

Representative Bill Ramos, Chair  
Representative Chris Stearns, Vice Chair  
Representative Greg Cheney, Ranking Minority Member  
Committee on State Government and Tribal Relations  
Washington State House

January 9, 2024

RE: HB 1885 (campaign finance), provisions banning corporate political spending by foreign-influenced corporations

On behalf of Free Speech For People, I write in strong support of HB 1885's provisions banning corporate political spending by foreign-influenced corporations.

Similar legislation was enacted in the City of Seattle, where it has been in effect since January 2020; was passed in Minnesota in May 2023; was passed on Monday, January 8, 2024 by the New York State Senate, and is expected to pass the other chamber later this year; was enacted by San Jose, California today, January 9, 2024; and is pending in the U.S. House of Representatives, and in several other state legislatures including California, Hawaii, and Massachusetts.

My detailed testimony follows. After that, I have appended expert testimony from a corporate governance expert, Professor John Coates of Harvard Law School.

### **Background**

Free Speech For People is a national nonpartisan nonprofit 501(c)(3) organization that has helped develop and advocate for legislation like this around the country.

We have developed the model legislation in consultation with the Center for American Progress and with noted legal experts including Prof. Laurence Tribe of Harvard Law School, one of the foremost constitutional law scholars in the country; Prof. John Coates of Harvard Law School, a corporate governance expert and former General Counsel of the U.S. Securities and Exchange Commission; Commissioner Ellen Weintraub of the Federal Election Commission, an expert on campaign finance law; Prof. Brian Quinn of Boston College Law School, an expert in corporate law and policy; and Professor Adam Winkler of the University of California Law School, an expert on corporations and the Constitution.

Section I of the attached memorandum sets forth the general and legal background for the bill. Section II explains the foreign ownership thresholds. Section III answers certain frequently-asked questions.

I am also providing written testimony that was submitted from Prof. Tribe, Commissioner Weintraub, and Judge Anne Levinson (ret.) on behalf of the Public Disclosure Commission in support of similar (nearly identical) legislation. I would have appended this testimony to my own, but the file size would then be too large to upload to the legislature's written testimony portal. Consequently, I request that the Committee consider this testimony as incorporated by reference.

Prof. Tribe's letter to California legislators (Apr. 21, 2022)

[https://freespeechforpeople.org/wp-content/uploads/2022/04/tribe\\_letter-re\\_california-foreign-influenced-corporate-political-spending-bill.pdf](https://freespeechforpeople.org/wp-content/uploads/2022/04/tribe_letter-re_california-foreign-influenced-corporate-political-spending-bill.pdf)

Commissioner Weintraub's letter to California legislators (Mar. 9, 2023)

<https://freespeechforpeople.org/wp-content/uploads/2023/03/2023-03-09-elw-letter-to-ca-assembly-elections-committee.pdf>

Judge Levinson's letter on behalf of the PDC to Seattle councilmembers (Aug. 24, 2019)

<https://freespeechforpeople.org/wp-content/uploads/2023/03/anne-levinson-letter-from-pdc-to-seec-re-proposed-ordinance-aug-24-2019.pdf>

If you have any questions, we would be happy to discuss.

Sincerely,

Ron Fein, Legal Director  
Free Speech For People

## I. General and legal background

Under well-established federal law, recently upheld by the U.S. Supreme Court, it is illegal for a foreign government, business, or individual to spend any amount of money at all to influence federal, state, or local elections.<sup>1</sup> This existing provision does not turn on whether the foreign national comes from a country that is friend or foe, nor the amount of money involved. Rather, as then-Judge (now Justice) Brett Kavanaugh wrote in the seminal decision upholding this law:

It is fundamental to the definition of our national political community that foreign citizens do not have a constitutional right to participate in, and thus may be excluded from, activities of democratic self-government. It follows, therefore, that the United States has a compelling interest for purposes of First Amendment analysis in limiting the participation of foreign citizens in activities of American democratic self-government, and in thereby preventing foreign influence over the U.S. political process.<sup>2</sup>

Federal law, however, leaves a gap that has been opened even further since the U.S. Supreme Court's 2010 *Citizens United* decision invalidated laws that banned corporate political spending.<sup>3</sup> While the existing federal statute prohibits a *foreign-registered corporation* from spending money on federal, state, or local elections, federal law does not address the issue of political spending by *U.S. corporations that are partially owned by foreign investors*. That is the topic here.

The *Citizens United* decision three times described the corporations to which its decision applied as “associations of citizens.”<sup>4</sup> On the topic of corporations partly owned by foreign investors, the Supreme Court simply noted “[w]e need not reach the question” because the law before it applied to *all* corporations.<sup>5</sup> As a result, federal law currently does not prevent a corporation that is partly owned by foreign investors from making contributions to super PACs, independent expenditures,

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<sup>1</sup> 52 U.S.C. § 30121.

<sup>2</sup> *Bluman v. Federal Election Comm'n*, 800 F. Supp. 2d 281, 288 (D.D.C. 2011), *aff'd*, 132 S. Ct. 1087 (2012); *see also* *United States v. Singh*, 979 F.3d 697, 710-11 (9th Cir. 2020), cert. denied sub nom. *Matsura v. United States*, No. 20-1167, 2021 WL 2044557 (May 24, 2021).

<sup>3</sup> *Citizens United v. Federal Election Comm'n*, 558 U.S. 310 (2010).

<sup>4</sup> *Citizens United*, 558 U.S. at 349, 354, 356. Many scholars have criticized the Court's understanding of the corporate entity as an association. *See, e.g.*, Jonathan Macey & Leo E. Strine, Jr., *Citizens United as Bad Corporate Law*, 2019 Wis. L. Rev. 451 (2019). However misguided, this account reflects the reasoning that the Court has adopted in extending constitutional rights to corporations.

<sup>5</sup> *Id.* at 362.

expenditures on ballot measure campaigns, or even (in states where it is otherwise legal) contributing directly to candidates.

Since 2010, neither Congress nor the beleaguered Federal Election Commission have done anything. However, as Professor Laurence Tribe of Harvard Law School and Federal Election Commissioner Ellen Weintraub have written, a state does not need to wait for federal action to protect its state and local elections from foreign influence. The goal of this bill is to plug the loophole allowing corporations partly or wholly owned by foreign interests to influence elections.

This threat is real. For example, Uber has shown an increasing appetite for political spending in a variety of contexts. In California, the company spent some \$58 million on Proposition 22, which successfully overturned worker protections for Uber drivers.<sup>6</sup> The company is currently preparing to spend millions on a similar ballot measure in Massachusetts. Although Uber started in California, the Saudi government made an enormous (and critical) early investment, and even now owns several percent of the company's stock, long after the company has gone public.<sup>7</sup> Fellow Proposition 22 major spenders, such as DoorDash and Lyft, are also substantially owned by foreign investors from countries including the United Kingdom, Japan, Malaysia, China, and elsewhere.

Similarly, in October 2016, Airbnb responded to the New York Legislature's growing interest in regulating the homestay industry by arming a super PAC with \$10 million to influence New York's legislative races.<sup>8</sup> Airbnb received crucial early funding from, and was at that time partly owned by, Moscow-based (and Kremlin-

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<sup>6</sup> Ryan Menezes et al., "Billions have been spent on California's ballot measure battles. But this year is unlike any other," L.A. Times, Nov. 13, 2020, <https://lat.ms/3gRct8d>; Glenn Blain, "Uber spent more than \$1.2M on efforts to influence lawmakers in first half of 2017," N.Y. Daily News, Aug. 13, 2017, <http://bit.ly/39HJLRf>; Karen Weise, "This is How Uber Takes Over a City," Bloomberg, June 23, 2015, <http://bloom.bg/1Ln2MaN>.

<sup>7</sup> Eric Newcomer, "The Inside Story of How Uber Got Into Business with the Saudi Arabian Government," Nov. 3, 2018, <https://bloom.bg/2SWWDgv>. As of this writing, the Public Investment Fund of Saudi Arabia owns 3.9% of Uber stock. See Uber, <https://www.cnbc.com/quotes/UBER?tab=ownership> (last visited Mar. 8, 2021).

<sup>8</sup> Kenneth Lovett, *Airbnb to spend \$10M on Super PAC to fund pre-Election day ads*, N.Y. Daily News, Oct. 11, 2016, <http://nydn.us/2EF5Lgi>.

linked) DST Global.<sup>9</sup> Investment by foreign sovereign wealth funds, like Saudi Arabia's, is expected to increase exponentially as oil-rich Middle Eastern states seek to diversify their investment portfolios.<sup>10</sup>

In the *New York Times*, Federal Election Commissioner Ellen Weintraub explained the problem, and pointed to a solution: "Throughout *Citizens United*, the court described corporations as 'associations of citizens,' she wrote. "States can require entities accepting political contributions from corporations in state and local races to make sure that those corporations are indeed associations of American citizens—and enforce the ban on foreign political spending against those that are not."<sup>11</sup>

As Weintraub noted, even partial foreign ownership of corporations calls into question whether *Citizens United*, which three times described corporations as "associations of citizens" and which expressly reserved questions related to foreign shareholders,<sup>12</sup> would apply. Indeed, after deciding *Citizens United*, the Supreme Court in *Bluman v. Federal Election Commission* specifically upheld the federal ban on foreign nationals spending their *own* money in U.S. elections.<sup>13</sup> In light of the Court's post-*Citizens United* decision in *Bluman*, a restriction on political spending by corporations with foreign ownership at levels potentially capable of influencing

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<sup>9</sup> See Jon Swaine & Luke Harding, *Russia funded Facebook and Twitter investments through Kushner investor*, *The Guardian*, Nov. 5, 2017, <https://bit.ly/3ppmIF5>; Dan Primack, *Yuri Milner adds \$1.7 billion to his VC war chest*, *FORTUNE*, Aug. 3, 2015, <https://bit.ly/3jnhNkb> (DST Global is Moscow based); Scott Austin, *Airbnb: From Y Combinator to \$112M Funding in Three Years*, *The Wall Street Journal*, July 25, 2011, <https://on.wsj.com/2STNYvj>. Reportedly, \$40 million of the \$112 million that Airbnb raised in its 2011 funding round came from DST Global. See Alexia Tsotsis, *Airbnb Bags \$112 Million In Series B From Andreessen, DST And General Catalyst*, *TechCrunch*, July 24, 2011, <http://tcrn.ch/2EF6IF2>.

