



Public Affairs Council

# Political Transparency Spotlight: Understanding the CPA-Zicklin Index

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# Proxy Proposals Regarding Disclosure of Political Activity

- Shareholders have been introducing proxy proposals requiring public disclosure of corporate and PAC political activities
- Brief history
  - First proxies proposed more than a dozen years ago by the AFL-CIO pension fund
  - Shareholder research organizations such as ISS started to support proxies
  - *Citizens United* reinvigorated this effort

# CPA-Zicklin Index of Corporate Political Disclosure and Accountability

- Focus on transparency and accountability of corporate political spending from Russell 1000
- Key measures include:
  - Board oversight
  - Political spending policies
  - Contribution and expenditure disclosure
    - Trade Associations
    - Super PACs
    - 527 groups
- Identity of senior managers involved in political spending
- Link to CPA-Zicklin Indicators used as basis for scoring:
  - <https://www.trackyourcompany.org/wp-content/uploads/2023/05/2023-cpa-zicklin-index-scoring-indicators.pdf>

# 2023 CPA-Zicklin Index Report

- Data collection will begin on Monday, June 5
- Policies, procedures, and disclosures must be publicly available
- Preliminary scores and analysis will be sent to companies between June and August
- Updates to policies or disclosures must then be made by early August
- The report will be published in October

# PAC Operations in Light of Recent Events

- Expanded to include interest in diversity, equity and inclusion as a result of Black Lives Matter movement and responding to events of January 6, 2021
- Challenging environment for PACs after January 6, 2021
  - Donors
  - Media
  - Customers
  - Shareholders
  - Employees
  - Should a PAC balance contributions between Democrats and Republicans?
  - Where are we over 2 years later?
- Should a PAC permit donors to restrict contributions through earmarking?
- Consider increasing diversity on PAC Board or PAC Advisory Committee
- Conform PAC bylaws to any changes in process or structure

# Environmental, Social and Governance

- What is ESG?
- Does ESG come into play when making political contributions?
  - 66% of respondents to PAC survey report that their company's sustainability goals led to changing a position on public policy.
- What is DEI?
- Does DEI come into play when organizing PAC boards and advisory committees?
  - 68% of corporations build DEI goals into their broader strategic plans. The proof is in the pudding. Actions do not match goals. See PAC 2022 Social Impact Report.
- Dealing with aggressive efforts by Governors and state treasurers to assert “anti-woke” proposals.

# Activist Shareholders

- Activist shareholders have been introducing proxy proposals requiring public disclosure of company's and PAC's political activities
  - Corporate mismanagement argument?
- Some of the more notable activist shareholders introducing proxy:
  - Boston Common Asset Management
  - National Legal and Policy Center
  - Trillium Asset Management
  - New York State Retirement System
  - New York City Employees Retirement System
  - Domini Social Investments
  - Sisters of Mercy Reg. Community of Detroit Charitable Trust

# Proxy Proposals

- Proxy proposals have requested disclosure of one or more of the following:
  - Role of Board of Directors
  - Corporate and PAC contributions to any candidate, party committee, political committee, 527 political organization, or non-profit (501(c) organization)
  - Policy and reasons for making political contributions
  - Identity of those involved in decisions to make contributions
  - Alignment with supported trade associations and other third parties
  - 26 U.S.C. §162(e)(1)(B)
  - Lobbying expenses
    - Trend toward seeking more lobbying information
- Shareholders success: In 2021, six in excess of 50% and in 2022, two in excess of 50%



# Activist Shareholders - What to Do?

- Typically not useful to seek a No Action Letter (*see* outcome of Boeing and Home Depot requests) unless duplicative requests
- Consider negotiating a settlement for withdrawal of proxy
- Compromising vs. hard line. Are we “feeding the squirrels”?

# Questions?

