Corporate Political Spending
Policies and Practices, Accountability and Disclosure

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by The Conference Board Committee on Corporate Political Spending

About this report
THIS REPORT IS DESIGNED TO COMPLIMENT THE 2010 HANDBOOK ON CORPORATE POLITICAL ACTIVITY: EMERGING CORPORATE GOVERNANCE ISSUES AND IS INTENDED TO HELP CORPORATIONS DEEPEN THEIR UNDERSTANDING OF ISSUES RELATED TO THEIR INVOLVEMENT IN THE POLITICAL PROCESS, AND TO OFFER A VARIETY OF APPROACHES FOR POLITICAL SPENDING, DISCLOSURE AND ACCOUNTABILITY. WHERE POSSIBLE, THE COMMITTEE TRIED TO AVOID THE DUPLICATION OF INFORMATION AVAILABLE IN THE HANDBOOK. THE GOAL OF THIS REPORT IS TO INFORM AND NOT INSTRUCT. THE REPORT RECEIVED SEVERAL LEGAL REVIEWS, INCLUDING A REVIEW BY AN INDEPENDENT COUNSEL FROM THE FIRM OF NIELSEN MERKSAMER PARRINELLO GROSS & LEONI LLP

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About The Conference Board Committee on Corporate Political Spending

The Conference Board convened the Committee on Corporate Political Spending in April of 2011 to educate and engage the corporate community on the complex issue of corporate political spending. The Committee is co-chaired by Charles Grezlak, Vice President, Government Affairs & Policy of Merck & Co., and Dan Bross, Senior Director of Corporate Citizenship of Microsoft Corporation. This report reflects a compilation, but not a consensus, of the views of the committee members and does not necessarily reflect the views of the companies with which they are affiliated. For more information on The Conference Board Committee on Corporate Political Spending and to access additional resources, please visit http://www.conferenceboard.org/politicalspending

Committee Members

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About the Advisory Group

The Conference Board convened an advisory group to the Committee on Corporate Political Spending in order to provide information, advice, and expertise to the Committee in completing its work. The advisory group is composed of experienced and seasoned professionals with expertise in the areas of election finance law, corporate governance, and corporate political spending. The Advisory Group was chaired by Bruce Freed. The Report of the Committee on Corporate Political Spending does not represent the individual views of the members of the advisory group or the companies or organizations with which they are affiliated.

Advisory Group Members

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Introduction

The U.S. Supreme Court decision in the case of *Citizens United v. Federal Election Commission* sparked increased interest in corporate political spending and raised new questions about the role of corporations in politics, and their accountability for the money they contribute to political campaigns and organizations. The 2012 elections, which promise to be contentious political contests, are sure to intensify examination of the issue even more.

Although the public, the media and watchdog groups have focused almost exclusively on political spending by corporations, a list of the largest all-time political donors between 1989 and 2010, based on information released by the Federal Election Commission (FEC) in April 2011, includes only one corporation among the top 10 donors. Six of the top 10 are labor unions, one is a trade association, one is a group of plaintiffs’ attorneys, and one is an independent 527 organization—a type of tax-exempt group that raises and spends money in an effort to persuade voters to support or oppose a political candidate within the context of a specific issue. Although this is an issue that affects every corporation, any serious attempt at election-finance reform should address more than corporate contributions.

Meanwhile, a growing number of corporations are proactively addressing questions of political spending by examining and reevaluating their internal processes and practices, including whether to share more information about their political expenditures and practices, such as how they decide which campaigns and organizations to support and how those decisions relate to their overall business strategy. These complex issues are currently under discussion in board rooms and corporate offices across the United States.

The purpose of this report, prepared by The Conference Board Committee on Corporate Political Spending, is to help corporations deepen their understanding of issues related to their involvement in the political process, and to offer a variety of approaches for political spending, disclosure and accountability. Our goal is to inform, not to instruct; to highlight viable options and examples of what other companies have done, not to advocate a specific agenda or point of view.

Corporations have a broad range of options for political engagement. This report discusses many of those options, but it focuses on the use of corporate treasury funds to support political activity.

Members of the committee, like members of the broader corporate community, do not always agree on every question related to these issues. One thing we do agree on, however, is that a check-the-box, one-size-fits-all approach will not work. Each corporation must confront these issues thoughtfully, consider them carefully, and arrive at an answer that is consistent with their own governance practices, business strategies and the interests of their stakeholders — including shareholders, employees and customers.

With this report, and through our other activities and publications, The Conference Board Committee on Corporate Political Spending aims to provide interested companies with information that will make it easier for them to assess the range of issues related to political activity and disclosure, and to determine which course in
each of those areas is best for their business.

Corporate Involvement in Public Policy and Politics

Public policy decisions can have a profound effect on a corporation—from the board room to the bottom line. Legislative proposals, laws, government regulations, taxes, trade agreements or sanctions, and a host of other policy measures can affect how corporations operate at home and abroad, and may have a significant impact on their business performance. Those policies, in turn, affect the company’s shareholders, employees and customers as well as nearby communities and other stakeholders. As a result many corporations consider participation in the political process, and the opportunity to help shape public policy, a necessary part of their responsibility to shareholders: to strengthen and grow their business.

The industry and countries in which a company operates can greatly affect whether it chooses to actively engage in the political process and, if so, in what capacity. But one thing is clear: a growing number of corporations, many for the first time, now see engaging with policymakers at all levels of government as an increasingly important part of their business responsibility and strategy.

--SIDEBAR 1--

In the United States, political campaigns and ballot measures are largely funded by individual contributors and, to a lesser degree, by labor unions, professional associations and corporations, either through direct contributions to campaigns and party committees, or indirectly through political action committees (PACs), trade associations, and various other types of organizations. Any corporation that operates in the United States and wants to take an active role in shaping public policy, or the regulation of its industry and marketplace, will need to get involved in political spending as well.

Although there are different points of view about corporate political spending and the need for political involvement, for an increasing number of corporations the question is not whether to engage in public policy and political activities but to what extent, and how to do so in a responsible way that achieves the greatest benefit while mitigating potential risks.

Methods of Corporate Political Involvement

Although this report focuses primarily on corporate political spending, there are other ways for companies to take part in the public policy debate and the political activities that influence it.

Some corporations simply develop public policy positions on issues that affect their business and make that agenda available to interested parties, but otherwise take a relatively passive approach to public policy and politics. Many companies employ lobbyists and public policy experts, either on staff or as consultants, to represent their interests, communicate their issues and positions to policymakers, and develop recommended policy solutions to various challenges being debated in Congress or state legislatures.

Corporations may sponsor political action committees, which are highly regulated and rely on voluntary contributions from employees, or contribute to tax-exempt or special-interest political organizations or to so-called Super PACs. In addition, some corporations are active in issue advocacy through direct advertising, help finance ads in support or opposition of political candidates, or engage in ad campaigns to educate voters on important public policy issues.

These are appropriate and effective ways for corporations to take part in the political process and the ongoing public policy debate, yet each corporation will want to tailor its mix of activities to its individual business strategies, competitive interests, citizenship goals, or other needs.

Benefits and Risks of Corporate Political Spending

A key benefit for corporations that engage in political spending and other political activities is their ability to actively support candidates and to help elect policymakers whose positions are consistent with their business values and strategies. Corporations also can educate policymakers about their issues through lobbying, and participate in issue advocacy and voter education.

Active political involvement is a laudable goal for corporations, and success in the public policy and political arenas can help to create an environment that contributes to success in the
business world, but political involvement also carries some risk. Corporate political contributions are subject to a highly complex web of federal, state and local laws and regulations. Failure to comply can lead to costly lawsuits, civil or criminal charges, and consequent damage to a company’s image and reputation.

Corporate political activities are closely scrutinized by public-interest groups and the media. As a result, a corporation’s direct or indirect political spending can put its reputation at risk and could adversely affect its business if the company takes a controversial position or supports a candidate who holds positions that are inconsistent with its corporate values or the views of a significant number of its workers, shareholders or customers.

Assessing the relative benefits and risks of specific political spending activities is not always simple. A company may support a candidate because of one position that aligns with its business interests, only to learn later that the candidate has taken other positions with which the company strongly disagrees or is associated with groups of which the company disapproves.