<sup>10</sup> According to one report, Saudi Arabia's Public Investment Fund is expected to deploy \$170 billion in investments over the next few years. Sarah Algethami, *What's Next for Saudi Arabia's Sovereign Wealth Fund*, *Bloomberg BusinessWeek*, Oct. 21, 2018, <https://bloom.bg/2sQNJGF>.

<sup>11</sup> Ellen Weintraub, *Taking on Citizens United*, *N.Y. Times*, Mar. 30, 2016, <http://nyti.ms/1SwK4gK>.

<sup>12</sup> *Citizens United*, 558 U.S. at 349, 354, 356, 362.

<sup>13</sup> *Bluman v. Federal Election Comm'n*, 800 F. Supp. 2d 281, 288 (D.D.C. 2011), *aff'd*, 132 S. Ct. 1087 (2012). In 2019, the U.S. Court of Appeals for the Ninth Circuit upheld federal statute's foreign national political spending ban as applied to local elections. *Singh*, 924 F.3d at 1042.

corporate governance can be upheld based on *Bluman* and as an exception to *Citizens United*.<sup>14</sup>

## II. Foreign influence and ownership thresholds

How much foreign investment renders a corporation's political spending problematic for protection of democratic self-government? Arguably, *any* foreign ownership in companies that spend money to influence our elections is a threat to democratic self-government. In the most accepted understanding, corporate shareholders are "the firm's residual claimants."<sup>15</sup> As explained by the California Court of Appeal, "it is the shareholders who own a corporation, which is managed by the directors. In an economic sense, when a corporation is solvent, it is the shareholders who are the residual claimants of the corporation's assets . . . ."<sup>16</sup>

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<sup>14</sup> A similar analysis would also apply to *First Nat. Bank of Boston v. Bellotti*, 435 U.S. 765 (1978), which addressed limits on corporations spending in ballot question elections.

<sup>15</sup> Henry Hansmann & Reiner Kraakman, *The End of History for Corporate Law*, 89 Geo. L.J. 439, 449 (2001); *see also* Stephen M. Bainbridge, *Director Primacy: The Means and Ends of Corporate Governance*, 97 Nw. U.L. Rev. 547, 565 (2003) ("[M]ost theories of the firm agree, shareholders own the residual claim on the corporation's assets and earnings."); Frank H. Easterbrook & Daniel R. Fischel, *THE ECONOMIC STRUCTURE OF CORPORATE LAW* 36-39 (1991) (arguing that shareholders are entitled to whatever assets remain after the company has met its obligations, and thus are the ultimate "residual claimant[s]" on a company's assets). While different theories are sometimes offered in academic literature, this is the standard economic model of shareholders of a firm, and it has been widely adopted in judicial decisions. *See, e.g.*, *RTP LLC v. ORIX Real Est. Cap., Inc.*, 827 F.3d 689, 692 (7th Cir. 2016) ("Stockholders and owners of other equity interests have residual claims in a business; they get whatever is left after everyone else is paid."); *In re Franchise Servs. of N. Am., Inc.*, 891 F.3d 198, 208 n.7 (5th Cir. 2018), as revised (June 14, 2018) ("Shareholders are the residual claimants of the estate," and are entitled to whatever remains after satisfying creditors); *In re Cent. Ill. Energy Coop.*, 561 B.R. 699, 708 (Bankr. C.D. Ill. 2016) (noting that directors have fiduciary duty to shareholders rather than creditors precisely because "shareholders hav[e] the residual claim to the corporation's equity value"); *Ito v. Investors Equity Life Holding Co.*, 135 Haw. 49, 80 (2015) (after "all other creditors have been satisfied," shareholders lay claim to a company's "shares and the residual estate").

<sup>16</sup> *Berg & Berg Enter., LLC v. Boyle*, 100 Cal. Rptr. 3d 875, 892, 178 Cal. App. 4th 1020, 1039 (Cal. App. 2009); *accord In re Bear Stearns Litig.*, 23 Misc. 3d 447, 474, 2008 WL 5220514 (N.Y. Sup. 2008) (shareholders are the "residual beneficiaries of any increase in the company's value" when it is solvent) (cleaned up).

In practice, shareholders rarely have the opportunity to actually assert these residual claims. Yet there is a sense in which investors and corporate managers alike understand that the corporation’s assets “belong to” the shareholders.

That means that corporate political spending is drawn from shareholders’ money. As Justice Stevens noted in the *Citizens United* decision, “When corporations use general treasury funds to praise or attack a particular candidate for office, it is the shareholders, as the residual claimants, who are effectively footing the bill.”<sup>17</sup> This point has often been raised from the perspective of shareholders who may not *want* corporate managers spending “their” money on various political causes.<sup>18</sup> But here, we confront the mirror issue: corporate managers may spend money to influence U.S. elections out of funds that partly “belong to” foreign investors.

On this understanding, *any* amount of foreign investment in a corporation means that management’s political expenditures come from a pool of partly foreign money. Seen that way, a corporation spending money in U.S. elections no longer qualifies as an “association of citizens” if *any* of the money in its coffers “belongs to” foreign investors—in other words, when it has any foreign shareholders at all.<sup>19</sup> Indeed, polling indicates that 73% of Americans—including majorities of both Democrats and Republicans—would support banning corporate political spending by corporations with *any* foreign ownership.<sup>20</sup>

But we need not reach that far. At ownership thresholds well above zero, an investor may exert *influence*—explicit or implicit—over corporate decision-making. Even if a company was founded in the United States and keeps its main offices here, companies are responsive to their shareholders, and significant foreign ownership affects corporate decision-making. As the former CEO of U.S.-based ExxonMobil Corp. stated, “I’m not a U.S. company and I don’t make decisions based on what’s good for the U.S.”<sup>21</sup> There is no evidence that political spending is magically exempt from this general rule.

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<sup>17</sup> *Citizens United v. Federal Election Comm’n*, 558 U.S. 310, 475 (2010) (Stevens, J., dissenting).

<sup>18</sup> See, e.g., Lucian A. Bebchuk & Robert J. Jackson, Jr., *Corporate Political Speech: Who Decides?*, 124 Harv. L. Rev. 83, 85 (2010).

<sup>19</sup> By analogy, in the class-action context, some courts hold that a class cannot be certified if even a single member cannot bring the claim. See *Denney v. Deutsche Bank AG*, 443 F.3d 253, 264 (2d Cir. 2006) (“no class may be certified that contains members lacking Article III standing”).

<sup>20</sup> Ctr. for Am. Progress Action Fund, *NEW POLL: Bipartisan Support for Banning Corporate Spending in Elections by Foreign-Influenced U.S. Companies*, <https://bit.ly/3CrcWFV>.

<sup>21</sup> Michael Sozan, Ctr. for Am. Progress, *Ending Foreign-Influenced Corporate Spending in U.S. Elections* (Nov. 21, 2019), at 19, <https://ampr.gs/2QIiNQT>.

To someone not deeply versed in corporate governance, it may seem that the right threshold for the point at which a foreign investor (or any investor) can exert influence is just over 50%. That is, after all, the threshold for winning a race between two candidates, or controlling a two-party legislature. But corporations are not legislatures. A better analogy might be a chamber with many millions of uncoordinated potential voters, most of whom rarely vote and who may be, for one reason or another, effectively *prevented* from voting. In that type of environment, a disciplined owner (or ownership bloc) of 1% can be tremendously influential.

As explained in more detail in written testimony submitted by Professor John Coates of Harvard Law School in support of similar legislation elsewhere, and in a recent report by the Center for American Progress,<sup>22</sup> the thresholds in this bill—1% of stock owned by a single foreign investor, or 5% owned by multiple foreign investors—reflect levels of ownership that are widely agreed (including by entities such as the Business Roundtable) to be high enough to influence corporate governance. Corporate governance law gives substantial formal power to minority shareholders at these levels, and this spills out into even greater unofficial influence. For this reason, since the passage of Seattle’s 2020 law, best-in-class bills—including that passed in Minnesota in 2023, in San Jose in 2024, and pending in states such as New York, California, and Massachusetts, and in the U.S. Congress—generally follow the Seattle model.

