Governance Insights

A biweekly newsletter for directors and investors



February 20, 2019

Two senators speak out: employees before stock buybacks

Senators Bernie Sanders (I-VT) and Charles Schumer (D-NY) are planning to introduce a bill that requires companies to first invest in their employees and communities before buying back their own stock.

Discussing their plan in a recent op-ed, the two Senators state that the amount of money companies spent on buying back their own stock has increased exponentially over the last decade. Between 2008 and 2017, S&P 500 companies spent approximately $4 trillion on stock buybacks. In 2018 alone, US corporations repurchased $1 trillion of their own stock—much of which was fueled by 2017 US tax reform.

The Senators are proposing a bill that would require companies to invest in communities and employees, before repurchasing its own stock. While it is unclear when the bill would be proposed, the senators noted that it will include a requirement for companies to pay employees a minimum of $15 per hour, provide seven days of paid sick leave and increase employee pensions before being allowed to repurchase shares.

The Council of Institutional Investors (CII) issued a statement providing their views in response to the proposed bill. CII stated that policymakers should not interfere with a company's decision on how to allocate its capital. The statement further said, "Tying companies' hands on capital allocation could lead executives to pour money into wasteful businesses that falter or fail to create additional jobs. Lawmakers should be cautious on making it too difficult for companies to recycle excess cash back to investors." CII does, however, support robust disclosure on the rationale for buybacks.

Senators propose companies disclose diversity information in proxy statements

On February 6, Senators Bob Menendez (D-NJ), Cory Booker (D-NJ) and Kamala Harris (D-CA) introduced legislation that would amend the Securities Exchange Act of 1934 to require public companies to include data

relating to diversity in their proxy statement. The bill would require disclosure, based on voluntary self-identification, of the race, gender and ethnicity of its senior management and board of directors. In addition, disclosure of whether the company's board or committees has adopted any policy, plan or strategy to promote racial, ethnic and gender diversity among the board, its director nominees or the company's executive officers would be required.

The most recent legislation, *The Improving Corporate Governance Through Diversity Act of 2019*, is in response to the findings of a 2017 study conducted by Senator Menendez. The study found that of the 61 Fortune 100 companies surveyed, most believe in increasing diversity among their senior leadership and boards. However, according to the survey, only about 38% included numeric targets for executive level diversity, and only 12% set specific targets for recruiting diverse directors.

The National Association for the Advancement of Colored People, the National Urban League, the US Chamber of Commerce and the Council of Institutional Investors all support the legislation.

E&S proposals earn record levels of support in recent years

According to Institutional Shareholder Services (ISS) Analytics, investor proxy voting behavior appears to have remained relatively static over the last 19 years. However, there has been a significant change in the voting behavior of investors around environmental and social (E&S) issues. The median support for E&S proposals increased to 24% in 2018, compared to 6% in 2000.

ISS Analytics' *The Long View: US Proxy Voting Trends on E&S Issues from 2000 to 2018* theorizes that the reasons for the increased support include the pressure on the financial industry to apply more sustainable investment practices, and the United Nations-supported *Principles for Responsible Investment* and other global policy initiatives focusing on environmental, social and governance issues. According to the paper, these pressures resulted in a number of changes in proxy voting behavior, including more shareholders voting in support of E&S proposals.

Download the full paper

Recent thought leadership

ESG: Understanding the issues, the perspectives and the path forward

Environmental, social and governance (ESG) issues continue to be a priority for shareholders. Investors are urging companies to build ESG considerations into their long-term strategy, bringing it up during engagements and using shareholder proposals to force companies to take action. What do directors need to know about these issues, and what can they do to help bring the two sides together? We explain.

See the full paper here

How executives and boards can get the risk information they need

Removing the siloed approach to risk reporting helps a company get a comprehensive view of risk. And that can help its board feel confident that no key risks are falling through the cracks. How does a company do that? By adopting an approach to governance, risk and compliance that provides a single source of truth on risk.

See the full paper here

The board's role in transformation oversight

Many companies are undergoing some type of transformational change. And boards play a critical role in that transformation journey by bringing expertise, judgment, healthy skepticism and challenging questions that can help result in long-term value. A board that has a defined process to oversee these major transformations is at a distinct advantage to help the company deliver a successful outcome.

See the full paper here

Events and education

Join our team for engaging discussions at these upcoming governance events:

NACD NJ Chapter – Culture is Key: How Your Board Can Evaluate & Contribute to Corporate Culture
Florham Park, NJ
February 26, 2019
Join PwC's Governance Insights Center Principal, Paul DeNicola, at the NACD's New Jersey Chapter meeting. Paul and Trish Oelrich, Director, Federal Home Loan Bank Office of Finance, will lead this interactive session with a case study and peer exchange that looks at ways to better assess company culture.

Cybersecurity Corporate Governance Luncheon at the RSA Conference
San Francisco, CA
March 6, 2019
As the world's top security leaders convene at the RSA conference this spring, PwC invites you to a luncheon program featuring a robust discussion on cybersecurity, privacy, governance and crisis management topics for executives and corporate directors.

Equilar Board Leadership Forum
New York, NY
March 19, 2019
Join PwC's Governance Insights Center Leader, Paula Loop and Director Barbara Berlin at the Equilar Board Leadership Forum. Paula will be a panelist discussing next generation leadership and succession planning. Barbara will moderate a panel discussing the main components of company culture, what drives it forward and what holds it back.

Governance Week 2019 – Mind The Gap: The Continued Divide Between Investors And Corporates on ESG
New York, NY
June 18, 2019
Join PwC's Governance Insights Center for a panel discussion on ESG during Governance Week. We'll discuss the investors' and SASB's perspectives around their desire for credible, standardized information to support long-term value creation. We'll also address corporates' views on how they think about ESG and related disclosures, and how they tell their story to investors.

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