Consider the example of a corporation that joins a politically active trade association. On one hand, trade associations can offer a corporation greater opportunities to bring about consensus on policy issues important to its business or industry, and may diffuse attention generated by controversial issues the company supports. On the other hand, through its trade association memberships, the company may appear to support a position that is contrary to its corporate strategies or business practices. In those instances, the corporation should decide whether it needs to take appropriate steps to make sure policymakers understand its true position on key issues related to its business.

--SIDEBAR 2--

**Strong Internal Processes** One way for corporations to mitigate the potential risks of political spending and other political activities is to employ strong internal processes and structures at the management level and to consider some degree of oversight at the board level. These may include the use of internal or external audits to verify the effectiveness of controls and procedures related to approval and oversight of political expenditures.

Some companies may decide to disclose more details about their political spending than the law stipulates—information that may be of special interest to their stakeholders. This may include expenditures that companies are not legally required to disclose as well as the internal policies and procedures they follow when making decisions about corporate political spending and PAC contributions. Such disclosures may provide useful information to interested stakeholders about how a company allocates corporate funds to engage in the political process.

Some corporations will prefer to avoid the risks of political spending and may choose to stay out of the political arena, or to pursue alternative and potentially less controversial strategies such as not making corporate contributions and allowing contributions only from an employee-funded PAC. Yet for companies that decide to make corporate political spending part of their business model, voluntary public disclosure, combined with good corporate governance in evaluating and approving political expenditures, can provide increased accountability throughout the process and may reduce risks.

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**Laying the Foundation for Responsible Political Spending**

Buildings often vary in size and design, but the one essential feature they all require is a solid foundation. The same is true for corporations that choose to make political contributions; they need a foundation of core principles, policies and processes to help ensure a good governance structure for their political spending decisions.

Although no single approach to political spending is guaranteed to meet the needs of every corporation, experience has shown that most corporations that have achieved positive results have used some combination of the following measures and principles, beginning with a commitment to accountability.

**Involving a Broad Range of Internal Stakeholders** When taking the first steps in this work, some corporations have found it
helpful to create a management-level committee—led by the general counsel, the corporate secretary or the head of government affairs—to develop the underlying principles and policies that will guide and govern their political spending and their decision-making processes in regard to the full range of political activity. Taking a broad approach by consulting people from the legal team, key business groups, and departments such as strategy, risk and compliance, investor relations and marketing may provide multiple perspectives that will reflect the corporate culture, represent the full range of company interests, and mitigate the risks of political spending.

Such committees may start by developing recommendations that would establish clear and separate roles for the board of directors and senior managers in the oversight, management and approval of various types of corporate political spending. The next step is to define boundaries for political spending, and to decide how the company will make decisions about giving corporate funds or PAC money to individual candidates, ballot measures, political parties and so on. It can also be valuable to develop a timetable for making such decisions.

The board of directors, or an appropriate board committee, can be kept aware of these recommendations regarding the roles of management and the board, and the processes that create the framework for the governance and oversight of corporate political spending.

For examples that show how three companies created processes that reflect these general principles while meeting their individual needs, see Appendix A.

**Developing Good Governance Principles for Political Activity** Companies may develop a code of conduct or similar statement of principles specifically for political spending and post it on the company website, as a guide for employees who are engaged in political activity and a declaration of their good corporate governance. Such codes may include conformance standards for employees, company policies on public disclosure of corporate expenditures for political activities, and information about how the corporation monitors and directs political spending. Other companies may create a relationship between corporate political activity and long-established company values or a more general company code of conduct.

Whatever the approach, company policies based on good corporate governance principles should, at a minimum, make it clear that employees will not be reimbursed directly or through increases in compensation for their personal political contributions and expenses, and that the company will neither pressure employees to make political contributions nor penalize them if they choose not to be involved in their employer’s political activities.

It is important to consider policies that clarify that the company will not tolerate the use of political contributions to motivate or reward any *quid pro quo* action by an elected official, and that the company will be equally intolerant of any communication by employees implying such *quid pro quo* relationships. In addition, company policies also should include other ethics-based provisions such as a requirement that corporate political spending not be linked to support for the personal views and motives of an individual officer or employee.

For examples that show the principles, guidelines and codes of conduct that three major companies established to help govern their political spending, see Appendix B.

**Establishing an Effective Decision-making Process for Political Spending**

Once a corporation has defined the policies and principles that will guide its political spending, it must decide how best to apply them. This is perhaps where corporate culture can most influence the process.

Hierarchical or hyper-collaborative companies may find that using a committee, similar to the one described in the earlier section on establishing guiding principles, is an efficient and effective way to ensure that decisions about political spending are well-considered and consistent with the corporation’s values and business strategy. Companies that are more entrepreneurial, or have a flatter organizational structure, may want to identify a point person for political spending policy decisions. In such situations, accountability for decisions related to
political expenditures take on additional importance, and board awareness of policies and procedures can provide a valuable check and balance.

The CEO and other senior executives are frequently targets for funding requests from candidates and political organizations, and their relationships with the people soliciting corporate contributions can make it difficult or awkward for them to deny such entreaties. Having a committee and a well-defined policy and process in place enables executives to defer to the committee, and to clarify that they do not make political spending decisions for the company, without straining sensitive business or personal relationships, or getting bogged down in someone else’s political agenda.

Whether corporations choose to form such a committee or to establish a different type of decision-making process, they may find it helpful at the beginning of each year, well before any checks are written, to map out their approach to political spending in light of business priorities, their public policy agenda supporting those priorities, and the current political climate. Fine-tuning the decision-making process each year to make sure it remains proactive and continues to be closely aligned with corporate values and a clearly defined corporate strategy can help corporations avoid ineffective or inappropriate expenditures, and deflect allegations of quid pro quo or favoritism.

Determining Decision-making Scope and Leadership Whether a company chooses to manage its corporate political spending through a committee or to place that responsibility in the hands of one or two executives or senior managers, the leadership of the decision-making process will depend to some extent on its scope. Will the responsible parties only direct political contributions made with corporate treasury funds, or will they also have jurisdiction over PAC spending? Will their decisions be limited to political contributions, or also include expenditures for other political activities?

There is no absolute right or wrong answer to these questions. Some corporations that choose a committee structure have one committee that directs all political spending, including PAC money as well as corporate funds. Others feel it is important to keep those two functions independent of each other, and to have two committees with separate charters, even if many of the same people serve on both. No matter how decisions are made, it is often a good idea for someone with expertise in strategic communications to be involved and consulted throughout the process.

Some companies feel it is important to choose an executive-level leader who is focused on the issues and knowledgeable about corporate communications and government relations—someone who is able to stay informed about corporate priorities and the changing political landscape through close business ties to people inside and outside the corporation.

Given the increasing legal complexities related to corporate involvement in the political process as well as federal and state reporting requirements some corporations have decided there is value in having the Office of the General Counsel lead their committee on political spending. Regardless of the committee leadership, the legal department should be involved to ensure compliance at all times.

Deciding What Types of Candidates, Issues and Organizations to Support Once a company has established a clear decision-making process for political spending, those who are responsible must decide what kind of candidates, issues and organizations the company will support with political contributions of corporate treasury funds, PAC money, or both. There are benefits and risks associated with every type of political contribution.

Direct Campaign Contributions Direct campaign contributions are the most common form of political spending. At the most basic level, the law treats contributions to candidates, committees and political parties differently than independent spending in support of or in opposition to a candidate. This section covers contributions made directly to candidates, committees and political parties.

At the federal level, corporations are prohibited from making direct or indirect contributions to candidates, committees and political parties. Whether a corporation may contribute to a candidate at the state or local level is a matter of state and/or local law.
Many companies organize and administer employee-financed PACs to make political contributions for federal elections. In addition, these employee-financed PACs may generally make political contributions for state elections in jurisdictions both where direct corporate political contributions are restricted and where they are permitted.

Corporations also may contribute under certain conditions to political action committees that are managed by people who are not connected to the company. Trade Association PACs are examples of political action committees that may accept corporate contributions but are managed by people who have no direct relationship with donor companies.