Federal securities law provides powerful tools of corporate influence to investors at these levels. Seattle’s 1% threshold was grounded in a rule of the U.S. Securities and Exchange Commission regarding eligibility of shareholders to submit proposals for a shareholder vote—a threshold that the SEC ultimately concluded was, if anything, *too high*.<sup>23</sup> For a large multinational corporation, an investor that owns 1% of shares might well be the largest single stockholder; it would generally land

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<sup>22</sup> See Michael Sozan, Ctr. for American Progress, *Ending Foreign-Influenced Corporate Spending in U.S. Elections* (Nov. 21, 2019), <https://ampr.gs/2QIiNQT>.

<sup>23</sup> Until November 4, 2020, owning one percent of a company’s shares allows an owner to submit shareholder proposals, which creates substantial leverage. See *Procedural Requirements and Resubmission Thresholds Under Exchange Act Rule 14a-8*, 85 Fed. Reg. 70,240, 70,241 (Nov. 4, 2020). The SEC proposed to eliminate this threshold, and rely solely on absolute-dollar ownership thresholds that correspond to far *less* than 1% of stock value, because it is fairly uncommon for even a major, active institutional investor to own 1% of the stock of a publicly-traded company. See SEC, *Procedural Requirements and Resubmission Thresholds under Exchange Act Rule 14a-8*, 84 Fed. Reg. 66,458 (Dec. 4, 2019) (proposed rule). In other words, recent advances in corporate governance law suggest that the 1% threshold may, if anything, be *higher* than appropriate to capture investor influence. That said, we believe that 1% remains defensible.



among the top ten. Conversely, as the SEC has acknowledged, many of the investors *most active* in influencing corporate governance own well below 1% of equity.<sup>24</sup>

Of course, this does not mean that *every* investor who owns 1% of shares will *always* influence corporate governance, but rather that the business community generally recognizes that this level of ownership presents that opportunity, and—for a foreign investor in the context of corporate political spending—that risk.

In other cases, no single foreign investor holds 1% or more of corporate equity, but multiple foreign investors own a substantial aggregate stake. To pick one example, at the moment of this writing (it may change later, of course, due to market trades), Amazon does not have any 1% foreign investors, but at least 8.1% of its equity (and possibly much more) is owned by foreign investors.<sup>25</sup> While presumably foreign investors as a class are not all perfectly aligned on all issues, they can be assumed to share certain common interests and positions that may, in some cases, differ from those of U.S. shareholders—certainly when it comes to matters of state public policy. As the Center for American Progress has noted:

Foreign interests can easily diverge from U.S. interests, for example, in the areas of tax, trade, investment, and labor law. Corporate directors and managers view themselves as accountable to their shareholders, including foreign shareholders. As the former CEO of U.S.-based Exxon Mobil Corp. starkly stated, “I’m not a U.S. company and I don’t make decisions based on what’s good for the U.S.”<sup>26</sup>

Neither corporate law nor empirical research provide a bright-line threshold at which this type of aggregate foreign interest begins to affect corporate decision-making, but anecdotally it appears that CEOs do take note of this aggregate foreign

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<sup>24</sup> See *id.* at 66,646 & n.58 (noting that “[t]he vast majority of investors that submit shareholder proposals do not meet a 1 percent ownership threshold,” including major institutional investors such as California and New York public employee pension funds).

<sup>25</sup> See *Amazon.com*, CNBC, <https://cnb.cx/2JShvAt> (visited Dec. 28, 2022) (ownership tab). As of the date of writing, at least one foreign investor (Norges Bank) holds 0.9% but no foreign investor is known to hold 1.0% or more. Aggregate ownership data, however, shows 7.4% in Europe (including Russia) and 0.9% in Asia. In fact, the total aggregate foreign ownership could be much higher, as the summary data show only 57.4% of shares owned in North America. CNBC obtains its geographic ownership concentration data from Thomson Reuters, which in turn obtains it from Refinitiv, a provider of financial markets data that has access to some non-public sources.

<sup>26</sup> Michael Sozan, Ctr. for Am. Progress, *Ending Foreign-Influenced Corporate Spending in U.S. Elections* (Nov. 21, 2019), at 19, <https://ampr.gs/2QIiNQT>.

ownership and that at a certain point it affects their decision-making. The Seattle model legislation selects a 5% aggregate foreign ownership threshold. Under federal securities law, 5% is the threshold that Congress has already chosen as the level at which a single investor *or group of investors working together* can have an influence so significant that the law requires disclosure not only of the stake, but also the residence and citizenship of the investors, the source of the funds, and even in some cases information about the investors' associates.<sup>27</sup> In this case, while it may not be appropriate to treat unrelated foreign investors as a single bloc for *all* purposes, it is appropriate to do so in the context of analyzing how corporate management conceive decision-making regarding political spending in U.S. elections.

Obviously, some companies do not have substantial foreign ownership. Even of those that do, many probably do not spend corporate money on the state's elections. Such companies either would not be covered at all (if they did not meet the threshold) or would not experience any practical impact (if they do not spend corporate money for political purposes).

The point here is *not* that FICs do not have connections to the state, nor that foreign investment in local companies should be discouraged, nor that the foreign owners of these companies are necessarily known to be exerting influence over the companies' decisions about corporate political spending, nor that they would do so nefariously to undermine democratic elections. Rather, the point is simply that *Citizens United* accorded corporations the right to spend money in our elections on the theory that corporations are "associations of citizens." But for companies of this type, that theory does not apply. Enough shares are owned or controlled by a foreign owner that the corporation's spending is at least, in part, drawn from money that "belongs to" that foreign entity—and furthermore, the entity could exert influence over how the corporation spends money from the corporate treasury to influence candidate elections.

Finally, to reiterate, the bill does not limit in any way how employees, executives, or shareholders of these companies may spend their *own* money—just how the foreign-influenced business entities' potentially vast corporate treasuries may be deployed to influence the state's electoral democracy.

### III. Frequently asked questions

#### 1. *Does this bill affect individual immigrants?*

No. The bill regulates *corporate* political spending by business entities.

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<sup>27</sup> 15 U.S.C. §§ 78m(d)(1)-(3).

2. *Does this bill affect businesses owned in part by (a) green card holders, (b) dual U.S.-foreign citizens, or (c) U.S. citizens residing abroad?*

(a) No; (b) no; and (c) no. None of those would trigger the “foreign investor” definition.

3. *Has the bill been endorsed by leading scholars and experts?*

This bill and others like it have been endorsed by Professor Laurence Tribe of Harvard Law School and Professor Adam Winkler of the University of California Law School, experts in constitutional law; Professor John C. Coates IV of Harvard Law School (a former General Counsel and Director of the Division of Corporate Finance at the U.S. Securities Exchange Commission) and Professor Brian Quinn of Boston College School of Law, experts in corporate law and governance; and Federal Election Commissioner Ellen Weintraub, expert in election law.<sup>28</sup>

4. *Does the bill have bipartisan support?*

A 2019 national poll of 2,633 voters showed that 73%—including majorities of both Democrats and Republicans—would support banning corporate political spending by corporations with *any* foreign ownership.<sup>29</sup> Even after polled individuals were deliberately exposed to partisan framing and opposition messages, voters continued to support the policy 58-24 overall; Trump voters supported it 52-30 and Clinton voters supported it 68-20.

5. *Does the bill prevent corruption?*

The Supreme Court currently recognizes two distinct public interests in regulating the amounts and sources of money in politics: (1) preventing corruption or the appearance of corruption, and (2) protecting democratic self-government against foreign influence. This bill focuses on the latter.

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<sup>28</sup> See Letter from Prof. Laurence H. Tribe to Mass. Legis. Joint Comm. on Election Laws, Sept. 15, 2021, <https://bit.ly/3E0CkTs>; Letter from Fed. Election Comm’r Ellen L. Weintraub to Mass. Legis. Joint Comm. on Election Laws, Sept. 17, 2021, <https://bit.ly/3EenbhN>; Letter from Prof. John C. Coates IV to Seattle City Council, Jan. 3, 2020, <https://bit.ly/3jjvfFP>. Professors Winkler and Quinn have authorized us to convey their endorsement.

<sup>29</sup> Ctr. for Am. Progress Action Fund, NEW POLL: Bipartisan Support for Banning Corporate Spending in Elections by Foreign-Influenced U.S. Companies, <https://bit.ly/3CrcWFV>.

As Judge (now Justice) Kavanaugh explained in *Bluman*, the public “has a compelling interest for purposes of First Amendment analysis in limiting the participation of foreign citizens in activities of American democratic self-government, and in thereby preventing foreign influence over the U.S. political process.”<sup>30</sup> The U.S. Court of Appeals for the Ninth Circuit has confirmed that this interest applies to state elections as well.<sup>31</sup>

6. *Is the bill “narrowly tailored” to protecting democratic self-government?*

Yes. The public interest in protecting democratic self-government from foreign influence is particularly strong and supports a wide range of restrictions ranging from investment in communications facilities to municipal public employment.<sup>32</sup> In the specific context of political spending, the facts of the *Bluman* decision are worth noting. The lead plaintiff wanted to contribute to three candidates (subject to dollar limits that in theory minimize the risk of *corruption*) and “to print flyers . . . and to distribute them in Central Park.”<sup>33</sup> All these were banned by the federal statute, and the court upheld the ban on all of them.

