

United States Senate

WASHINGTON, DC 20510

October 15, 2018

The Honorable Jay Clayton
Chair
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Chair Clayton:

We write to you today to request agenda items for the Securities and Exchange Commission's (SEC) Staff Roundtable on the Proxy Process, announced on July 30, 2018.¹ As you noted in your announcement, shareholder engagement at S&P 500 companies has increased from six percent in 2010 to 72 percent last year.² This dramatic increase reflects a growing interest in the priorities of large companies. As a reflection of this growing interest in (and power of) large publicly-traded companies, we ask the Commission to add topics to the proxy process roundtable agenda to address the obligations of corporations to *all* of their public stakeholders, including employees, consumers, local communities, and taxpayers—in addition to public shareholders.

In developing the roundtable agenda, you asked SEC staff to consider, “Whether meaningful ownership in the company can be demonstrated by factors other than the amount invested and the length of time shares are held.” We strongly believe meaningful ownership can and should be determined by the value of contributions made to the company by its various stakeholders. Workers, for example, invest their time, skill, and effort in the company, and—like shareholders—depend on managers to both generate a return on that investment and share that return in the form of increased compensation.

Congress has proposed several pieces of legislation to promote worker engagement with corporate management and in the selection of directors. Research has shown that boards with worker representation make better resource allocation decisions over a longer time horizon.³ Because your agenda seeks a forum for engagement, we believe the SEC's agenda should include a discussion of the merits of directly electing of workers to company boards.

You recently wrote that encouraging long-term investment in our country is, “a key consideration for American companies and, importantly, American investors and their families.”⁴ Similarly, in setting the roundtable agenda you asked SEC staff to consider, “if the voices of long-term retail investors are appropriately represented in the shareholder proposal process and

¹ Chairman Jay Clayton, *Statement Announcing SEC Staff Roundtable on the Proxy Process*, July 30, 2018.

² See Ernst & Young 2017 Proxy Season Review (June 2017), available at:

[https://webforms.ey.com/Publication/vwLUAssets/ey-2017-proxy-season-review/\\$File/ey-2017-proxy-season-review.pdf](https://webforms.ey.com/Publication/vwLUAssets/ey-2017-proxy-season-review/$File/ey-2017-proxy-season-review.pdf)

³ See James M. Poterba and Lawrence H. Summers, “A CEO Survey of U.S. Companies' Time Horizons and Hurdle Rates,” *Sloan Review*, MIT, Fall 1995, Oct 15, 1995 available at: <https://sloanreview.mit.edu/article/a-ceo-survey-of-us-companies-time-horizons-and-hurdle-rates/>

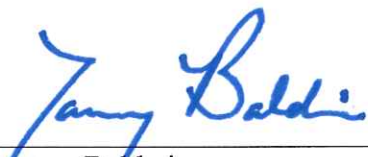
⁴ Chairman Jay Clayton, *Statement on Investing in America for the Long Term*, August 17, 2018.

in the shareholder engagement dynamic more generally.” Given the research demonstrating the benefits of worker engagement, and the interest in the subject from Congress, we believe that fostering this engagement should be reviewed at the roundtable, in order to evaluate how it can drive long-term investment to benefit retail investors or, “Mr. and Mrs. 401(k).”⁵

We recognize the costs that increased engagement impose on companies and others in the proxy process. As such, we support your suggestion that the roundtable should examine scalable engagement requirements. Larger companies use more public resources and should be accountable to wider groups of stakeholders. Engagement rules should also consider the needs of small and emerging businesses, which you have rightly noted will provide these companies access to capital while expanding opportunities for Main Street investors.⁶

In his 2018 annual letter to CEOs, BlackRock Chairman Larry Fink wrote, “Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate.”⁷ As representatives of those stakeholders, and often arbiters of how taxpayer resources are spent, we believe that public companies should adjust their engagement focus to ensure that they are better stewards of the resources—including worker and taxpayer resources—that have been contributed to them. We appreciate your attention to this matter and look forward to working with you to make shareholder engagement more inclusive.

Sincerely,



Tammy Baldwin
United States Senator



Sherrod Brown
United States Senator



Cory A. Booker
United States Senator

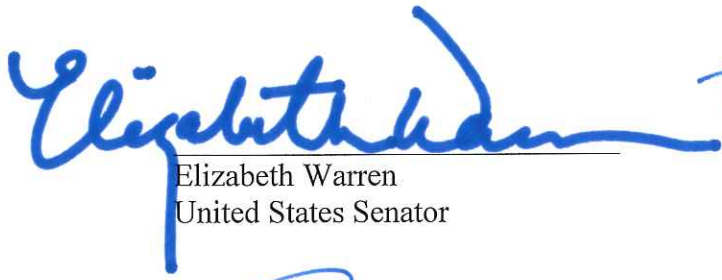


Kirsten Gillibrand
United States Senator

⁵ Jay Clayton, *Opening Statement of Jay Clayton, Nominee for Chairman, Securities and Exchange Commission, Senate Committee on Banking, Housing and Urban Affairs*. March 23, 2017.

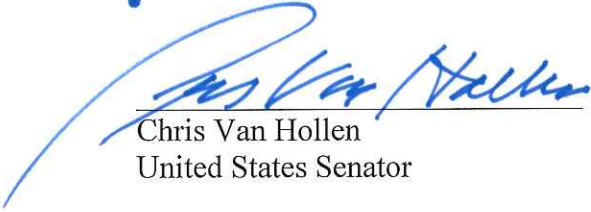
⁶ Jay Clayton, *Statement at Open Meeting on Amendments to Smaller Reporting Company Definition*, June 28, 2018.


⁷ Larry Fink, *A Sense of Purpose, Larry Fink's Annual Letter to CEOs*. January 16, 2018.

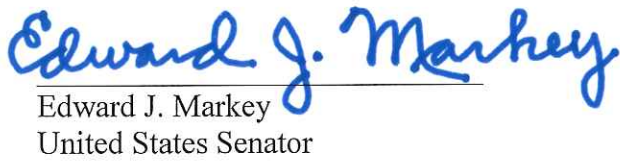

Elizabeth Warren
United States Senator



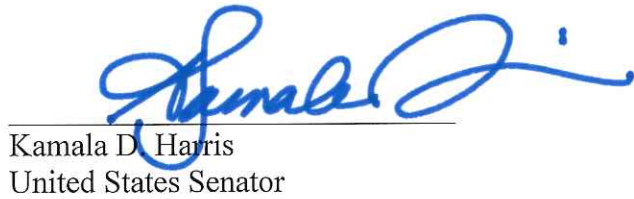
Benjamin L. Cardin
United States Senator


Chris Van Hollen
United States Senator

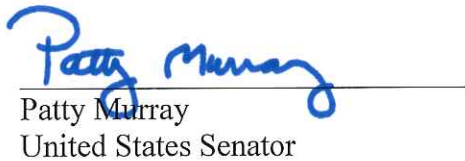

Bernard Sanders
United States Senator


Edward J. Markey
United States Senator


Mazie K. Hirono
United States Senator


Kamala D. Harris
United States Senator


Jeffrey A. Merkley
United States Senator


Patty Murray
United States Senator