In states where corporate campaign contribution activity is allowed, Trade Association PACs raise funds from companies in a particular industry to contribute to the political campaigns of candidates who are supportive of issues relevant to that industry. Healthcare PACs, for example, may contribute to candidates who oppose cuts in Medicare payments to providers and suppliers, or who will work to help them maintain a high standard of patient care.

Federal Super PACs were first created in July 2010, following an FEC advisory opinion (AO 2010-11) and two federal court rulings (in SpeechNow.org v. Federal Election Commission and Citizens United v. Federal Election Commission). Those decisions removed all limits on the amount of money that individuals, corporations, associations and labor unions may contribute to organizations that advocate for or against political candidates. Federal Super PACs generally engage in independent expenditure activity, discussed in the section below.

**Independent Expenditures** Corporations may spend an unlimited amount, subject to reporting requirements, in supporting or opposing federal candidates through ads, direct mail or other means, so long as they do not coordinate their activities with the candidates or their opponents. Independent spending on behalf of candidates is permitted at the state level, often subject to reporting requirements similar to those at the federal level.

Independent corporate political spending does not include spending that is coordinated with or done at the request of a candidate or a candidate's representative. Such coordinated spending is treated as a contribution and may be prohibited as it is on the federal level and in many states, or severely restricted as it is in most other states. The right to spend extends to independent spending on behalf of candidates for local or state judicial offices, although many companies now choose to avoid judicial races due to the potential for controversy and damage to corporate reputations.

The U.S. Supreme Court’s 2010 decision in *Citizens United v. Federal Elections Commission* made it legal for corporations to use their treasury funds for independent expenditures in connection with federal elections and to finance electioneering communications, both of which were previously prohibited by federal law, including McCain-Feingold, the campaign finance reform legislation that became law in 2001. An independent expenditure is money spent on a communication that expressly advocates the election or defeat of a specific candidate, and is made without the cooperation or consultation of the candidate, the campaign or a political party. An electioneering communication is any broadcast, cable or satellite communication that refers to a clearly identified candidate and is publicly distributed shortly before the election, but does not expressly advocate any federal candidate’s election or defeat.

Several entities, including Congress, the White House, and the Federal Election Commission are currently reviewing these issues and, in some instances, considering action that could limit corporate involvement or mandate enhanced disclosure of such activities. The Internal Revenue Service and the Securities and Exchange Commission have been petitioned to review these issues. These issues are not likely to be settled soon, however, given the current gridlock in government and the possibility of subsequent litigation on these issues.

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**Donations to Advocacy Organizations** There are many non-profit organizations that are active in campaigns. They range from long-established, broad-based membership organizations such as the National Rifle Association and the Sierra Club to recently created election oriented organizations such American Crossroads GPS, American Priorities...
and Americans for Prosperity. The latter organizations tend to be controlled and directed by prominent political figures associated with a particular candidate or political party. These organizations are commonly, but not exclusively, organized as social welfare organizations under section 501(c)(4) of the Internal Revenue Code. The extent to which these organizations must disclose donors when they engage in independent expenditure or electioneering activity is highly contested. Currently the Federal Election Commission which has six members, no more than three of which can be of the same political party, is split three to three on this issue and the question is also the subject of a pending case in Federal court.

Less prominent on the political landscape are independent political organizations organized under section 527 of the Internal Revenue Code. Controversies involving 527 committees have increased significantly since the 2004 presidential election, when groups such as Swift Boat Veterans for Truth and MoveOn.Org played a highly visible and aggressive role. Subsequent to that election, the Federal Election Commission assessed significant civil penalties against Swift Boat Veterans for Truth, MoveOn.Org and several other groups. As a result of those controversies, as well as the public disclosure mandated for these groups, these groups are playing a less significant role in elections.

To protect themselves against reputational risks, corporations that pay dues or contribute money to advocacy organizations should know the group’s political priorities and activities, and take care to ensure those are in line with the company’s values and business strategy.

Regardless of which types of candidates, issues or organizations a company chooses to support, given the complex web of federal, state and local laws and regulations, and the frequency with which those laws and regulations can change, management should always be sure to consult with in-house and outside counsel to ensure compliance.

**Identifying the Approval Process** It is advisable for those responsible for the governance of corporate political activity at a company to clearly identify the process by which political spending requests will be considered and resolved, from initial submission to final approval or rejection. Doing so serves a valuable internal control function that will help everyone involved understand the path such requests must follow and reduce the chance of misunderstandings or disagreements about procedures during or after the approval process.

For examples of how some corporations have structured their approval processes, see Appendix C.

**Involving the Board of Directors** There is no established fiduciary duty that specifically requires boards of directors to oversee political spending, so the degree of board involvement varies widely. Because corporate political spending involves both legal and reputational risk, requires compliance with various federal, state and local laws and regulations, and is typically subject to the company’s code of conduct, some boards may choose to maintain some degree of awareness or oversight of the policies and procedures that guide political spending. How to structure its involvement, including whether or how often to review political spending policies, procedures and decisions, are questions each board must answer for itself.

Some boards assign oversight responsibilities to one of their standing committees, such as the governance committee. Boards, or their designated committee, may periodically review political spending policies and the company’s current political spending practices. In such reviews, boards may be assisted by management, inside or outside counsel or other third parties, who may offer advice about procedures and policies that may help the board more effectively review corporate political activity.

**The Role of External Advisors and Auditors** As noted earlier, corporate political activity is subject to a complex network of federal, state and local laws and regulations. A company that chooses to make political contributions will need competent legal advice concerning the laws of each jurisdiction in which the company participates in the political process. It is unlikely that the general counsel of a large national or international corporation, or that any one law firm, has the expertise needed to provide relevant legal advice for every location where the company may engage in political spending. So it is important to anticipate the need for resources in multiple jurisdictions.
At times, a corporation’s senior management team or board of directors may want an in-depth analysis of the company’s political spending. Independent expert counsel, such as election law attorneys and certified public accountants, can objectively evaluate a corporation’s political spending policies, procedures and practices to identify any deficiencies in its internal controls and processes, assess the reliability of its managers’ advice, and conduct a risk review of the company’s political spending.

In addition, such external advisors and auditors can be useful in a more frequent and routine role. Some companies, for example, use external auditors to review both PAC and corporate political spending reports, a process that gives those companies additional assurance about the integrity and compliance of their processes.

**Working Through Trade Associations**

Corporations join trade associations for a variety of reasons, many having little or nothing to do with electoral politics. Trade associations bring together companies with common or complementary interests and provide a forum where they can discuss and try to reach consensus on issues that affect their businesses and their industry. As a result, most corporations consider whether to join a particular trade association, and the nature of their involvement in the organization, a business decision rather than a political one.

Trade associations can function as effective advocates for business, speaking with the authority of an entire industry or industry segment on public policy questions that are important to their members, and giving strong financial support and endorsements to candidates or ballot measures that will benefit the companies they represent. At times, however, the candidates, policy positions or political causes that a trade association chooses to support could conflict with a member corporation’s goals.

Although corporations are not required by law to report their trade association dues, some choose to report their membership dues, or the portion of their dues that trade associations use for political and/or lobbying activity. As long as these contributions are not coordinated with candidates, the money can be used for media campaigns that are not subject to federal limits, issue ads that support or oppose candidates for their positions without advocating their election or defeat, and a variety of other political activities.

Moreover, trade associations often maintain political action committees for the purpose of making direct campaign contributions in the name of the industry group they represent. In addition to its own PAC, each corporation can allow one trade association to which it belongs to solicit funds from the member corporation’s employees, directors and shareholders, if the corporation wishes to do so.

Most trade associations, knowing they represent a broad membership with diverse views, try to take positions that represent a general consensus of their membership. Yet, given how freely trade associations can engage in political activity, some corporations have started to ask for more detailed information on how their membership dues are being spent. They want to avoid the appearance of supporting political candidates or causes with which they do not agree.

If a company is a member of a trade association that sometimes takes a position that differs in some respects with company policy, the company may want to consider ways to make it clear to interested stakeholders that the company’s position on the relevant issue remains the priority. Direct engagement with those stakeholders, combined with a public statement by the company that membership in a particular trade association does not indicate agreement with all of the association’s views, is one alternative. Other options for a company to consider include:

- asking trade associations for the amount of the corporation’s dues that are spent on political activity and disclosing the information on its website;
- directing the trade association to stop using any portion of its dues to support political activity; or
- resigning from the trade association altogether—an action most companies would only consider taking in the unlikely event that a trade association adopted a position the company found so inconsistent with its own policies and goals that it felt compelled to sever its ties with the organization.
For examples of how some corporations approach their relationships with trade associations in regard to political spending, see Appendix D.

