

Issue Paper

FACEBOOK | OUR DECISION TO EXCLUDE THE COMPANY FROM OUR FUNDS



Every company in a Domini portfolio is subject to continuous review to ensure it continues to meet our social, environmental and governance standards for investment. In the wake of revelations about the unauthorized disclosure of some 80 million Facebook users' data to Cambridge Analytica to produce political advertisements for the 2016 presidential election, our Impact Review Committee took another look at Facebook and chose to exclude the company from our portfolios. We followed that decision with a letter to Mark Zuckerberg, explaining our rationale and suggesting several "first steps" the company should take to restore trust.

We have noted a range of concerns about Facebook for some time. This time, however, was different. We made this decision in response to what we believe to be a crisis of governance and accountability at Facebook, with significant societal ramifications. In applying our standards, we seek to understand the key sustainability challenges each company faces, within the context of its business model. Facebook presents significant challenges to that assessment, as it virtually stands alone in terms of the nature of its global reach.

The announced departure of the company's Chief Information Security Officer, Alex Stamos, along with reports of an internal dispute regarding disclosure of Russian trolls, was particularly telling for us. According to The New York Times, Mr. Stamos' requests for greater access to senior management were reportedly denied, and his role diminished. It became clear to us that this was a governance crisis.

Although Facebook has been presented with a number of unprecedented challenges in recent years, we view Facebook's latest crisis as a crisis of its own making. Much attention has been paid to the fact that Facebook is free, placing advertising at the center of its business model. We do not view the company's business model as inherently problematic.

The problem, we believe, lies in a governance structure and decision-making framework that is inadequate to provide appropriate checks on the strong incentives to monetize user data that are created by that model. Facebook's problems, we believe, are founded on a lack of sufficient attention to consumer privacy and data security, compounded by inadequate governance to ensure independent and effective oversight of decision-making, particularly when consumer privacy concerns, or the public interest more generally, may initially appear to present obstacles to growth.

In addition to endorsing a set of governance recommendations made by the New York City Comptroller's Office, including the separation of Chair and CEO, our recommendations include public disclosure of the annual independent privacy audits required by the FTC's 2011 Consent Decree, and a suggestion to take up the recommendations of the Ranking Digital Rights project, a respected independent organization that ranks ICT sector companies on a set of free expression and privacy indicators. RDR found that Facebook disclosed less information about options for users to control what is collected about them, and how it is used, than any other company in its 2018 Index of 22 companies, including Chinese and Russian companies.

Domini is a founder of the Global Network Initiative (GNI), a multi-stakeholder organization focused on addressing threats to freedom of expression and privacy presented by government requests to Internet and telecommunications companies that interfere with these fundamental rights. Domini serves on the GNI board with Facebook and other ICT sector companies. Our decision to exclude Facebook from our portfolios was not connected to Facebook's obligations under the GNI, which relate to a different set of human rights threats. Facebook continues to be in compliance with the GNI principles.

Through the GNI network, we have opened dialogue with Facebook on these issues and, despite our decision to exclude Facebook from our portfolios, hope to pursue these discussions, along with other concerned investors.

Facebook has taken some hopeful steps in recent weeks to begin to address this crisis. We hope that, in time, the company will reform its governance and decision-making practices to the point where it will once again be eligible for inclusion in our portfolios.



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We apply social, environmental, and governance standards to all our investments, believing they help identify opportunities to provide strong financial rewards to our fund shareholders while also helping to create a more just and sustainable economic system.

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