fund ads that support or attack candidates. Further, only 26 companies in the whole index mention 501(c)4 social welfare groups that are playing a key role in funding issue ads.

More specifically, the study finds that:

- There is a trend towards more oversight and more "no spending" policies: 77 companies now say they will not use independent expenditures, up from 58 in 2010.

- The number of companies with policies on corporate oversight of indirect spending through trade associations has jumped to 24% from 14% a year ago. Fully half the largest 100 companies now have such policies. However, only 14% of S&P 500 companies actually give a numerical report on how much of their trade association dues are spent for political purposes.

- 65% of the S&P now identify who at the company is responsible for making political expenditure decisions, up from 58% last year.

In addition, the study uncovered inconsistencies between companies' stated political expenditure policies and what is actually spent. Fifty-seven of S&P 500 companies state they will not make political contributions, up from just 40 in 2010. But an in-depth search of federal and state records shows that only 23 of these companies actually refrained from giving to candidates, parties, political committees and ballot measures in 2010.

The analysis also tallies what S&P 500 companies spent both before and after elections – some $1.1 billion from corporate treasuries in 2010. This includes:

- $979 million for lobbying at the federal level
- $112 million on state-level candidates, parties and ballot initiatives, and
- $31 million on federally registered 527 political committees.

The data also indicate the largest companies spent the most, with the top 40% of the companies (by revenue) spending $915 million of the $1.1 billion. The average S&P 500 company spent $144 for political purposes per million dollars of revenue earned. Utilities and Health Care companies spent proportionately more than any other sectors.

For you information, The IRRC Institute is a not-for-profit organization headquartered in New York, N.Y. Its mission is to provide thought leadership at the intersection of corporate responsibility and the informational needs of investors. Si2 provides online tools and in-depth reports that enable investors to make informed, independent decisions on social and environmental shareholder proposals, providing analysis but not recommendations on how to vote.

We hope the Committee finds this report and analysis useful as it debates this important policy issue. We thank you for the opportunity to provide this information and are available at your convenience to provide additional information and respond to questions.