The Question of Public Disclosure

The U.S. Supreme Court decision in Citizens United vs Federal Election Commission focused new attention on the issue of corporations voluntarily disclosing information about their political contributions not only because it lifted many of the restrictions previously placed on political spending, but also because of the Court’s apparent expectation that disclosure would play an important role in maintaining the critical balance between corporate freedom and public interest by ensuring corporate accountability.

In writing the majority opinion in the case, Justice Anthony Kennedy said, “A campaign finance system that pairs corporate independent expenditures with effective disclosure has not existed before today. With the advent of the Internet, prompt disclosure of expenditures can provide shareholders and citizens with the information needed to hold corporations and elected officials accountable for their positions.”

Furthermore, Kennedy asserted, “Shareholders can determine whether their corporation’s political speech advances the corporation’s interest in making profits, and citizens can see whether elected officials are in the pocket of so-called moneyed interests.”

Today, public trust in U.S. corporations is at near-record lows, according to many of the trust-measurement tools corporations now use. In 2009, following the start of the global financial crisis, only 36 percent of U.S. residents surveyed for the annual Edelman Trust Barometer gave a positive response to the question, “How much do you trust business to do what is right?” That was a steep drop from the 59 percent positive response the same question received in 2008. Public trust in U.S. corporations rebounded in 2010, rising to 54 percent, but dropped again in 2011 to 46 percent.

Proponents of disclosure argue that non-disclosure may create an environment that could allow for corporate wrongdoing. And although corporate wrongdoing is the rare exception to the majority of business practices, lack of public disclosure may lead people to imagine the worst. Others argue that disclosure sometimes exceeds what is useful for stakeholders, and may expose a company to a level of risk that outweighs the benefits of greater transparency and accountability.

It is worth noting that when people were asked in the 2011 Edelman survey to rank the importance of various factors as they affect a corporation’s reputation, “transparent and honest business practices” and “company I can trust” tied for second place, right behind “high quality products or services.”

Public trust can protect a corporation’s reputation and business; lack of trust can destroy it. According to the Edelman research, 51 percent of people surveyed say that when they trust a company they will believe positive information after hearing it once or twice, whereas 25 percent say they will believe negative information after the same type of exposure. When they distrust a company, 57 percent say they will believe negative information after hearing it 1-2 times, while only 15 percent say they will believe positive information. Clearly communicating political spending policies, procedures and decisions can help to increase public trust and investor confidence.

Benefits and Risks of Disclosure and Non-Disclosure

Disclosure can be a powerful tool to help a corporation win and retain the trust of customers, shareholders, policymakers and the general public. Corporations that disclose information about their political spending are perceived as more open and forthcoming, which often leads people to view them as more trustworthy than companies that share only the information they are required by law to disclose.

Yet the decision corporations face is not always as simple as choosing the benefits of disclosure versus the risks of non-disclosure. Although many corporations have found that public disclosure of corporate political spending can serve as a valuable and visible demonstration of corporate responsibility, other companies believe that disclosure also carries certain risks and
Such companies are concerned that disclosure will invite greater scrutiny and potential criticism, not less. Others maintain that disclosing information about their political activities is of no real interest or benefit to shareholders, and would do nothing to increase investors’ understanding of company strategy or its philosophy about political spending.

Although companies certainly need to weigh questions of disclosure against other priorities such as long-term business strategies and economic self-interest, choosing to disclose only the information the law requires can raise questions of trust and accountability—issues that are at the heart of every corporation’s reputation.

**Disclosure Expectations of Shareholders and the Public** The public places a high premium on corporate honesty, trustworthiness and transparency—as demonstrated by the disclosure of information such as corporate political spending—but disclosure is also becoming increasingly important to a range of stakeholders, including investors.

Since 2004, when shareholder proposals calling for greater disclosure of political spending were first filed, there has been a steady increase in the number of votes such proposals have received. Meanwhile, a variety of shareholder groups are increasingly using their influence to push for additional disclosure from a wider range of corporations.

In 2009, a number of large institutional shareholders supported political disclosure and board oversight of political activity, and many individual shareholders have shown a clear preference for companies to increase disclosure and accountability, and for directors to oversee political spending. In a 2006 shareholder survey conducted by Mason-Dixon Polling & Research, 94 percent of respondents supported more disclosure and 84 percent favored board oversight of company political spending. A follow up of the same survey in 2008 showed a slight decline in both numbers, with 88 percent of respondents supporting more disclosure and 60 percent favoring board oversight.

Although the desire for full disclosure of political spending may not represent the majority view among investors, shareholder interest in corporate political spending, greater disclosure and accountability is clearly a growing trend. According to a report by the Harvard Law School Forum on Corporate Governance and Financial Regulation, shareholder proposals on political spending in 2011 grew by 50 percent over 2010. Shareholders filed 93 political spending proposals in 2011. More than half of those proposals were voted on, one passed, and eight others received votes of more than 40 percent.

At the end of the day, investors by and large still defer to management to ensure that strong policies and decision making processes are in place. But as some shareholders seek to understand more clearly how and why corporations are making political contributions, corporate boards, and those charged with corporate compliance, need to ensure that the information revealed provides accurate context and serves shareholder interests.

**Disclosure Options** The disclosure options corporations can adopt range from full disclosure of every political expenditure and activity to absolute non-disclosure except for the public documents that federal and state agencies require them to file. Most corporations choose a disclosure policy that puts them somewhere in the middle, but what they choose to disclose can vary widely. And even those choices are not always simple and clear cut.

One challenge is to determine what definition of political spending to employ. Many companies define political spending as any activity that is not considered deductible political participation or intervention in an election under sections 162(e)(1)(b) or (c) of the Internal Revenue Code. Some corporations believe that “political spending” should be more broadly defined to include lobbying expenses. Others take the position that lobbying is a business activity, and therefore a business expense, and should not be viewed as political spending.

Some corporations choose to voluntarily disclose both PAC expenditures and contributions made with corporate treasury funds, while others disclose one but not the other. Some companies feel trade association dues—at least the portion used to support candidates or to fund other political activities—should be included. Others believe those are business expenses, and that disclosing them as political expenditures would
not only be inappropriate but would also paint an inaccurate picture of what the company spends on politics.

Nevertheless, any company that chooses to be politically active eventually must decide not only what kind of candidates and causes it will support—from judicial candidates and ballot initiatives to political parties and 527 committees—but how much information to disclose about any or all of those activities.

Increasing the Efficiency and Reducing the Cost of Disclosure A company that is politically active and plans to disclose its political spending, however narrowly or broadly they choose to define it, will need an efficient and cost-effective process for recording and reporting those expenditures. Global corporations may make contributions or finance political activities in several different countries and a variety of jurisdictions within the United States, which can complicate the process of managing its spending records.

From both a logistical and a cost perspective, it makes sense to have someone inside the company manage the process of tracking political expenditures and compiling them in a report that can be shared with the board of directors, senior management and, as appropriate, published on the company website.

Using the website to disclose corporate political spending, and to show how the decisions are made in the context of a broader corporate strategy, provides shareholders and other interested parties ready access to those details and makes it easy to update or modify information as needed. In addition, disclosure of corporate political spending in the context of the business strategies, principles and policies that guided those decisions may make a company less vulnerable to the risk of unwarranted allegations.

For examples of corporate disclosure policies, see Appendix E.

Conclusion

When it comes to political spending by corporations, and the related questions of how to demonstrate accountability and how much information to disclose, there is no single right answer. Each company must weigh the benefits and risks of engaging in political activity and make its own decision.

Companies that choose to take part in the political process and the ongoing public policy debate must then decide how much information they want to disclose. Again, there is no answer that applies equally to all corporations. Federal and state agencies require corporations to report a wide range of details about their political spending. Those records are public, and companies are under no legal obligation to disclose anything more, to make the information easier to find and understand, or to explain their political activity in the context of their corporate values or their broader business strategy. But legal requirements are not the only consideration.