In other words, in a context where the risk of corruption was essentially nil, the court found that the interest in protecting democratic self-government from foreign influence is so strong that a law that prohibits *printing flyers and posting them in a park* is narrowly tailored to that interest. Given that, a ban on corporate political spending—with the potential for far greater influence on elections than one individual printing flyers—by corporations with substantial foreign ownership, at

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<sup>30</sup> *Bluman v. Fed. Election Comm’n*, 800 F. Supp. 2d 281, 288 (D.D.C. 2011), *aff’d*, 565 U.S. 1104 (2012).

<sup>31</sup> *United States v. Singh*, 924 F.3d 1030, 1042 (9th Cir. 2019).

<sup>32</sup> *See Bluman*, 800 F. Supp. 2d at 287 (collecting Supreme Court cases upholding limits on noncitizen employment in a wide variety of local positions); 47 U.S.C. § 310(b) (banning issuance of broadcast or common carrier license to companies under minority foreign ownership).

<sup>33</sup> *Id.* at 285.

levels known from corporate governance literature to bring the potential for investor influence, is also narrowly tailored to the same interest.<sup>34</sup>

7. *Does this bill go further than the federal statute at issue in Bluman?*

Yes; that is the point. The federal statute prevents foreign entities from spending money directly in federal, state, or local elections.<sup>35</sup> The proposed bill applies to companies where those same foreign entities own substantial investments.

8. *Has any court decided how much foreign ownership of a corporation renders a corporation “foreign” for purposes of First Amendment analysis?*

No. That issue was not before the Supreme Court in *Citizens United*, and the Court expressly decided *not* to decide that question.<sup>36</sup> The majority opinion did make a passing reference to corporations “funded predominately by foreign shareholders” as the type of issue that the decision was *not* addressing. This is what lawyers call “dictum”—something mentioned in a judicial opinion that is not part of its holding. Similarly, in *Bluman*, Judge Kavanaugh wrote that “[b]ecause this case concerns individuals, we have no occasion to analyze the circumstances under which a corporation may be considered a *foreign* corporation for purposes of First Amendment analysis.”<sup>37</sup> For purposes of political spending, the question of how much foreign ownership is “too much” has not yet been decided by any court.

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<sup>34</sup> Only one court has ever suggested otherwise. A trial court judge in Minnesota recently issued a preliminary injunction, accompanied by an unpublished opinion, that temporarily blocked Minnesota’s law. *See Minn. Chamber of Commerce v. Choi*, No. 23-cv-2015, 2023 WL 8803357 (D. Minn. 2023). The judge in that case correctly recognized that states can enact campaign finance laws to block foreign influence, and that these laws are not preempted by the Federal Election Campaign Act. He further recognized that states have “a compelling interest to limit the participation of foreign citizens and foreign corporations in activities of American democratic self-government, including spending money to expressly advocate for or against a political candidate.” However, contrary to the expert analysis of Professor Coates, the judge in that case demanded a level of evidence of particular foreign investors influencing particular corporate decisions that far exceeds what federal courts ordinarily require for prophylactic legislation such as this. Notwithstanding the temporary injunction, the Minnesota Attorney General’s office intends to defend its law on full litigation with a complete record; FSFP is assisting that office pro bono.

<sup>35</sup> 52 U.S.C. § 30121, formerly codified as 2 U.S.C. § 441e.

<sup>36</sup> *See Citizens United*, 558 U.S. at 362.

<sup>37</sup> *Bluman*, 800 F. Supp. 2d at 292 n.4.

The analysis in the main part of the above memorandum shows how arguably *any* foreign ownership renders the entire pool of corporate funds foreign. However, the bill focuses more narrowly on corporations where foreign holdings exceed thresholds, established from empirical corporate governance research, where investors can exert influence on executives' decisions.

Notably, the Seattle Clean Campaigns Act (the model upon which this bill is based) has been in effect since February 2020, including the vigorously contested 2021 citywide election featuring an expensive mayoral race, yet none of the many multinational corporations in Seattle have been impelled to challenge it.

9. *Do corporations know who their shareholders are?*

Managers of privately-held corporations may know the identity of all shareholders at all times. Managers of publicly-traded corporations do not know moment to moment, but can obtain a complete list of shareholders and number of shares owned for any particular "record date." They do this on a regular basis for routine corporate purposes, such as the corporate annual meeting. For more detail, see the letter from Professor John C. Coates IV of Harvard Law School, a former General Counsel and Director of the Division of Corporate Finance at the U.S. Securities Exchange Commission.<sup>38</sup>

10. *How many companies would be covered by the bill?*

Foreign investment in U.S. companies has increased dramatically in recent years: "from about 5% of all U.S. corporate equity (public and private) in 1982 to more than 20% in 2015."<sup>39</sup> By 2019, that figure had increased to 40%.<sup>40</sup>

However, foreign ownership is not evenly distributed. Analysis by the Center for American Progress found that the thresholds in this bill would cover 98% of the

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<sup>38</sup> Letter from Prof. John C. Coates IV to Seattle City Council, Jan. 3, 2020, <https://bit.ly/3jjvfFP>.

<sup>39</sup> John C. Coates IV, Ronald A. Fein, Kevin Crenny, & L. Vivian Dong, *Quantifying foreign institutional block ownership at publicly traded U.S. corporations*, Harvard Law School John M. Olin Center Discussion Paper No. 888 (Dec. 20, 2016), Free Speech For People Issue Report No. 2016-01, [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2857957](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2857957).

<sup>40</sup> See Steve Rosenthal and Theo Burke, *Who's Left to Tax? US Taxation of Corporations and Their Shareholders*, Urban-Brookings Tax Policy Ctr., paper presented at NYU School of Law (Oct. 27, 2020), <https://bit.ly/3uLjVqE>.

companies listed on the S&P 500 index, but only 28% of the firms listed on the Russell Microcap Index—among the smallest companies that are publicly traded.<sup>41</sup>

It is much more difficult to obtain data regarding ownership of privately-held companies. But overall, most small local businesses have *zero* foreign ownership.

*11. Does the bill create a compliance burden for small businesses?*

As noted above, most small local businesses have zero foreign ownership, and they know it. In that case, they can easily provide a statement certifying that, after due inquiry, the company was not a foreign-influenced company (as defined by the law) on the date the independent expenditure or contribution was made.

For those few small businesses that do have a foreign investor, they typically know exactly who it is and how much the foreign investor owns. Thus, they can easily determine whether the foreign investment exceeds the thresholds (in which case they are prohibited from using corporate money for political spending) or not (in which case they can confidently provide the statement). Finally, the statement of certification explicitly only requires a reasonable inquiry. In most cases, this will be resolved by the address—an address in a foreign country establishes that the investor is foreign unless the investor is known to be a U.S. citizen residing abroad, and an address in the U.S. establishes a presumption that the investor is domestic.

*12. Does the bill violate the rights of U.S. investors?*

No. Obviously, individual U.S. investors may spend unlimited amounts of their *own* money on elections.

The question might be framed as whether the bill restricts the ability of U.S. investors to spend their money *through the vehicle of a corporation in which they share ownership with foreign investors*. At the outset, the assumption embedded in this framework is somewhat unrealistic; few if any U.S. investors buy stock in a for-profit business entity with the expectation that, the corporation will engage in regulated political campaign spending.<sup>42</sup> But even if so, any right to invest in a corporation with that expectation is limited by valid restrictions imposed on the *other* co-owners of the corporation, namely, foreign investors. Any impact on U.S.

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<sup>41</sup> Michael Sozan, Ctr. for Am. Progress, *Ending Foreign-Influenced Corporate Spending in U.S. Elections* (Nov. 21, 2019), at 42-45, <https://ampr.gs/2QIiNQT>.

<sup>42</sup> See Jonathan Macey & Leo E. Strine, Jr., *Citizens United as Bad Corporate Law*, 2019 Wis. L. Rev. 451, 451 (2019) (noting that for many American investors, corporate political spending “has no rational connection to their reason for investing”).

*investors who have chosen to invest jointly with foreign investors* is incidental to the primary purpose of preventing foreign influence.

By analogy, in upholding a State Department order to shut down a foreign mission even though it had U.S. citizen and permanent resident employees, the U.S. Court of Appeals for the D.C. Circuit noted: “[The order] does not prevent [plaintiffs] from advocating the Palestinian cause, nor from expressing any thought or making any statement that they could have made before its issuance. The order prohibits [them] only from speaking *in the capacity of a foreign mission of the PLO*.”<sup>43</sup>

Similarly, the U.S. investors can spend their money directly on political campaigns, or they can invest in a *different* corporation that is *not* foreign-influenced and which may spend treasury funds on political campaigns. If corporate political spending can be described as partly the speech of U.S. investors, then the bill prohibits them only from speaking *in the capacity of investors in a foreign-influenced business entity*.

Finally, the question could be framed as involving freedom of association for those U.S. investors who “associate” with foreign investors in a corporation. But a recent U.S. Supreme Court decision, written by Justice Kavanaugh, held that U.S. citizens cannot “export” or extend their own constitutional rights to foreign entities. In *Agency for International Development v. Alliance for Open Society Int’l, Inc.*, the Court considered a statute that imposed speech-related conditions on funding. After first holding that the conditions violated the First Amendment rights of U.S. funding recipients, the Court then *rejected* a constitutional challenge on behalf of the foreign entities with which those U.S. entities associated. The Court explained that U.S. entities “cannot export their own First Amendment rights” to the foreign entities with which they associate.<sup>44</sup> The Court’s reasoning leads to the same result when U.S. entities associate with foreign nationals in the corporate form: the mere fact that U.S. citizens have the independent right to contribute and make expenditures does not mean that those rights will flow to any association they form.

