

October 13, 2015

Dear Business Leader:

We are writing to you about activists' efforts to mute the business community's voice in political and public policy debates. This campaign has been spearheaded by the Center for Political Accountability (CPA), an advocacy group pushing for additional disclosure of corporate lobbying and public policy expenditures.

The CPA's central tool is the *CPA-Zicklin Index*, a "study" produced by the CPA but under the banner of the Zicklin Center for Business Ethics at the University of Pennsylvania's Wharton School. The study, the fifth version of which was just released this week, claims to use empirical methods to measure the accountability and transparency of "political spending" by publicly held companies.

The purpose of our letter and the enclosed materials is to provide you with a clearer picture of the context of this Index and to offer some suggestions regarding resources available to your company when reviewing its findings.

First, it is important to know that the CPA is not a disinterested player in the debate. It coordinates with groups that have strong political positions and goals, including unions, public pension funds, and other politicized investors, with whom they work to draft and submit shareholder resolutions. The resolutions typically take the form of disclosure requirements for lobbying and political activity, including memberships in trade associations, and seek to restrict the ability of companies to engage in political activity. Some of these same groups then engage in pressure tactics, such as letter-writing campaigns, demanding that public companies disclose spending on public policy matters.

The Index is designed as a measuring stick for the CPA and its allies to cite as they argue that increased disclosure of spending on political/policy engagement is aligned with good corporate governance. Activists use the Index to buttress their argument that businesses are embracing the activists' view of disclosure as a "corporate best practice."

The accompanying fact sheet on the CPA-Zicklin Index and a *Wall Street Journal* piece on the topic give you more facts about this effort, and why companies that cooperate may be *more* of an activist target, while simultaneously *more* out of step with investors.

A few highlights include:

- In 2014, companies who scored in the Index's highest quartile for political spending disclosure were three times more likely to receive a proxy proposal on the matter in the following year than those companies who scored in the bottom quartile.
- A 2015 Stanford study of investors shows that 95 percent do not consider political spending disclosure an issue when making investment decisions.
- The nation's top mutual funds voted for political/lobbying spending disclosure less than one percent of the time last year.

The CPA has publicly maintained that their goal is only disclosure—and not limitation—of non-material corporate spending on public policy efforts. But last month, the CPA unveiled a new database that gathers corporate spending on federal and state elections and trade groups for all S&P 500 members. Bruce Freed, the CPA's President, stated in *Politico*: “the database is an important tool for voters and investors to hold companies and associations accountable.” Freed's statement makes clear that the CPA's efforts are not about disclosure for its own sake, but instead, as a tool to be used to attack companies.

In practical terms, this translates into getting companies to disclose increasing amounts of information about their involvement in public policy, including membership in trade associations, with the ultimate goal of using this information to name-and-shame companies into either curtailing or eliminating their involvement in public policy debates altogether.

In fact, when the CPA and its allies meet with corporations to discuss their shareholder proposals, *CPA-Zicklin Index* scores are used as leverage to demand increased disclosure during those negotiations.

The strategy of pressuring companies to voluntarily disclose the details of their spending on public policy engagement for the purpose of reducing that engagement is, in fact, their ultimate goal. In a 2011 webinar, Mr. Freed highlighted that such a strategy “is not vulnerable to political obstruction or legal challenge” and “offers a route that allows the issue to be addressed almost unimpeded.”

As these activists continue efforts to silence the business community’s voice, we will continue to engage on your behalf. Only by taking a strong, consistent, and principled stand for free markets and reasonable regulations will we grow our economy and create a free and prosperous society.

Our organizations stand ready to assist those in your company who work on investor and government relations issues, and we ask that you consider engaging us as needed. If you have any questions or would like more information about the points raised in this letter, please feel free to contact any of us directly.

Sincerely,



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Enclosures