Business is fundamentally about relationships. Corporations succeed by establishing and maintaining strong relationships with their customers, partners, investors and employees. At a time when public trust in U.S. corporations is at near-record lows, and both companies and consumers are struggling in a difficult economy, demonstrating greater disclosure and accountability can help corporations build public trust and investor confidence—and strengthen their relationships with the people they count on to support their business and contribute to their success.

The Conference Board Committee on Political Spending offers this report as a resource. The report does not attempt to tell companies what they should do. Rather, it provides information about key issues and shares examples to show how other leading corporations are handling them—not as a mandate that others must follow, but as a way to broaden the discussion of important questions that affect us all.
Glossary

501(c)(4) groups: Tax exempt, nonprofit groups that are organized and operated to promote social welfare, and may engage in political activities as long as such activities do not become their primary purpose.

527 committee: A tax-exempt group organized under section 527 of the Internal Revenue Code to raise money for political activities. Examples of 527 committees include a campaign committee, a corporate sponsored political action committee, and a party committee. Many 527 committees run by special interest groups raise unlimited "soft money," which they use for voter mobilization and issue advocacy, but not to expressly advocate the election or defeat of a federal candidate.

Electioneering communication: A radio or television broadcast that refers to a federal candidate in the 30 days preceding a primary election, or 60 days preceding a general election.

Grass-roots lobbying: Advertising and other public communication directed at the general public to urge support for specific legislation or public policy.

Independent expenditure: A public communication that expressly advocates the election or defeat of a candidate and is not coordinated with a candidate or political party.

Issue advocacy: Public communications that promote or oppose an identified elected official’s position on a public policy issue without expressly advocating his/her election or defeat.

PAC (political action committee): A separate and segregated fund created by a corporation, trade association or labor union to support political activity, and consisting exclusively of voluntary contributions from employees, shareholders, or members. A PAC is an example of a tax-exempt group organized under section 527 of the Internal Revenue Code.

Political spending: Any direct or indirect contributions or expenditures in support of or opposition to a candidate for public office or a ballot measure; any payments made to trade associations or tax-exempt entities that are used to influence a political campaign; and any direct or indirect political expenditure that must be reported to the Federal Election Commission, the Internal Revenue Service, or a state disclosure agency.
Appendix A
How Selected Companies Created Political Spending Policies and Procedures

Microsoft

Microsoft had already identified citizenship and corporate social responsibility (CSR) as a thought leadership issue for the company, so when it came time to establish the principles that would guide its political spending, Microsoft based that work on its longstanding commitment to strong corporate governance and open and transparent business practices.

The Microsoft Citizenship/CSR team conducted external benchmarking and stakeholder outreach, with members of the socially responsible investment community and other key audiences, and also consulted key internal stakeholders from government affairs, finance, compliance, investor relations, legal, and other departments.

The Citizenship/CSR team developed a set of draft principles, solicited feedback from a select group of external advisors, and made revisions before sharing them with the vice president for global corporate affairs and the general counsel. After being approved by management, the principles were sent to the governance committee of the Board of Directors, which oversees all Microsoft CSR and public policy work.

The process took just over a year from start to finish. Most of that time was spent working with external stakeholders. Internal review and approval was straightforward and went fairly quickly.

Merck

Prior to 1995, Merck participated in the political process through the Merck Employee Political Action Committee (Merck PAC) but did not make any corporate political donations. The general counsel chaired the Merck PAC Contributions Committee, which made the final decisions about political contributions to congressional candidates and legislative candidates in a few states. The committee also included representatives from various corporate divisions, including research, manufacturing and commercial operations, and from corporate functions such as IT, finance, human resources and legal. The committee was staffed by Merck government relations employees with management responsibilities for policy issues at both the state and federal levels of government. The Committee developed various policies and procedures designed to ensure accountability. Although Merck did not disclose its Merck PAC contributions on its website, these contributions were publicly available through the information posted by the Federal Elections Commission.

As state legislative issues became increasingly important to Merck, the committee discussed whether the company should be more politically active at the state level and, if so, how that might be accomplished. Although Merck had made contributions in a few states through the Merck PAC, the committee realized the company could be more active if it supported candidates with corporate political contributions in states that permitted such contributions.

In 1995 the committee recommended to the Merck Board of Directors that Merck begin making corporate political contributions in any state that permitted corporate funding of election campaigns. The Board approved this recommendation by adopting a policy that would allow corporate political contributions in states and countries where such contributions were legal. In approving this policy, the Board also required that the contributions be approved not only by the above-mentioned committee but also by the General Counsel and reported annually to the Board of Directors.

Since that time Merck has made various enhancements to its policies, the most important being the decision to post both its Merck PAC and corporate political contributions on its website. Other changes were the development of a set of principles that set forth the basic policies regarding political spending and increasing both the frequency of reporting (to semiannual) and extending the availability of the data by allowing access to previous annual reports.
Campbell Soup

Campbell Soup took a streamlined approach to developing the principles and process that would guide its political spending.

The company has a Vice President of CSR/Sustainability and a Vice President of Government Affairs. Both report to the General Counsel, both have close connections to the CEO and the Board of Directors, and both were familiar with the Center for Political Accountability (CPA), some of its model programs, and the growing interest among external stakeholders for greater openness and accountability by corporations.

The two vice presidents and the General Counsel decided that, by drawing on the practices the company already had in place and the model code of conduct developed by CPA, it would be fairly straightforward to draft a set of guidelines and a proposed disclosure policy and decision-making process for internal review and approval.

The VP for Government Affairs led the effort. Once he and the VP of CSR/Sustainability were comfortable with the draft principles, policies and process, they shared the work with the General Counsel for input and approval. From there, the document was sent to the CEO with a recommendation for adoption. Finally, the team notified the Board of Directors.

The entire process took three or four months to complete, given that everyone involved had many other responsibilities and the company was under no external pressure to meet a particular deadline.

Later, the company made a change to its disclosure policy when it decided to report trade association dues that are used for political activity. With the framework already in place, the company was able to execute and approve that change almost instantly. The Board now receives annual reports about the company’s political activities.

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Appendix B
Examples of Corporate Principles, Guidelines and Codes of Conduct Related to Political Spending

**Microsoft**
(as of July 2011)

Microsoft and its employees participate in the public policy process in the United States in a variety of ways—from corporate government affairs programs designed to educate and influence elected officials on key public policy issues related to the company’s business, to individual political giving by employees through the Microsoft Political Action Committee (MSPAC), to membership in trade associations to help advance our business objectives. The following principles guide our activities to ensure compliance with applicable federal and state laws and go beyond compliance to implement what we consider leading practices in accountability and transparency.

1. Political spending by Microsoft will reflect the company’s interests and be used to further its annual public policy agenda and not the personal agenda of individual officers, directors, or employees.

2. Microsoft works with governments, others in our industry, the broader business community, and civil society to advocate for public policies that support our business goals. Microsoft publishes an annual public policy agenda on Microsoft.com.

3. Microsoft publicly discloses, as required by law, all expenditures of corporate funds used for lobbying and election campaign purposes. In addition, Microsoft makes available on Microsoft.com an annual list of election campaign expenditures, including contributions by the company and MSPAC (including in-kind contributions) to candidates, political parties, and political committees; and other politically active tax-exempt organizations, such as 501(c) 4, as defined by applicable laws.

4. Beginning July 1, 2010, Microsoft will not pay for any independent expenditure or electioneering communication as those terms are defined by applicable law.

5. Beginning July 1, 2005, Microsoft has made no corporate contributions to any non-candidate or non-party political committee organized under section 527 of the Internal Revenue Code.

6. Microsoft sponsors MSPAC, which allows employees to voluntarily pool their resources to support candidates for public office. MSPAC discloses all contributions made and received on reports filed with the Federal Election Commission and the various state campaign finance commissions, as required by law. In compliance with applicable law, the PAC contributes money to candidates for federal and state office and political parties and committees. From time to time, MSPAC solicits support from employees; but at no time will Microsoft coerce employees to make any personal campaign contributions, nor will Microsoft take any retaliatory action against employees who choose not to contribute. A committee governs and oversees all MSPAC activities. Outside ethics counsel reviews and approves all MSPAC materials and activities.