### 13. *What if a U.S. investor holds a majority or controlling share?*

The danger of foreign participation remains. As corporate law expert Professor John Coates of Harvard Law School and his co-authors note:

A stylized and largely uncontested fact is that institutional shareholders—the most likely to be blockholders of U.S. public companies—are increasingly influential in the governance of those

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<sup>43</sup> *Palestine Information Office v. Shultz*, 853 F.2d 932, 939 (D.C. Cir. 1988) (emphasis in original).

<sup>44</sup> 140 S. Ct. 2082, 2088 (2020).



companies. Various changes in markets and regulation have increased the ability of such institutions to encourage, pressure or force boards to adopt policies and positions that twenty years ago would have been beyond their reach. Board members are spending increased amounts of time responding to and directly “engaging” with blockholders. While in the past legal regimes tested “control” of foreign nationals at higher levels of ownership—majority voting power, or 25% blocks for example—those regimes may no longer catch the new forms of institutional influence.<sup>45</sup>

As it happens, federal communications law has been addressing a very similar issue for nearly 90 years. Since 1934, section 310 of the federal Communications Act has prohibited issuance of broadcast or common carrier licenses to companies with one-fifth foreign ownership.<sup>46</sup> Obviously, that raises a similar issue: a company with one-fifth foreign ownership has four-fifths U.S. ownership. Yet, as Congress determined, the risks were too great even with a four-fifths U.S. owner.

It makes little sense to say that a corporation with 75% U.S. ownership is too foreign-influenced to own a small local terrestrial radio station with limited reach, but not too foreign-influenced to spend tens of millions of dollars on statewide elections. Put another way, a U.S. investor that owns a very large percentage of a company but has foreign co-investors may be better suited choosing a different investment vehicle for buying radio stations *or* for spending money in elections.

We are only aware of one constitutional challenge to Section 310 in its nearly 90-year-history—the challenge concerned a slightly different point, but the court upheld the provision.<sup>47</sup> The same logic would apply to this bill.

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<sup>45</sup> Coates et al., *supra* note 39, at 5,

[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2857957](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2857957).

<sup>46</sup> See 47 U.S.C. § 310(b).

<sup>47</sup> See *Moving Phones P’ship LP v. FCC*, 998 F.2d 1051, 1056 (D.C. Cir. 1993) (applying rational basis review because “[t]he opportunity to own a broadcast or common carrier radio station is hardly a prerequisite to existence in a community”). Other courts have upheld related provisions of the same act that are even *more* restrictive than section 310. See, e.g., *Campos v. FCC*, 650 F.2d 890, 891 (7th Cir. 1981) (upholding against constitutional challenge a Communications Act provision barring even *permanent residents* from holding radio operator licenses).

*14. What if the corporation takes proactive steps to ensure that foreign investors have no influence on corporate decision-making regarding political spending?*

The issue is generally not that foreign investors are directly participating in corporate decision-making regarding political spending. In major corporations, most investors do not participate in day-to-day operational decisions.

Rather, the issue is that corporate executives are fully aware of their major investors, act with a fiduciary duty towards those investors, and tend to avoid taking action that they anticipate will displease those major investors. Among other considerations, major investors have multiple options for influencing corporate governance writ large: they can submit shareholder proxy resolutions; they can attempt to replace directors on the board, and demand a change in management; in publicly traded corporations, they can dump their shares, decreasing the value of executives' stock options; etc. Investors do not need to literally be in the conference room debating specific political expenditures to exert an influence, any more than voters need to be in the conference room during legislative debates to exert an influence on elected officials.

A similar question has repeatedly arisen in the context of the Communications Act, where partly-foreign-owned entities have sought broadcast or common carrier licenses, claiming that they had developed contractual or other internal measures to insulate decision-making from foreign partners or investors. Courts have consistently rejected such challenges.<sup>48</sup>

*15. Does the bill apply to non-profits?*

The bill does not itself impose any direct prohibitions on non-profits. That includes trade associations.

The bill does not apply to a non-profit that receives a contribution directly from a foreign national; that situation is already substantially addressed by federal law.<sup>49</sup> The gap that the bill aims to plug pertains to foreign *investors* in U.S. corporations; there is no directly analogous gap in the law for non-profits.

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<sup>48</sup> See *Cellwave Tel. Servs. LP v. FCC.*, 30 F.3d 1533, 1535 (D.C. Cir. 1994) (rejecting argument that FCC should have granted license to partly-foreign-owned partnership because “the alien partners had insulated themselves by contract from any management role in the partnerships”); *Moving Phones P’ship L.P. v. FCC*, 998 F.2d 1051, 1055-57 (D.C. Cir. 1993) (same).

<sup>49</sup> See 52 U.S.C. § 30121(a)(2).

16. *What about trade associations with members that are foreign-influenced companies?*

Washington HB1885 prohibits a FIC from making contributions to candidates, making independent expenditures for or against candidates, or for making contributions to a committee that has conveyed that contributions to the committee may be used in elections for or against a candidate.

If a trade association establishes or qualifies as a political committee or incidental committee stating that money contributed to it will be used in candidate elections, the law specifically provides that the committee may dedicate any contributions that do *not* satisfy the law for other lawful purposes. For example, a trade association might set aside funds received from businesses that did not submit a statement of certification and use those funds for activities *other than* spending them on candidate elections.

17. *Does the bill apply to labor unions?*

No. The noncitizen, non-permanent resident workers who may be members of U.S. labor unions are qualitatively different from the foreign entities that invest in U.S. corporations. Almost without exception, immigrant workers in U.S. labor unions are physically located in the United States, where they enjoy *most* rights under the U.S. Constitution; activities related to democratic self-government (including political spending) are the exception. By contrast, with rare exceptions, foreign investors in U.S. corporations are physically located abroad.<sup>50</sup> Under the Supreme Court's 2020 decision in *Agency for International Development v. Alliance for Open Society*, foreign entities located abroad have *no rights whatsoever* under the U.S. Constitution.<sup>51</sup> This weaker constitutional status of foreign entities located abroad makes the law more constitutionally defensible when limited to foreign-influenced business entities.

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<sup>50</sup> A major source of foreign national investors who actually reside in the United States is the EB-5 Immigrant Investors Visa Program. Under this program, approximately 10,000 visas per year are issued to foreign investors who invest at least \$500,000 in American businesses. Notably, an EB-5 visa grants “conditional permanent residence.” Since 52 U.S.C. § 3012(b)(2) defines a “foreign national” as someone “who is not lawfully admitted for permanent residence,” an EB-5 investor might not be considered a “foreign national” under 52 U.S.C. § 30121. But, either way, a resident EB-5 investor would presumably not be a foreign national “outside the United States.”

<sup>51</sup> *Agency for Int'l Dev. v. Alliance for Open Society Int'l, Inc.*, 140 S. Ct. 2082, 2086–87 (2020).

*18. What compliance obligations does the bill impose on candidates and committees?*

None. The bill provides that the CEO of any corporation making a contribution to a candidate or political committee must provide a statement of certification that it is *not* a foreign-influenced corporation within seven days after making that contribution. The bill does not impose any obligations or requirements on candidates or committees—only the corporate donors.



## HARVARD LAW SCHOOL

CAMBRIDGE · MASSACHUSETTS · 02138

*John C. Coates IV*

*John F. Cogan, Jr. Professor of Law and  
Economics*

*Phone: 617-496-4420*

*Fax: 617-495-5156*

*jcoates@law.harvard.edu*

January 5, 2024

The Honorable Alex Lee  
California State Capitol  
Sacramento, CA 95814

**RE: Proposed bill AB 83 re: political spending by foreign-influenced corporations**

Dear Honorable Councilmembers,

I am writing to express my support for the proposed bill AB 83 regarding political spending by foreign-influenced corporations in California. The proposal would be a critical tool for uncovering foreign influences in our elections. Unlike many commentators, my background is not in constitutional law. What I may add to this debate is corporate law knowledge – both from study as an academic and perhaps more importantly from extensive practical experience, sketched below. Drawing on that experience, below I explain how investors holding even just one percent of corporate equity can influence corporate governance, and how in corporations could – practically and at reasonable expense – obtain responsive information about the foreign national status of shareholders, as would be required by the law.

### **Background**

I am the John F. Cogan Professor of Law and Economics at Harvard Law School, where I also serve as Special Advisor for Planning, Chair of the Committee on Executive Education and Online Learning, and Research Director of the Center on the Legal Profession. Before joining Harvard, I was a partner at Wachtell, Lipton, Rosen & Katz, specializing in financial institutions and M&A. At HLS and at Harvard Business School, he teaches corporate governance, M&A, finance, and related topics, and I am a Fellow of the American College of Governance Counsel. I have testified before Congress and provided consulting services to the U.S. Department of Justice (DOJ), the

U.S. Department of Treasury, the New York Stock Exchange, and participants in the financial markets, including hedge funds, investment banks, and private equity funds. In 2021 I served as General Counsel and Acting Director of the Division of Corporation Finance of the Securities and Exchange Commission. In June 2016, I testified by invitation at a forum on “Corporate Political Spending and Foreign Influence” at the Federal Election Commission.

