Corporate political spending must be disclosed, says securities law expert

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Investors are highly interested in information regarding corporate political spending, says Hillary Sale, JD, securities and corporate governance expert and the Walter D. Coles Professor of Law at Washington University in St. Louis.

“The SEC should address the need for transparency in political spending to better inform shareholders and allow them to protect themselves from hidden political agendas in corporate campaign spending,” she says.

Sale has written extensively on securities and corporate governance matters, including redesigning the Securities and Exchange Commission (SEC), independent directors as securities monitors, derivative litigation, and corporate law and governance.

She is among 10 academics who are petitioning the SEC to adopt a rule requiring that information on political spending be disclosed to shareholders of public companies.

The group, known as the Committee on Disclosure of Corporate Political Spending, submitted its petition for rulemaking under Section 14 of the Securities Exchange Act of 1934. The 11-page petition argues that:

• the request for the new rule is in line with SEC rules that have evolved over time to address investor interests, changes in disclosure practices and related external events;

• public investors have expressed an interest in information on political spending;
• many public companies are already voluntarily disclosing such information; and
• disclosure is important for accountability mechanisms, including those used by courts considering corporate political speech matters.

The committee is urging the SEC to draw on both the voluntary mechanisms and the SEC's prior experience in rulemaking to promptly create the new rule.

The committee cites several examples of SEC rules that have been adopted related to investor interest, including those governing disclosure of executive pay and of director oversight of risk-taking.

The committee recommends that in creating the rule, the SEC should:

• allow for a "de minimis exception on corporate spending on political activity," but set a low threshold;
• use the existing proxy-disclosure regime as the method for how often investors should be provided with this information; and
• specify the political spending that should fall under the rule.

More information: To view the petition and a complete list of committee members, who all are experts in corporate governance and securities law, visit law.wustl.edu/news/pages.aspx?id=8916 .

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