7. Like all major corporations, Microsoft is a member of a number of trade associations (organized under section 501(c)(6) of the Internal Revenue Code) in the United States to help advance our public policy agenda and related business goals. We publicly disclose and update annually on Microsoft.com a list of those trade associations to which Microsoft pays dues and makes other expenditures through our Corporate and Regulatory Affairs Group. Microsoft will inquire and make a reasonable effort to obtain annually (from those associations where dues and other expenditures through our Corporate and Regulatory Affairs Group total $25,000 or more) what portion of the company’s dues or payments were used for lobbying expenditures or political contributions that, if made directly by Microsoft, would not be deductible under section 162(e)(1) of the Internal Revenue Code. This information will be publicly disclosed and updated annually on Microsoft.com. Furthermore, beginning July 1, 2010, Microsoft will inform trade associations to which it pays dues or makes other payments that no Microsoft funds may be used to pay for any
independent expenditures or electioneering communications as those terms are defined by applicable law.

8. The Governance and Nominating Committee of the Microsoft Board of Directors receives regular reports on the company’s public policy activities—including political campaign expenditures.

9. No campaign contribution will be given in anticipation of, in recognition of, or in return for an official act.

10. Employees will not be reimbursed directly or through compensation increases for personal campaign contributions.

Merck
Principles Governing Corporate and Political Action Committee Spending

1. Political spending shall reflect the company’s interests and not those of its individual officers or directors.

2. No political contribution shall be given in anticipation of, in recognition of, or in return for any official act.

3. Contribution decisions will be made based upon the following principles: Improving patient access to health care, including to medicines and vaccines, and encouraging innovation, including by protecting intellectual property rights; through government support of basic research; and by supporting efficient and effective regulatory systems.

4. Merck will publicly disclose all of its expenditures of corporate and political action committee (PAC) funds on political activities including independent expenditures; in-kind contributions; electioneering communications on behalf of federal, state or local candidates; contributions in support or opposition to ballot initiatives; and to organizations representing elected officials of the major political parties (e.g. Democratic and Republican Governors Associations). The disclosure of expenditures will be made on the company's website on a semiannual basis.

5. Merck will not make political contributions to any candidate running for election to a State Supreme Court or any other judicial office.

6. Merck will disclose that portion of its membership dues for major trade associations that is used for political purposes. Major trade associations are defined as those with dues equal to or greater than $25,000. To the extent that it is practical, Merck will monitor the use of these association dues for political expenditures, where the underlying public policy areas being addressed relate to the pharmaceutical or biotechnology industries. We will encourage all trade associations to which we belong to publicly disclose their political activities. The disclosure of expenditures will be made on the company’s website on an annual basis.*

7. All corporate political and PAC contributions shall be approved by the Merck Political Contributions Committee. The Committee shall be chaired by the Executive Vice President and General Counsel and shall include senior leaders from a broad range of corporate divisions and functions. State and federal government relations staff shall not be members of the committee. Merck will disclose the title and area of responsibility of each of the members of the Contributions Committee.**

8. All corporate and PAC political contributions shall be approved by the Executive Vice President and General Counsel.**

9. A semiannual report on the company's political contributions, as well as on the company's payments to trade associations* and other tax-exempt organizations which may be used for lobbying and political activities, will be made to the Merck Board of Directors. The Board Committee on Public Policy and Social Responsibility shall periodically review the policies and practices of the corporate political contributions program.
10. Merck will utilize outside legal experts to provide periodic oversight of the company’s political activities.**

11. Merck will not pressure or coerce employees to make political contributions or take any retaliatory action against employees who do not.

12. Employees will not be reimbursed either directly or indirectly for personal political contributions or expenses.

13. Merck policy prohibits the use of company time for the purpose of assisting in the campaign of a federal, state or local candidate in the United States, or of candidates in other countries.

** Policies in this area differ in Canada and Australia based on laws and/or unique company policies in those countries. For example, regarding principles 7 and 8, Merck’s General Counsel instead provides prior approval for the annual budget that covers all jurisdictions where corporate political contributions are allowed by law in these nations; individual contributions are approved by attorneys in Merck’s Office of the General Counsel.

Effective May 2011

* Because the U.S. tax law that requires the reporting of trade association dues used for lobbying expenditures does not apply outside the United States, trade associations that are not subject to this law do not provide breakouts to companies of lobbying expenditures from membership dues.

** Pfizer Political Contributions

Pfizer has a long-standing policy forbidding the use of corporate contributions in federal elections, and the Company expects all colleagues to comply with the Federal Election Campaign Act and the Corporate Policy on U.S. Election Contributions Policy.

The federal contribution ban applies not only to monetary support. It also covers corporate items and services of any monetary value. For this reason, Pfizer colleagues are prohibited from using corporate resources, including Pfizer corporate funds or in-kind items or services, to support or oppose a federal election. In state and local jurisdictions that permit corporate contributions, colleagues must seek review and approval from the Legal Regulatory Policy Team prior to committing corporate funds or resources to a state or local candidate, political party or political committee.

Political contributions are made to support the election of candidates, political parties and committees that support public policies important to the industry, such as innovation and access to medicines. Political contributions may not be given to an official in exchange for an official act or to advance particular business projects.

PROCEDURE

A. Federal elections: Colleagues may not use any Pfizer resource in connection with a federal election. This includes providing Pfizer monetary support (e.g., seeking expense reimbursement for an individual contribution) or in-kind support, including the use of Pfizer computers, the Pfizer e-mail system, employee lists (web-based telephone lists and hard copies), conference rooms or other Pfizer facilities, stamps, envelopes, letterhead or the Pfizer logo, use of copiers or the internal office mail system.

Pfizer colleagues may not “bundle” individual contributions from other Pfizer colleagues, then use Pfizer stamps, letterhead, envelopes or administrative support to send such contributions to a federal candidate or committee.

1. Personal time: Pfizer colleagues may not spend time during working hours in support of, or in opposition to, a federal campaign.

2. Managers may not request junior colleagues or colleagues whose work the manager supervises (administrative personnel...
included) to assist them in campaign fundraising or volunteer efforts. Participation in political activities must be the independent, voluntary decision of each Pfizer colleague.

3. Use of Corporate Resources: If a Pfizer colleague has unintentionally used corporate resources in connection with a federal campaign, the colleague must contact the Legal Regulatory Policy Team and provide reimbursement to Pfizer Inc. within five business days of becoming aware of such use of funds. Reimbursement must be equal to the fair market value of the item or service provided to the campaign or committee. The Legal Regulatory Policy Team will determine fair market value for reimbursement purposes.

B. State and local elections: Because state and local laws relating to political contributions differ substantially, all corporate contributions or use of corporate resources must be reviewed and approved in advance by the Legal Regulatory Policy Team.

C. Independent Expenditures: An Independent Expenditure is defined under federal law [11 CFR 100.16(a).] as an a communication “expressly advocating the election or defeat of a clearly identified candidate that is not made in cooperation, consultation, or concert with, or at the request or suggestion of, a candidate, a candidate’s authorized committee, or their agents, or a political party or its agents.” Pfizer colleagues are prohibited from using Pfizer corporate funds for the direct and distinct purpose of funding an Independent Expenditure, as defined above, in connection with any federal or state election. U.S. Federal law allows corporations to pay the costs of establishing and administering political action committees (“PACs”) and to pay the costs of soliciting contributions to such committees out of PAC funds.

D. Corporate Governance is responsible for providing advice and counsel regarding contribution limits, restrictions and reporting obligations. Policy, External Affairs & Communications (PEAC) is responsible for retaining a list of all corporate contributions provided to state or local candidates and committees, including the recipient’s name, amount and date of the contribution. The Treasurer of the Pfizer Political Action Committee and PEAC shall be responsible for compliance with campaign finance reporting and public disclosure obligations required by state and local laws.

E. Semi-annual report to shareholders: All federal and state contributions and expenditures made by the company shall be disclosed semi-annually on the Pfizer Inc. website. For the purpose of this paragraph, the words “contributions” and “expenditures” shall include direct and indirect monetary contributions to candidates, as defined by 26 U.S.C. § 162(e)(1)(B), and contributions to political committees, ballot measures and political parties.

