CENTER FOR CAPITAL MARKETS
COMPETITIVENESS

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The Honorable Carolyn Maloney
Chair
Subcommittee on Investor
Protection, Entrepreneurship,
and Capital Markets
U.S. House of Representatives
Washington, DC 20515

The Honorable Bill Huizenga
Ranking Member
Subcommittee on Investor
Protection, Entrepreneurship,
and Capital Markets
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Maloney and Ranking Member Huizenga:

The U.S. Chamber of Commerce writes regarding the hearing planned for October 17, 2019 titled "Examining Corporate Priorities: The Impact of Stock Buybacks on Workers, Communities, and Investment." As Congress examines the use of stock buybacks by public companies, we strongly oppose legislation that would unnecessarily restrict the use of stock buybacks. Additionally, the Chamber opposes proposed legislation that would mandate board composition requirements.

We believe that companies should be empowered to decide on how best to deploy and invest profits, including whether to reinvest back into the company. Contrary to assertion by critics of stock buybacks, data indicate that buybacks do not displace business investment. In fact, S&P 500 firms have increased their research and development and capital expenditures as a percentage of revenue over recent years, and R&D spending is at a record high.[1] Additionally, following the 2017 tax reform, companies have increased hiring, given employees bonuses and raised, and increased. or expanded employee benefits.

Critics also contend that stock buybacks primarily benefit company executives. However, in 2018 companies whose executives' compensation depended directly on earnings per share (EPS) did not allocate a greater proportion of cash spending to buybacks than executives whose pay was not linked to EPS.[2] In addition, 50% of Americans invest in the stock market,

[1] https://taxfoundation.org/economics-stock-buybacks/?utm_source=Corporate&utm_campaign=2c6c9faa58-EMAIL_CAMPAIGN_2018_08_16_01_36_COPY_01&utm_medium=email&utm_term=0_94e6588ff2-2c6c9faa58-429053753&mc_cid=2c6c9faa58&mc_eid=70da02528d

[2] https://www.goldmansachs.com/insights/pages/top-of-mind/buyback-realities/report.pdf

and $4 out of every $10 invested in the stock market are held in retirement funds.[3] Stock buybacks, like dividends, are a common way to distribute earnings to these investors.

Finally, proposals to restrict stock buybacks would only encourage companies to hold on to excess balances that would otherwise be put to more productive use. S&P 500 firms account for less than 50% of business profits and less than 20% of employment.[4] Capital that flows to shareholders of these companies is reinvested in innovative public and private companies of all sizes, including small businesses.

In addition, the Chamber opposes legislation that would impose composition requirements for corporate boards and would further disincentivize companies from going public. Such new bureaucratic standards could hinder the efforts of companies to properly prepare boards to implement long-term strategies, and make it more difficult for boards to identify and react to risks and changing market conditions. Moreover, board standards are already set by various state incorporation laws.

We thank you for considering our feedback and look forward to working with the Committee on these issues.

Sincerely,

Tom Quaadman

cc: Committee on Financial Services

[3] http://www.taxhistory.org/www/features.nsf/Articles/ECCBAE00C0F4686785257FB500405811?OpenDocument

[4] https://hbr.org/2018/03/are-buybacks-really-shortchanging-investment