### **Foreign corporate spending in American elections**

Since the Supreme Court’s 2010 *Citizens United* decision invalidated restrictions on corporate political spending,<sup>1</sup> the possibility that American elections could be influenced by foreign interests via corporations has attracted considerable public and policymaker interest. Foreign governments, foreign-based companies, and people who are neither U.S. citizens nor permanent residents are currently barred by federal law from contributing or spending money in connection with federal, state, or local elections.<sup>2</sup> Unfortunately, *Citizens United* created a loophole to this ban: these foreign entities can invest money through U.S.-based corporations that can – as a result of the decision – then spend unlimited amounts of money in American elections.

The policy interest in regulating foreign influence need not rest on the idea that foreign investors are tied to hostile governments that are actively trying to undermine the democracy or economy of the United States, although there is now evidence that Russia sought to do just that in the last presidential election, and is expected to try to do so again in future elections. In addition, it may separately rest on the observation that foreign nationals (even those in countries that are staunch U.S. allies) are simply not part of the U.S. polity. Democratic self-governance presumes a coherent and defined population to engage in that activity. Foreign nationals have a different set of interests than their U.S. counterparts, as regards a range of policies, such as defense, environmental regulation, and infrastructure. Few dispute the idea that a given government may properly seek to limit foreign influence over, in the words of the U.S. Supreme Court, “activities ‘intimately related to the process of democratic self-government.’”<sup>3</sup> There is nothing particularly surprising or pernicious about this fact. Foreign and domestic interests predictably diverge.

Depending on the degree of their influence, foreign governments (or their

<sup>1</sup> *Citizens United v. FEC*, 558 U.S. 310 (2010).

<sup>2</sup> 52 U.S.C. § 30121(a). This prohibition was upheld by a unanimous U.S. Supreme Court in 2012. *See Bluman v. FEC*, 132 S. Ct. 1087 (2012).

<sup>3</sup> *Bluman v. FEC*, 800 F. Supp. 2d 281, 287 (D.D.C. 2011)(quoting *Bernal v. Fainter*, 467 U.S. 216, 220 (1984)), *aff’d*, 132 S.Ct. 1087 (2012).

agents, such as sovereign wealth funds), foreign corporations, or other foreign investors might be able to leverage ownership stakes in U.S. corporations to affect corporate governance. Through that channel, they could influence corporate political activity in a manner inconsistent with democratic self-government, or at least out of alignment with the interests of U.S. voters.

Every country regulates some types of foreign and domestic business activities differently. In many domains of the American economy, long-standing statutes, regulations, and legal traditions treat foreign companies or foreign-influenced companies differently than domestic companies. The United States has specific foreign restrictions across a number of different industries. In shipping, aircraft, telecom, and financial services, laws governing all of these industries limit or regulate foreign ownership or control. Some ban foreign ownership completely, and, for some, foreign ownership or control triggers special government approval procedures.

The same spirit of those bodies of law should inform regulation of election spending by foreign-influenced corporations. Since *Citizens United* opened the door for political activity by corporations, some corporations of which ownership or control is likely held in significant part by foreign entities have devoted considerable financial resources to influencing American elections.

In practice, the policy preferences of foreign-influenced corporations are sometimes clear from public sources. In May 2016, Uber and Lyft spent over \$9 million on a ballot initiative in Austin, Texas that would have overturned an ordinance passed by the Austin City Council requiring the companies' drivers to submit to fingerprint-based criminal background checks.<sup>4</sup> Weeks later, Uber disclosed that the Saudi Arabian government had invested \$3.5 billion in the company, giving the Kingdom over five percent ownership and a seat on its board of directors.<sup>5</sup> Also in 2016, the multinational "homestay" corporation Airbnb responded to the New York Legislature's growing interest in regulating the industry by arming a super PAC with \$11 million to influence New York's legislative races.<sup>6</sup> Airbnb – a privately held company – is partly owned by Moscow-based DST Global.<sup>7</sup>

<sup>4</sup>Nolan Hicks, "Prop 1 campaign crosses \$9 million threshold," AUSTIN-AMERICAN STATESMAN, May 9, 2016, <http://atxne.ws/29pbFBk>.

<sup>5</sup> See Elliot Hannon, “Saudi Arabia Makes Record \$3.5 Billion Investment in Uber,” SLATE, June 1, 2016, <http://slate.me/1UvvM3x>. Uber also spent roughly \$600,000 on a 2015 voter referendum in Seattle. See Karen Weise, “This is How Uber Takes Over a City,” BLOOMBERG, June 23, 2015, <http://bloom.bg/1Ln2MaN>.

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In another striking example, APIC, a San Francisco-based company described as “controlled” and “100 percent owned” by Gordon Tang and Huaidan Chen -- two Chinese citizens with permanent residence in Singapore -- gave \$1.3 million to a super PAC that had supported Jeb Bush’s run for president.<sup>8</sup> Though the story made headlines, it echoes similar, yet less publicized, efforts to influence high-profile state and national races. For example, in 2012, a Connecticut-based subsidiary of a Canadian insurance and investment corporation gave \$1 million to the pro-Mitt Romney super PAC Restore Our Future.<sup>9</sup> In 2013, a New Jersey-based subsidiary of a Chinese-owned business contributed \$120,000 directly to Terry McAuliffe’s gubernatorial campaign in Virginia.<sup>10</sup>

<sup>6</sup> Kenneth Lovett, “Airbnb to spend \$10 on Super PAC to fund pre-Election day ads,” N.Y. DAILY NEWS, Oct. 11, 2016, <http://www.nydailynews.com/news/politics/airbnb-spend-10m-super-pac-fund-pre-election-day-ads-article-1.2825469>.

<sup>7</sup> See Dan Primack, “Yuri Milner adds \$1.7 billion to his VC war chest,” FORTUNE, Aug. 3, 2015, <http://fortune.com/2015/08/03/yuri-milner-adds-1-7-billion-to-his-vc-warchest/> (DST Global is Moscow based); Scott Austin, “Airbnb: From Y Combinator to \$112M Funding in Three Years,” The Wall Street Journal, July 25, 2011, <http://blogs.wsj.com/venturecapital/2011/07/25/airbnb-from-y-combinator-to-112m-funding-in-three-years/> (DST Global is a major investor in Airbnb).

<sup>8</sup> Jon Schwartz & Lee Fang, “The Citizens United Playbook,” THE INTERCEPT, Aug. 3, 2016, <http://bit.ly/2auW75p>.

<sup>9</sup> Michael Beckel, “Foreign-Owned Firm Gives \$1 Million to Romney Super-PAC,” MOTHER JONES, Oct. 5, 2012, <http://www.motherjones.com/politics/2012/10/canadian-foreign-donation-super-pac-restore-our-future>.

<sup>10</sup> John Schwartz, “Va. Gov. Terry McAuliffe Took \$120K from a Chinese Billionaire—but the Crime Is That It Was Legal,” THE INTERCEPT, June 1, 2016, <http://bit.ly/1XPvuXN>.



Ballot initiatives have been particularly strong magnets for spending by multinational corporations. American Electric Power, Limited Brands, and Nationwide Insurance spent a combined \$275,000 against a municipal initiative aimed at reconfiguring the Columbus City Council.<sup>11</sup> In 2012, a Los Angeles County ballot measure, the “Safer Sex in the Adult Film Industry Act,” attracted over \$325,000 from two companies tied to a Luxembourg corporation that ran adult webpages.<sup>12</sup> The company’s then-CEO was a German national.<sup>13</sup> That same year, a statewide ballot initiative in California that would have required all foods containing genetically modified organisms to be labeled as such attracted \$45 million in spending by multinationals such as Monsanto and DuPont.<sup>14</sup> Opponents of the measure spent five times more than its supporters, and ultimately defeated it by a 53-47 margin.<sup>15</sup>

Of course, not all politically active corporations are owned or controlled in significant part by foreign entities. Many privately held companies are owned directly by one or a small number of U.S. citizens. Among U.S. public companies, foreign ownership varies. I have carefully researched foreign ownership of large U.S. companies (see the short paper attached as an appendix to this letter) finding that, among publicly traded corporations in the Standard & Poor’s (S&P) 500 index, one in eleven (~9 percent) has a foreign institutional investor with more than five percent of the company’s voting shares. (Five percent was chosen for the study because it is the threshold at which federal securities law requires public disclosure of large stockholdings of US public companies.<sup>16</sup>)

<sup>11</sup> Lucas Sullivan, “Follow the money flowing to ward initiative campaigns in Columbus,” THE COLUMBUS DISPATCH, July 22, 2016, <http://bit.ly/2ahlSpq>.

<sup>12</sup> See Ciara Torres-Spelliscy, “How a Foreign Pornographer Tried to Win a U.S. Election,” THE BRENNAN CENTER FOR JUSTICE, Nov. 6, 2015, <http://bit.ly/29pesu2>.

<sup>13</sup> *Id.*

<sup>14</sup> Suzanne Goldenberg, “Prop 37: food companies spend \$45m to defeat California GM label bill,” THE GUARDIAN, Nov. 5, 2012, <http://bit.ly/29I3SE7>.