In addition to disclosing all federal and state contributions and expenditures, Pfizer will request trade associations that received from Pfizer total payments of $100,000 or more in a given year to report the portion of Pfizer dues or payments used for expenditures or contributions that if made directly by Pfizer would not be deductible under 162(e)(1)(B) of the Internal Revenue Code. The company will disclose such information received from such trade
associations semi-annually on the Pfizer Inc. website.

This report shall also include company policies and procedures related to political contributions and expenditures.

Prior to publication, the report shall be presented to the Corporate Governance Committee as well as the Board of Directors of Pfizer Inc.

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APPENDIX C
Examples of Corporate Approval Processes for Political Spending Requests

Altria Group

“Each corporate political contribution made by the Altria Group and its companies receives advance written approval from:

1. the relevant State Government Affairs Regional Director;
2. the Vice President for State Government Affairs;
3. the Senior Vice President for External Affairs; and
4. an Assistant General Counsel in the Altria Client Services (ALCS) Law Department.

Additionally, contributions over $5,000 cannot be made without the written approval of Altria’s General Counsel or her designee.”

Pfizer
PAC & Political Contributions Policy (Excerpt)

Pfizer has a PAC Steering Committee comprised of eight colleagues who review and approve all PAC and corporate political contributions on a monthly basis. To ensure adequate representation, Steering Committee members represent different divisions within the Pfizer organization. The PAC Steering Committee evaluates candidates on a basis of their views on issues that impact Pfizer and its colleagues. It also takes note of whether Pfizer facilities or colleagues reside in a candidate’s district or state. In addition, all PAC and corporate contribution requests are shared with the Pfizer Political Contributions Policy Committee for review. The Political Contributions Policy Committee is responsible for governing the Pfizer PAC.

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Microsoft discloses the portion of its dues to trade associations used for political activity:
“[E]ach year, Microsoft inquires and makes a reasonable effort to obtain from those associations where our dues and other expenditures total $25,000 or more, what portion of the company’s dues or payments were used for lobbying expenditures or political contributions.”

But the company also places restrictions on the use of those funds for independent expenditures and electioneering communications:
“Furthermore, beginning July 1, 2010, Microsoft will inform trade associations to which it pays dues or makes other payments that no Microsoft funds may be used to pay for any independent expenditures or electioneering communications as those terms are defined by applicable law.”

Pfizer

Pfizer is a member of several industry and trade groups that represent both the pharmaceutical industry and the business community at large in an effort to bring about consensus on broad policy issues that can impact Pfizer’s business objectives and ability to serve patients. Pfizer’s participation as a member of these various industry and trade groups comes with the understanding that we may not always agree with the positions of the larger organization and/or other members, and that we are committed to voicing our concerns as appropriate through our colleagues who serve on the boards and committees of these groups.

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APPENDIX E
Examples of Corporate Disclosure Policies

P&G

P&G’s political involvement is an important means of building and protecting our business.

Guided by our Purpose, Values and Principles, P&G participates in the political process to help shape public policy and legislation that has a direct impact on the Company. This engagement ensures that the interests of our employees, consumers and shareholders are fairly represented at all levels of government around the world. We are committed to being transparent about our political involvement globally.

P&G’s public policy and legislative priorities are reviewed regularly with senior business leaders and annually with the Governance and Public Responsibility Committee of the Board of Directors.

Lobbying Activity

P&G’s Global Government Relations team (P&G GGR) represents the Company’s point of view in Washington, D.C., in U.S. state capitals and in key country capitals around the world. Working with the businesses, P&G GGR focuses on legislative and public policy issues that impact the Company’s bottom line and long-term business interests. Where permitted by law, P&G GGR engages and educates policy makers and key stakeholders on issues that impact our business; facilitates the exchange of information between key decision-makers and public policy organizations in the U.S. and abroad; and leads Company actions on policy matters both unilaterally and in industry coalitions and associations.

P&G complies with all U.S. federal and state laws, including the Lobbying Disclosure Act and Honest Leadership and Open Government Act that require reporting on lobbying activities and certification of compliance with Congressional gift rules. P&G reported U.S. lobbying expenditures of $4.13 million in the lobbying disclosure reports filed with the Clerk of the U.S. House of Representatives and the Secretary of

the U.S. Senate for the 2010 calendar year. In fiscal year 2009-2010, P&G reported lobbying activity in the range of €350,000 to 400,000 in the European Union under voluntary guidelines issued by the EU Commission.

In 2010, P&G paid roughly $8.3 million in dues to U.S. trade and industry associations with annual dues of $25,000 or more, of which $1.5 million, roughly 18 percent, was identified by 50 associations as funds spent on lobbying and political activities.

Download a listing of 2010 P&G’s U.S. associations and amount of dues attributable to political activities.

U.S. Corporate Political Activity

P&G engages in the political process by providing financial support to selected state ballot initiatives and issue advocacy campaigns that have a direct impact on the business. P&G’s involvement in these campaigns is overseen by a multi-functional team comprised of representatives from Global Government Relations, Legal, Human Resources, Corporate Communications and other functions related to the specific issue under consideration. The team makes recommendations to the Global External Relations Officer for approval, or for further review and approval by the CEO and Chairman as appropriate. As with all other aspects of our political involvement, our participation in such efforts is guided by our Purpose, Values and Principles and by our business strategies, and is fully reported in accordance with governing laws.

P&G has no plans to use corporate funds to support independent political expenditures to influence federal elections, nor to make contributions to trade associations for that purpose. Further, our policy is to not use corporate funds to support 527 organizations or candidates in states where it is legally permissible to do so.

In 2010, P&G gave $150,000 in contributions to ballot initiatives and other issue advocacy campaigns that had a direct impact on the business.

Download a listing of these initiatives.
**P&G Political Action Committee (P&G PAC)**

The P&G PAC is a voluntary, nonpartisan political action committee. Registered as the P&G Good Government Committee with the U.S. Federal Election Commission (FEC) and appropriate state offices, the PAC allows P&G employees to pool personal, voluntary financial contributions to support candidates at the federal, state and local level, who support issues important to the business and the quality of life in the communities in which we live and work.

P&G PAC operations are transparent and compliant with all applicable laws. It is governed by a set of bylaws and supervised by a diverse board of senior Company managers, U.S. Government Relations personnel, and Legal counsel.

Support of candidates is based on their support of P&G issues and sustained constituent relationships. The PAC generally does not contribute to Presidential candidates, national political parties, trade and industry association or leadership PACs, or multiple candidates running in the same race. In 2010, the P&G PAC made 224 contributions to political candidates or committees totaling $224,380. The average contribution was about $1,000.

P&G PAC activity is available on the FEC and state elections Web sites.

[Download a listing of all 2010 PAC contributions](#)

**Exelon**

Exelon’s disclosure of not only the details of its spending but also the approval process for specific types of spending can serve as an example for companies that are heavily regulated at the state as well as federal level, such as utilities. Here is some excerpted language, with the full text here: [http://www.exeloncorp.com/assets/performance/docs/politicalcontributions/dwnld_contributing_guidelines.pdf](http://www.exeloncorp.com/assets/performance/docs/politicalcontributions/dwnld_contributing_guidelines.pdf)

Policy on disclosure of the details of Exelon’s spending:

“All Political Contributions shall be disclosed semi-annually on the Exelon Corporation website at www.exeloncorp.com. Exelon will request trade associations that receive total payments of $50,000 or more from Exelon in any calendar year report to Exelon the portion of dues or payments received from Exelon that are used for expenditures or contributions that, if made directly by Exelon, would not be deductible under section 162(e)(1)(B) of the Internal Revenue Code. Exelon will disclose such information received from such trade associations annually on the Exelon Corporation website at www.exeloncorp.com.”

