



Letter writing: the first step to corporate dialogue

Letters signed by prominent shareholders (like your school) almost always receive a response, and are often followed up with phone calls or face-to-face meetings. The desired outcome of letter writing is for the company managers to acknowledge a harmful behavior and agree to change. This strategy is most simple and effective if multiple shareholders send letters concerning the same issue, and if their letters are researched and prepared by a third party, like a non-profit.

Letter-writing campaigns, however, can also be directed to other stake holders:

- Letters written to Investor Relations as a request for a change in corporate social, environmental, and governance practices. For example, students can take directions from directly impacted communities (e.g. neighborhoods affected by coal mining pollutants emitted by a certain energy company's operations) and write letters to a company to demand a change in unfair corporate practices.
- Letters written to Investor Relations in support of the demands presented by an existing shareholder resolution
- Letters written to a fund manager to request proxy voting for resolutions that raise similar issues (e.g. requesting a fund manager that normally abstains from voting for resolutions on political spending to vote affirmatively). This is particularly useful if an institution does not have direct holdings, or shares held under its own name.
- Letters written to other shareholders to solicit votes for an upcoming resolution
- Letters written to other shareholders to affirm support for resolutions they have filed or co-filed
- Letters written to government regulatory bodies (e.g. the Securities and Exchange Commission) in support of a relevant rulemaking petition

How to engage this strategy on campus: If your school already has a committee on investor responsibility (CIR), great—feel free to approach them with ideas about companies or institutions to engage. The more research you can bring (including a sample letter) the better.

Start with dialogue: It is worth the effort to have a conversation. Sometimes a reminder is enough to motivate a corporation to take action, especially if you make it clear that you'll take additional steps if they refuse to treat your shareholder demands with gravity.

Compiled by Rafadi Hakim (Carleton College '13 and Carleton Responsible Investments Committee) for the Responsible Endowments Coalition

EXAMPLE OF A LETTER WRITTEN IN RESPONSE TO CORPORATE PRACTICES

The following is an excerpt from a letter sent to the Dow Board of Directors and Auditors by its investors concerning Dow Chemical's irresponsible waste management practices responsible for the death and illnesses of tens of thousands in Bhopal in 1984.

TO: Dow Board of Directors and Auditors

As Dow Chemical investors, we are writing to request fuller and expanded disclosures regarding the potential impacts on the financial condition of Dow and its subsidiary Union Carbide as a result of outstanding issues associated with the Bhopal Chemical disaster, and the continued contamination of the Bhopal site. Our investing institutions are Dow Chemical shareholders. Specific issues which we believe necessitate better disclosure and analysis by the management include:

- Status and potential impact of criminal and civil litigation relative to Bhopal. There are both civil and criminal cases pending regarding Bhopal....
- Potential impact of reputational damage associated with unresolved issues in Bhopal. The reputation of Dow may be undermined by the escalating controversy regarding Bhopal. In December 2004, the 20th Anniversary of the disaster, there was massive press coverage and NGO activity....
- Status of current activities and initiatives to resolve the outstanding issues associated with Bhopal. It is unclear whether Dow or Union Carbide management is undertaking any efforts to address the company's legal or moral responsibilities in this matter. Although the Securities and Exchange Commission recently reportedly rejected a proposed 2005 shareholder resolution to address disclosure of the risks facing the company, as investors we believe disclosures of financial risk are core legal obligations of the management. In particular we are struck by the requirement for the management to discuss and analyze trends, events and uncertainties which, according to SEC guidelines issued December 29, 2003, requires that an item should be analyzed unless the management has concluded that such item cannot reasonably impose a material impact on the company. We believe it is unrealistic to draw such a conclusion regarding the events relating to Bhopal....

Finally, we believe that prior and current company statements must be revised to the extent they may mislead investors. This is a clear obligation under SEC rule 10b-5. Dow Chemical should be reporting the potential financial risks imposed on the company by the Bhopal incident and contamination including:

- Status and potential impact of criminal and civil litigation relative to Bhopal.
- Potential impact of reputational damage associated with unresolved issues in Bhopal.

In addition, the management should also be disclosing the status of its current activities and initiatives to resolve the outstanding issues associated with Bhopal.

As Dow's Board members and auditors, you have a personal responsibility to ensure the adequacy of Dow disclosure practices. We urge you to fulfill that responsibility by demanding enhanced disclosures by Dow's management.

EXAMPLE OF A LETTER WRITTEN IN SUPPORT OF A PETITION

The New School Advisory Committee on Investor Responsibility (ACIR) was the first university to send a letter in support of SEC's petition Petition 4-637, which demands the SEC to mandate disclosure of political spending by publicly-traded corporations.¹ The following template is adopted from ACIR's letter:

To: Secretary of the Securities and Exchange Commission

I am writing today on behalf of **[name of school]** to urge the SEC to design and adopt rules requiring disclosure of corporate political spending. In particular I write in support of petition 4-637 ("to Require Public Companies to Disclose to Shareholders the Use of Corporate Resources for Political Activities").

Petition 4-637 was submitted on August 3, 2011 by a committee of prominent law professors seeking to address the issue of corporate political spending transparency, about which many investors have increasingly become concerned in the past few years. The petition has since received a record number of comments, illustrating the extensive concern from investors, professors, and citizens alike regarding political expenditures by corporate managers using corporate assets for political purposes without disclosure to shareholders. Investor interest in political spending disclosure has grown in recent years, as the magnitude of corporate funds flowing to politicians has increased and with it the materiality of such expenditures to investment choice.

Disclosure of information on corporate political spending is critical for the operation of corporate accountability mechanisms, including those that the Supreme Court has relied upon in its analysis of corporate political speech. Without mandatory disclosure regulations imposed by the SEC it is not possible for shareholders to effectively monitor the use of corporate resources for political activities. Monitoring is critical to determine whether a corporation's political speech advances its long-term interests or impedes those interests, and whether the magnitude of corporate funds flowing to political causes and politicians detracts materially from earnings, adversely affects share price, or constitutes corporate waste.

As SEC Commissioner Luis Aguilar recently recognized, "It is one of the SEC's core functions to identify gaps in information that investors require, and then close that gap (sic) as quickly as possible." It seems to us at **[name of school]** that requiring disclosure of corporate political spending rests squarely within the responsibility of the SEC to achieve marketplace fairness and protection of investors.

U.S. colleges and universities collectively hold approximately \$400 billion in endowment investments; over a quarter of these are in publicly traded companies. Given this enormous financial stake in public corporations, those of us responsible for the stewardship of educational institutions have a correspondingly large interest in ensuring the effective operation of corporate accountability mechanisms. Of equal or even greater importance, we also have a profound interest in ensuring that corporate funds of companies in which we are invested are not used for political expenditures inimical to our chartered purposes. Without full disclosure, this goal is impossible to achieve.

¹ On July 2011, the Committee on Disclosure of Corporate Political Spending, a committee of ten law scholars, submitted Petition 4-637 to the SEC. New School ACIR members Terra Lawson-Remer, Bevis Longstreth, Malcolm Smith, Chris Crews, Izza Aftab, Susan Sawyer, and Ian Morlan signed this letter sent to the SEC in October 2012, an action followed by a number of committees at colleges and universities. As of February 2013, the petition has received more than 380,000 signatures.