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As You Sow Publishes Proxy Preview 2011

by Robert Kropp

Following record-breaking support in 2010, shareowner activists have filed 359 shareowner resolutions addressing ESG issues in 2011.

SocialFunds.com -- For the seventh year, **As You Sow** has published its Proxy Preview, in which shareowner resolutions addressing environmental, social, and corporate governance (ESG) issues submitted for the current proxy season are explored in depth.

This year, the Proxy Preview was co-authored by Heidi Welsh, Executive Director of the Sustainable Investments Institute (Si2), and Michael Passoff, CEO of Proxy Impact. Before founding Proxy Impact this year, Passoff, who has authored the Proxy Preview since 2005, directed the Corporate Responsibility Program at **As You Sow**, where he remains as a consultant.

At the time of the report's publication this month, 359 shareowner resolutions addressing ESG issues had been filed, and nearly 290 are pending. The approximately 70 resolutions that will not appear on proxy ballots this year were either withdrawn because agreement was reached between shareowner activists and companies, or omitted by the Securities and Exchange Commission (SEC) because they did not conform to its Shareholder Proposal Rule.

As the report points out, regulatory developments on a number of fronts, whether enacted in time for the current proxy season or not, are likely to have an effect on the outcome of the proposals submitted. In a concept release published last July, the SEC, for the first time in more than 30 years, proposed a significant revamping of the US proxy system. According to **As You Sow**, "Possible reforms include the regulation of proxy advisory services, which can substantially affect the outcome of any vote with their recommendations that are used by many institutional investors."

Additional proposals in the concept release would make it easier for investors in complex securities to vote their shares, and improve communication between companies and shareowners. Also, as the report points out, "The SEC wants to encourage more voting by retail investors." The report recommends that individual investors access such sites as Moxy Vote and ProxyDemocracy to "find out more about issues coming to votes."

Other regulatory developments include a number of disclosure requirements mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as regulations issued by the Environmental Protection Agency (EPA) pertaining to the reporting of greenhouse gas (GHG) emissions by large emitters.

The report observes that the 2011 proxy season follows on the heels of a 2010 season in which "investors...voted 'yes' more often than ever before on a wide range of social and environmental shareholder proposals." Of the 182 votes on proposals addressing ESG issues in 2010, 17 received more than 40% of shareowner support, and two—a resolution calling on Layne Christensen to produce an annual sustainability report, and one calling for the establishment by Massey Energy of quantitative goals for the reduction of GHG emissions—received majority support.

In 2011, one-quarter of the resolutions filed thus far address environmental issues. Forty-one proposals address climate change, most of which request that companies set GHG reduction goals or adopt public policy principles on cli-

mate change. Other climate change-related resolutions address deforestation and renewable energy.

Another 24 resolutions addressing natural resource management were filed at energy and utility companies. **As You Sow** has filed seven resolutions at coal companies, asking for reports "on the financial risks of continued reliance on coal contrasted with increased investments in efficiency and cleaner energy." According to Leslie Lowe, a speaker at a webinar describing the Proxy Preview, "The average bond rating for the industry is now 'BBB', slightly above 'junk' status. Electric utilities with significant exposure to coal may face material financial risks."

Nine resolutions addressing hydraulic fracturing have been filed this year. Despite "exceptionally high votes for a proposal on a new issue" last year, "Only two companies, Range Resources and Williams Companies, agreed to post details on how they are managing fracturing life-cycle hazards," Passoff said. Hydraulic fracturing requires the injection of as much as 7.5 million gallons of water per well, as well as often toxic chemicals, to crack open rock and allow natural gas to flow to the surface.

In the wake of the Supreme Court's Citizens United decision in January, 2010, the Center for Political Accountability (CPA) has led an effort to pressure companies to disclose their political spending. This year, 83 proposals addressing corporate political spending have been filed.

Bruce Freed, President of the CPA and a speaker at the webinar, described best practice for political spending disclosure, which include policies and procedures to oversee political spending, board-level oversight, transparency, and disclosure of payments to trade associations such as the US Chamber of Commerce.

This year, Walden Asset Management is leading a shareowner campaign requesting that companies disclose indirect political spending through trade associations. This month, Walden announced that resolutions at Target and Best Buy were withdrawn after successful engagement with the companies.

Of the 37 resolutions filed that address sustainability, 24 ask companies to publish sustainability reports. Another eight resolutions seek to link executive compensation to sustainability performance, and a resolution filed at Walmart by the New York City Pension Funds asks the companies to request sustainability reports from companies in its supply chain. Social issues that have attracted the largest number of shareowner resolutions in 2011 include employee non-discrimination and board diversity. In addition, nine resolutions filed by members of the Interfaith Center on Corporate Responsibility (ICCR) ask companies to "review policies related to human rights to assess areas where the company needs to adopt and implement additional policies and to report."

As of January 14, ICCR members had filed 159 shareowner resolutions for 2011, according to the organization's 2011 Proxy Resolutions Book.