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### SAMPLE OF EXELON’S APPROVAL PREOCCESS FOR POLITICAL SPENDING

<table>
<thead>
<tr>
<th>Spending Category</th>
<th>Approval Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct issue advertising directly related to Exelon’s business and the financial interests of its shareholders that does not directly or overtly support or oppose a particular candidate for election or a political party</td>
<td>The Exelon CEO is authorized to spend up to $500,000 per issue per calendar year and $1,000,000 in the aggregate per calendar year for Exelon on a consolidated basis. The Exelon CEO and Lead Director must approve any such expenditure over $500,000 per issue or over $1,000,000 per calendar year.</td>
</tr>
<tr>
<td>Ordinary contributions (such as dues) to non-profit organizations (e.g., trade associations) that may engage in political activity incidental to another primary purpose</td>
<td>The Exelon CEO, ExGen CEO, ComEd CEO or PECO CEO or other authorized officers.</td>
</tr>
<tr>
<td>Special contribution to non-profit organization to fund political activity incidental to another primary purpose</td>
<td>Same approval that would be required for the expenditure if made directly and not through the non-profit organization</td>
</tr>
</tbody>
</table>
Supreme Court Changes Rules of Political Engagement for Corporations and Labor Unions

Note: This sidebar is adopted from “Citizens United Supreme Court Decision Changes Rules of Road for Political Participation with Corporate and Labor Funds,” McKenna Long & Aldridge LLP, January 2010. [http://www.mckennalong.com/news-advisories-2235.html]

In January 2010, a divided (5 to 4) U.S. Supreme Court issued an important and broad ruling in Citizens United v. FEC, which removed restrictions and confirmed the First Amendment rights of corporations and labor unions to participate in the political process through independent communications that expressly advocate the election or defeat of clearly identified candidates. In writing the majority opinion, Justice Kennedy justified the decision, in part, on constitutional grounds, thereby preempting any state constitutional and statutory prohibitions, and on the ability of citizens and shareholders to access data on corporate and labor union political activity in a prompt manner and, thus, to hold corporations and unions accountable for their political contributions.

While there is a great deal of confusion about what the Citizens United decision actually allows, perhaps the most important practical result of the ruling is that the Court invalidated the electioneering communications “black out period” from the McCain-Feingold law (or “BCRA”), which said communications that referenced a clearly identified federal candidate within 30 days prior to a primary election, or 60 days prior to a general election, could not be paid for with corporate or labor union general treasury funds. This means that campaign finance laws no longer restrict the type of funds that can be used, or the type of entities that can use them, to independently run advertising or distribute mailings that identify candidates or expressly advocate their election or defeat right up to election day.

Coordination Restrictions Remain It is important to note that while Citizens United allows independent corporate spending to advocate for or against federal candidates at any time leading up to an election, corporations and labor unions are still prohibited from contributing directly to federal candidates, and from coordinating advocacy activity with federal candidates and national political party committees such as the RNC and DNC.

Disclaimer and Disclosure Requirements Upheld While freeing corporations and unions to engage in political speech, the Court in Citizens United left intact several key provisions of campaign finance law pertaining to the disclosure of those making independent expenditures. Noting that, “[t]he First Amendment protects political speech; and disclosure permits citizens and shareholders to react to the speech of corporate entities in a proper way,” the Court in Citizens United upheld two of the McCain-Feingold law’s key disclaimer requirements, both for “electioneering communications,” which are television and radio advertisements that refer to a clearly identified federal candidate in the period 30 days prior to a primary election or 60 days prior to a general election.

The first requirement upheld requires that such advertisements include the name and address (physical or web) of the responsible entity (the so-called “stand by your ad” requirement). The second requirement upheld is that an individual or entity spending more than $10,000 in a calendar year on such electioneering communications must file disclosure reports with the FEC, which identify the amount of the expenditures as well as the sponsoring entity, the election the expenditures are directed at, and the name of certain donors who contributed $1,000 or more toward the electioneering communications. FEC Regulations also compel similar disclosure for independent expenditures.

A Web of Regulations Continues to Govern Political Activity What is very clear is that there remains a complex web of federal and state regulations in the political law arena. In fact, the Citizens United decision by the Court, in order to emphasize the “complexity of the regulations,” explained that, “[c]ampaign finance regulations now impose ‘unique and complex rules’ on 71 distinct entities.” These entities are subject to separate rules for 33 different types of political speech. The FEC has adopted 568 pages of regulations, 1,278 pages of explanations and justifications for those regulations, and 1,771 advisory opinions since 1975.”
SIDEBAR 2

The U.S. Supreme Court decision in *Citizens United vs. FEC* opened new possibilities for corporate involvement in politics. But it also created new potential risks for corporations that participate in the political process using some of these new tools. Those risks can be broadly grouped into three main categories:

- Reputational risk
- Business strategy “misalignment”
- Legal liability

For more information on the potential risks of corporate political spending, please visit [http://www.conferenceboard.org/politicalspending/risks](http://www.conferenceboard.org/politicalspending/risks)

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On website:

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**Reputational risk** Companies that provide contributions directly to candidates or to third parties, such as trade associations or other independent groups that are politically active, should conduct a thorough review of the positions held by the candidate and/or organizations. Several examples have already become public in which companies supported a “pro-business” candidate only to find that the candidate held one or more position that were in direct conflict with their stated corporate values. As a result, the companies had to spend significant amounts of money to respond to the negative publicity and reputational backlash related to the initial contributions.

**Business strategy “misalignment”** Companies that do not have robust governance practices in place for their corporate political spending risk may be at a higher risk of making contributions to candidates and issues that are out of line with their business strategy which can result in tension with their stakeholders. That, in turn, could result in significant costs or lost revenues.

**Legal liability** Given the complex web of state and federal laws and regulations related to corporate political spending, failure to have effective policies and controls in place can expose a company to significant legal liability.
Since the January 2010 U.S. Supreme Court decision in *Citizens United v. FEC*, there has been a great deal of activity at the state and federal level to mandate disclosure by corporations beyond what is currently required. Below is a snapshot of some of the key federal actions now underway. It is important to note that any final consensus on these and other proposals is not likely to come soon, as legislation and regulation that does pass is likely to be challenged in court.

**Congress** Since *Citizens United*, three major pieces of legislation have been put forth.

- **H.R. 2517: Shareholder Protection Act of 2011** (this bill was also introduced in the 111th Congress in 2010 as H.R. 4790). This bill would amend the Securities and Exchange Act of 1934 and would require shareholder authorization before a public company could make certain political expenditures, among other changes.

- **H.R. 2728: Corporate Politics Transparency Act of 2011** This bill would also amend the Securities and Exchange Act of 1934 to include a disclosure to shareholders of public companies of any expenditure made by the company in support or opposition to any candidate for federal, state, or local public office.

- **H.R. 5175: DISCLOSE Act** The DISCLOSE act was, perhaps, the first major legislation introduced after *Citizens United*. This act, which is no longer under consideration, would have amended the Federal Election Campaign Act of 1971 “to prohibit foreign influence in Federal elections, to prohibit government contractors from making expenditures with respect to such elections, and to establish additional disclosure requirements with respect to spending in such elections, and for other purposes.”

**FCC** On March 22, 2011, The Media Access Project filed a petition seeking to have the Federal Communications Commission re-interpret its regulations to require that groups running political ads disclose the “true identity” of the sponsors of their broadcast messages as well as their top donors. The petition is still under consideration by the FEC.

**FEC** On January 26, 2010, the James Madison Center for Free Speech submitted to the Commission a Petition for Rulemaking. In

January and June of 2011, the FEC addressed proposed rulemaking on independent expenditures and electioneering communications by corporations and labor organizations. The proposed rulemaking, which has not moved beyond a draft as of printing, would expand disclosure requirements under 11 CFR 114 to include disclosures for all money (direct and indirect) used for political activity by corporations and labor unions.

**IRS** While no formal regulatory action has been made by the IRS, several groups have actively called on the IRS to investigate where organizations recognized as tax exempt under different sections of the IRS code are in violation of their status. Such organizations have also called for the IRS to amend their existing rules regarding campaign activities by section 501(c)(4) organizations. As of printing, the IRS has not taken any action on the issue.

**SEC** On August 3, 2011, a committee of 10 academics petitioned the SEC to “develop rules to require public companies to disclose to shareholders the use of corporate resources for political activities.” As of printing, the SEC had not made a decision and gave no indication that it would do so.

Additional petitions to and reviews by federal agencies are sure to come. Any corporation engaged in public policy should consult with their outside counsel to understand how potential changes to legislation and regulation would affect them.