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Voluntary Disclosure on Corporate Political Spending Is Not Enough

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One of the challenges that the [Securities and Exchange Commission](#) will face next year is how to address investor concerns about corporate political spending.

Shareholders [have grown increasingly interested](#) in receiving information about the money corporations spend on politics. In response to their demands, about 60 percent of the companies in the Standard & Poor's 100-stock index have adopted voluntary disclosure policies.

Opponents of mandatory disclosure rules are likely to use this development to buttress their position. They will argue that information about political spending should be left to private ordering, allowing companies to choose the level and type of disclosure that best suits their needs.

This argument is unpersuasive, however. The S.E.C. has declined to rely on voluntary disclosure for many types of corporate financial information considered to be important to investors. For several of the same reasons, voluntary disclosure on corporate political spending is similarly inadequate.

To begin, the quality of information provided under voluntary disclosure policies is generally low. [A study based on a review of the voluntary disclosures](#) of more than 350 companies listed on the S.&P.-500 stock index, conducted by Vishal P. Baloria, Kenneth J. Klassen and Christine I. Wiedman of the University of Waterloo in Ontario, concluded that “disclosure of both observable and unobservable political spending is very poor.” Mandatory rules would address gaps and loopholes in voluntary disclosure practices.

In addition, the type of information companies voluntarily provide varies widely. The disclosures also do not follow uniform practices, makes meaningful comparisons among companies difficult. Mandatory rules that require companies to present the information in a standard manner would facilitate comparisons.

Furthermore, after a decade of shareholder pressure to encourage public companies to disclose political spending voluntarily, the vast majority of companies not in the S. & P. 100 fail to provide any information at all. It would take considerable resources — and many years — for

shareholders to engage effectively with the thousands of public companies that do not have voluntary disclosure arrangements.

The S.E.C. has avoided in the past placing such burdens on public investors. For example, in the 1990s, the S.E.C. adopted mandatory disclosure rules on executive pay after shareholder proposals seeking information about executive pay obtained significant support at a number of prominent companies. The reason, of course, is that it is unreasonable to expect investors to pursue action on a company-by-company basis at thousands of public corporations.

Furthermore, even if investors were able to engage all public companies, there is little reason to expect that they would all be responsive. And those companies most resistant to voluntary disclosure might be disproportionately likely to engage in political spending that shareholders would disfavor. Mandatory rules would be in any event necessary to deal with such cases.

Of course, mandatory disclosure rules on corporate political spending would simply set a minimum standard for the information that must be provided. Companies could still tailor disclosures to their particular circumstances, and they would be free to provide additional information. Indeed, many public companies offer more information on executive pay than the S.E.C. requires.

The fact that some large public companies have begun to voluntarily disclose information on political spending is a positive development. It does not remove, however, the need for S.E.C. action. Mandatory rules are needed to ensure that all public companies provide investors with adequate information about whether and how their money is spent on politics.