<sup>15</sup> *Id.*

But other corporations may have foreign ownership at substantial levels that would make unaffiliated foreign investors capable of exerting influence on the corporate political spending, even at levels below five percent of total stock. One such method is by presenting proposals for a vote by the shareholders. Any investor who can present a shareholder proposal (either alone, or by working with a group of other investors) has substantial leverage. Indeed, in recent proxy seasons, the New York City Pension Fund, despite owning less than one percent of outstanding shares in the target companies, led successful shareholder proposal campaigns regarding proxy access.<sup>17</sup> Furthermore, this type of influence is not limited to actually presenting shareholder proposals; the ability to do so creates indirect means of influence, such as *threatening* a shareholder proposal, and it means that, in many cases, an investor at that level can get upper management, including the CEO, on the phone.

Until September 2020, under a federal law known as Rule 14a-8, the threshold for presenting a shareholder proposal at a publicly-traded company was owning either 1% of voting shares or \$2,000 in market value.<sup>18</sup> In the years prior to its amendment, political debate about how to revise the law centered around the question of whether raise or eliminate the \$2,000 qualification or whether to *lower* the ownership requirements. Virtually *no one* questioned that owning *at least* 1% of voting shares should continue to qualify an investor for this method of influence. Rather, the debate concerned whether that threshold is too *high*,

<sup>16</sup> Under Section 13(d) of the Securities Exchange Act of 1934 (as amended by the Williams Act), any person or group of persons who acquire beneficial ownership of more than five percent of the voting class of the equity of a corporation that is listed or otherwise required to register as a “public” company under that law, must, within ten days, report that acquisition to the Securities and Exchange Commission (SEC) via Schedule 13D (or, in some cases, Schedule 13G). *See* 15 U.S.C. § 78m(d); 17 C.F.R. §§ 240.13d-1, 240.13d-101.

<sup>17</sup> See Paula Loop, “The Changing Face of Shareholder Activism,” Harvard Law School Forum on Corporate Governance and Financial Regulation, Feb. 1, 2018, <https://corpgov.law.harvard.edu/2018/02/01/the-changing-face-of-shareholder-activism/>.

<sup>18</sup> 17 C.F.R. 240.14a-8(b) (2019), *available at* <https://www.govinfo.gov/app/collection/cfr/2019/>.

and whether investors who own *less than 1%* should be able to present shareholder proposals.

For example, one of the first bills proposed in 2017 in the U.S. House of Representatives was the Financial CHOICE Act of 2017, which proposed to eliminate the \$2,000 market value threshold, but retain the 1% ownership threshold.<sup>19</sup> In committee markup debate over the CHOICE Act, then-Rep. Jeb Hensarling (R-Tex.) explained that “we have something fairly reasonable and that is, you know, if you are going to put forward these proposals, have some real significant skin in the game. And what we say is 1 percent. One percent to put forward a shareholder proposal.”<sup>20</sup>

Indeed, as part of those same political discussions, the Business Roundtable, a group of chief executive officers of major U.S. corporations formed to promote pro-business public policy, proposed a threshold *below* 1% for shareholder proposals:

For proposals related to topics other than director elections, a truly reasonable standard could be to use a sliding scale based on the market capitalization of the company, with a required ownership percentage of

**0.15 percent for proposals submitted to the largest companies and up to 1 percent for proposals submitted to smaller companies.**

Additionally, if a proposal were submitted by a group or by a proponent acting by proxy, the ownership percentage sliding scale could be increased to up to 3 percent.<sup>21</sup>

In other words, the Business Roundtable recognized that investors can *and should* have significant influence over corporate decision-making at ownership levels between 0.15% to 1%, or 3% for groups of investors.

<sup>19</sup> See Financial CHOICE Act of 2017, H.R. 10 (115th Cong.), § 844.  
<https://www.congress.gov/bill/115th-congress/house-bill/10/>.

<sup>20</sup> House Financial Services Committee, remarks of Rep. Jeb Hensarling, May 3, 2017.

<sup>21</sup> Business Roundtable, “Responsible Shareholder Engagement & Long-Term Value Creation,”  
<https://www.businessroundtable.org/archive/resources/responsible-shareholder-engagement-long-term-value-creation> (emphasis added).

In December 2019, the federal Securities and Exchange Commission formally proposed to revise Rule 14a-8 to not just lower but *eliminate* the 1% threshold for presenting shareholder proposals.<sup>22</sup> The SEC adopted the revised rule in September 2020.<sup>23</sup> As the SEC explained:

We also propose to eliminate the current 1 percent ownership threshold, which historically has not been utilized. *The vast majority of investors that submit shareholder proposals do not meet a 1 percent ownership threshold.* In addition, we understand that *the types of investors that hold 1 percent or more of a company's shares generally do not use Rule 14a-8 as a tool for communicating with boards and management.*<sup>24</sup>

In support of these points, the SEC cited statements from some of the world's largest and most influential pension fund investors, including the California State Teachers' Retirement System and the New York City Comptroller—both of which have led successful shareholder campaigns and are considered quite influential in corporate governance—that “[w]hile one percent may sound like a small amount, even a large investor like the \$200 billion CalSTRS fund does not own one percent of publicly traded companies,” and “[d]espite being among the largest pension investors in the world, [New York City funds] rarely hold more than 0.5% of any individual company, and most often hold less.”<sup>25</sup> In other words, for a publicly-traded corporation, one percent is in fact a very large ownership stake, and some of the largest and most influential-in-governance investors rarely if ever hold that much.

By the same token, the SEC cited an observation from its 2018 “Roundtable on the Proxy Process”<sup>26</sup> with which few of those with experience in corporate governance would disagree:

Large institutional investors—the Blackrocks and State Streets and Vanguards of the world—do not need the shareholder proposal rule process to get the attention of management or the board of directors.

<sup>22</sup> See SEC, *Procedural Requirements and Resubmission Thresholds under Exchange Act Rule 14a-8*, 84 Fed. Reg. 66,458 (Dec. 4, 2019). The SEC's proposed rule would also modify the absolute-dollar-value thresholds, which are not relevant here.

<sup>23</sup> 17 C.F.R. 240.14a-8(b).

<sup>24</sup> *Id.* at 66,646 (emphasis added).

<sup>25</sup> *Id.* n.58.

<sup>26</sup> I was a panelist at this roundtable.

There's not a corporate secretary or investor relations department in the country that would not return their call within 24 hours.<sup>27</sup>

The point here is not that foreign investors will use the shareholder proposal process to influence corporate political spending. Rather, the point is that the SEC itself recognizes that one percent ownership is large enough that investors

with that level of ownership don't even need that process; they typically can easily get executive-suite management on the phone, and through that direct "engagement" have an influence on corporate managers, strategy, and decision-making.

Whatever happens with the SEC rulemaking, California can rely on the general agreement among major capital investors, corporate management, and governance experts that one percent ownership confers substantial influence over corporate governance.

### **Regulating foreign corporate spending**

California can simultaneously welcome foreign investment without exposing itself to the risk of foreign money influencing its elections. The proposed law addresses this issue through a requirement that prohibits a corporation from spending certain types of money in city elections if it is a "foreign-influenced corporation" – a definition based, in part, on the extent of foreign ownership of corporate stock.<sup>28</sup> The proposed bill is a reasonable response to an increasingly localized problem, and is constitutional under the Court's decision in *Citizens United*. The remainder of this letter details how this certification requirement could operate.

### **The mechanics of the bill's foreign-influenced-corporation requirements**

#### 1. Ownership of corporate stock

To begin, as a general matter, corporate stock may be "owned" in three different forms. First, many companies that have one or a relatively small

<sup>27</sup> SEC, *Transcript of the Roundtable on the Proxy Process* (Nov. 15, 2018), available at <https://www.sec.gov/files/proxy-round-table-transcript-111518.pdf>, at 150 (comments of Brandon Rees, Deputy Director of Corporations & Capital Markets, AFL-CIO).

<sup>28</sup> The types of prohibited spending for foreign-influenced corporations are independent expenditures or contributions to independent expenditure PACs (often called super PACs). Other forms of corporate political activity, such as lobbying or operating a corporate PAC, are not restricted.

number of shareholders hold paper stock certificates. Among larger, stock exchange listed companies, with numerous owners, such direct ownership is rare, and increasingly so. At such companies, shares are more commonly held in "street name" through a broker (e.g., Fidelity or Charles Schwab). In these instances, the name on the stock certificate is actually the broker, but the broker keeps track in a database of how many shares belong to each client.

Clients who hold shares in street name are “beneficial owners” under SEC rules, can direct brokers how to vote or sell shares, and can participate in corporate governance.

Most shares of large, listed companies, however, are now held by separate legal entities, such as mutual funds, pension funds, insurance companies, and hedge funds. As an economic matter, these entities hold stock on behalf of their clients or beneficiaries. However, as a legal matter, the investment entities themselves are the owners of the stock, and they do not pass through to beneficiaries either the right to vote or the right to sell the shares of the stock that the entity purchases. Individuals whose wealth is invested through these types of institutional investments cannot exercise voting rights associated with the shares. Instead, those rights are exercised by the management of the institutions.

