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SEC reverses position on environmental and social shareholder resolutions.

Move to broaden shareholder AGM remit welcomed by SRI investors.

by **Daniel Brooksbank** | November 1st, 2009

A major policy reversal by the Securities and Exchange Commission (SEC) to allow shareholder resolutions looking at companies' environmental and social risks has been welcomed by SRI investors. Similar resolutions had previously been blocked under policies dating back to the Bush administration. The re-interpretation is timely for the 2010 proxy season, given that most resolutions are filed in November. The move was unveiled in new guidance by the SEC's Division of Corporation Finance under new director Meredith Cross. As a result, companies will no longer be able to automatically exclude resolutions seeking information on the risks of environmental, human rights and other social issues. The SEC said it had recently seen a "marked increase" in the number of so-called no-action requests from companies seeking to exclude related shareholder filings. From now on, the SEC said shareholder resolutions would be evaluated on the basis of whether they raise an important social risk , not solely whether they inquire as to financial risks associated with such issues. The SEC said: "The board's role in the oversight of a company's management of risk is a significant policy matter regarding the governance of the corporation. In the light of this recognition, a proposal that focuses on the board's role may transcend the day-to-day business matters of a company and raise policy issues so significant that it would be appropriate for a shareholder vote." The shift follows a campaign by investor groups, which have been lobbying President Obama and which met the SEC in September to discuss the issue. The guidance states: "As most corporate decisions involve some evaluation of risk, the evaluation of risk should not be viewed as an end in itself, but rather, as a means to an end. In addition, we have become increasingly cognizant that the adequacy of risk management and oversight can have major consequences for a company and its shareholders." Stu Dalheim, director of shareholder advocacy at the Calvert Group, called it "a significant validation of shareowner rights". Tim Smith of Walden Asset Management, said: "Now investors are free to craft language for resolutions, including the obvious point that an issue like climate change may create financial or reputation risk for shareowners. This opens the door for frank and candid discussion and votes on how various issues affect shareholder value." The SEC has also revised its position on investor proposals seeking reports on CEO succession planning. It states "CEO succession planning raises a significant policy issue regarding the governance of the corporation that transcends the day-to-day business matter of managing the workforce".

Link to SEC guidance

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