## 2. Determining shareholders

Most corporate stock is not traded on public markets. As of 2012, more than five million corporations filed U.S. income tax returns. Only about 4,000 corporations were listed on a U.S. stock exchange – less than 0.1 percent of corporations that filed tax returns. Of the rest, many are owned by a single shareholder, or are beneficially owned by up to 500 individual owners. (SEC rules generally require public registration and disclosure for companies with more than 500 owners and \$10 million in assets.) Companies without public markets are still large and have substantial numbers of shareholders. Examples include Cargill, with revenues exceeding \$130 billion and over 200 shareholders, and Mars, with revenues exceeding \$33 billion and over 45 shareholders. Because shares of such companies do not trade freely in the public markets, such companies generally can and do track the identity of their shareholders directly.

For corporations listed on public markets, shares trade in significant volume—thousands of shares per day. Since public company shareholders change daily, even hourly, perfect real-time knowledge of the extent of foreign ownership or influence is not possible. However, publicly traded corporations have the ability to ascertain the exact ownership of their shares as of any arbitrary “record

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date.” In fact, this happens at least annually, because companies are required by corporate law to have annual shareholder meetings, for which they must set a record date to determine which shareholders are eligible to attend and vote at the meeting. In fact, record dates are set and shareholder lists are created more frequently than that at many public companies, to allow for votes on off-cycle events, such as a merger proposal or charter amendments, which are brought to a vote at special meetings, or to determine recipients of dividends.

Furthermore, at any point during the year, a qualifying shareholder can demand a shareholder list to solicit proxies, or a third party may demand a list to make a tender offer for shares.

Consequently, the ability to determine record stock ownership as of a given date is essential to the basic governance of corporations.

Few if any publicly traded corporations engage in the process of determining their record shareholders for a given record date themselves. They use an intermediary – most commonly, American Stock Transfer (AST) – that is dedicated to this function. Under state law, shareholders seeking to file a derivative suit or solicit shareholder support for a shareholder resolution or proxy contest can also obtain the list of shares using the same method. A corporation that needs the list of shareholders as of a specific date would engage AST to produce the list of shareholders as of that date. Under SEC rules, public companies also reach out beyond their record holders to the beneficial owners of broker- or bank-owned stock, and engage AST to contact banks, brokers or other intermediaries that are nominally record owners. Those firms, in turn, provide information about non-objecting beneficial owners to AST, which then compiles it and provides it to the corporation. Typically, banks, brokers and other intermediaries provide AST (and the corporation) with non-objecting client names, addresses, shares held, and purchase dates (which could be multiple blocks if a given shareholder bought multiple blocks of shares over time).

In addition to these basic corporate and securities law mechanisms, Section 13 of the federal Securities Exchange Act of 1934 requires any person or group of persons who acquire beneficial ownership of more than five percent of the voting class of a listed corporation's equity to within ten days report that acquisition to the SEC on a Schedule 13D (or, in some cases, Schedule 13G).<sup>29</sup>

<sup>29</sup> See 15 U.S.C. § 78m(d); 17 C.F.R. §§ 240.13d-1, 240.13d-101.

These acquisitions are, in turn, made public by the SEC, and available through the SEC's EDGAR online database.

### 3. Determining whether shareholders are “foreign owners”

The bill requires a corporation that plans to engage in political spending to ascertain whether it meets the threshold of “foreign-influenced corporation.” As just described above, acquisitions of five percent or more of the stock of public U.S. companies must already be disclosed under SEC rules, including the identity of the purchaser's citizenship.<sup>30</sup> Thus, the information is already

publicly available (and readily available on commonly used search web sites such as Yahoo Finance or MSN Finance) for five percent blockholders of public companies. For ownership at lower thresholds,<sup>31</sup> the information is not always publicly available, but can be ascertained. Outside of the blockholder context, for most purposes, corporations typically do not inquire into the citizenship or permanent residency status of shareholders. Many brokerage firms impose restrictions on non-citizens, or specifically limit their customers to citizens or permanent residents. A 2012 sampling of major brokers by financial markets reporter Matt Krantz found divergence in practices:

For instance, at Fidelity, the company says only U.S. citizens may open an account. . . . Over at TD Ameritrade, investors do not need to be a U.S. citizen to open an account. With that said, the stipulations and requirements vary dramatically based on the country the resident lives in and the potential customers' nationality, the company says. . . . Similarly at E-Trade, the brokerage has different rules based on the country. . . . The rules vary widely based on the nationality of the person wanting the account . . . . TradeKing requires investors, including U.S. citizens, to be U.S. residents to establish the account. It makes an exception for customers who are living abroad and have a valid U.S. military or government address. Investors who are not U.S. citizens, yet

<sup>30</sup> See 17 C.F.R. § 240.13d-101 (item #6, requiring reporting of "Citizenship or place of organization").

<sup>31</sup> Obviously, if a corporation determines from publicly available information that it has a 5% foreign owner, then it already meets the definition of foreign-influenced corporation and the inquiry is over; there is no need to *further* ascertain whether it *also* has additional foreign owners at lower ownership levels.

reside legally in the U.S., may open an account if they have a Social Security number and aren't from 27 specific [prohibited] countries . . . .<sup>32</sup>

The process of ascertaining the foreign owner status of shareholders would be simple in many cases. If a publicly traded corporation asks American Stock Transfer to produce its list of shareholders (or just those shareholders who are foreign nationals), and AST in turn asks Fidelity, Fidelity's citizens-only customer policy would enable it to truthfully and simply answer that zero percent of the company's shares held through Fidelity are held by foreign nationals.



Similarly, where stock is held by a non-human shareholder, such as another corporation, the “foreign” status of that corporation can be ascertained readily by examining its place of incorporation and principal place of business.

The proposed law counts stock owned by domestic subsidiaries of foreign parent corporations the same as stock owned by foreign corporations. (In the terms of the law, either would be defined as a “foreign owner.”) To the extent that a U.S. subsidiary of a foreign corporation has the potential to influence U.S. portfolio companies in which it invests, it has the potential to do so at the foreign parent’s bidding or with the foreign parent’s approval.

However, the law does *not* require “piercing” through the beneficial ownership of institutional entities such as mutual funds. For the bill’s purpose, corporate stock owned by a mutual fund is not corporate stock held by a foreign national, even if many of the mutual fund’s customers are themselves foreign nationals, as long as the advisor to the fund is a U.S. entity (a fact that can be readily determined with public information). This is a reasonable approach, because customers of mutual funds cannot themselves directly participate in governance of the corporation actually spending money in a city election. Instead, it is the management of the advisory firm that plays that role.

#### 4. “Due inquiry”

Importantly, the law addresses any remaining possible difficulties that U.S. corporations might have in certifying as to whether they are foreign-influenced. As noted above, some brokerage firms allow foreign investors to buy stock of U.S. companies through them, and they may not report citizenship information

<sup>32</sup> Matt Krantz, USA TODAY, “U.S. online brokerage options are limited for foreigners,” <http://usat.ly/KXpDan> (May 16, 2012).

about such customers to the corporations in which they invest. Thus, it may not be possible for every corporation to verify the U.S. or foreign national status of all of its shareholders with complete confidence. (Note, however, that the law does not actually require a corporation to verify *all* of its shareholders’ statuses: Given the 5 percent, “aggregate” threshold, verifying that just over 95 percent of shareholders are not foreign owners would be sufficient.)

However, given this possibility, it is reasonable for the proposed law to impose a certification requirement that specifies that the chief executive officer of the corporation certify that the information is provided after “due inquiry.” The “due inquiry” standard is familiar from securities law,<sup>33</sup> as well as from other areas of law with which corporate executives are acquainted.<sup>34</sup> It imposes only the customary obligation to make such reasonable inquiry as the corporation

would do in any event. Thus, the law does not impose a meaningful additional information-gathering cost beyond what it would already be required to do under existing law.

### **Conclusion**

The law is a reasonable solution to the risk of foreign influence in local elections through corporate political spending. The law is constitutional under *Citizens United*, and reasonable from a corporate and securities law perspective. The law would only apply to corporations that spend money on independent expenditures or make contributions to candidates or “super PACs” in candidate elections. The law imposes no obligations on corporations that do not spend money on candidate elections. For those corporations that do engage in such spending, the requirement that corporations certify that they are not foreign-influenced is practicable and reasonable for both privately and publicly traded corporations, conditioned as it is on corporations engaging in

<sup>33</sup> See, e.g., 17 C.F.R. § 275.206(4)-2(a)(3).

<sup>34</sup> See, e.g., *SRI Int’l, Inc. v. Advanced Tech. Labs., Inc.*, 127 F.3d 1462, 1464–65 (Fed. Cir. 1997) (in patent law, standard for whether infringement was “willful” is “whether the infringer, acting in good faith and upon due inquiry, had sound reason to believe that it had the right to act in the manner that was found to be infringing”); *Black Diamond Sportswear, Inc. v. Black Diamond Equip., Ltd.*, No. 06- 3508-CV, 2007 WL 2914452, at \*3 (2d Cir. Oct. 5, 2007) (“A trademark owner is “chargeable with such knowledge as he might have obtained upon [due] inquiry.”) (quoting *Polaroid Corp. v. Polarad Electronics Corp.*, 182 F. Supp. 350, 355 (E.D.N.Y. 1960)) (alteration in original).

“due inquiry,” a standard that will not add material costs to the information-gathering and record-keeping in which corporations already engage.

If you have any further questions, please let me know.

Sincerely,



John C. Coates IV  
*John F. Cogan, Jr. Professor of Law and Economics*  
Harvard Law School