

Meta-Risk:

AN INVESTOR BRIEFING ON META'S
RISKY BUSINESS





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Key issues for investors



Threats to advertising revenue from far-reaching regulations addressing privacy and harmful online content in Europe as well as antitrust regulation and legal actions.



Threat to social license and user numbers from disseminating harmful extreme content impacting human rights and privacy issues.



Increasing concern over the costs of the metaverse.



Centralization of power in Mark Zuckerberg a central factor in company's inadequate response to controversies.



Inadequate transparency of the board of directors and Audit and Risk Oversight Committee's oversight of these issues.

1 INTRODUCTION

Warnings about Meta's over-reliance on advertising revenue and the vulnerability of that strategy to privacy, antitrust, and harmful content concerns; a problematic governance structure that bestows complete control on one individual; and the prudence of pinning the company's future on that individual's apparent fixation with the metaverse project proved prescient in 2022. Combined with a worsening macroeconomic climate, they all contributed to a "challenging year" for Meta¹ with declining advertising revenues, investors and analysts questioning the spiraling expenditure on the metaverse, the departure of key senior personnel, the announcement of over 21000 job cuts and a hiring freeze for 5,000 posted openings, and the share price at one point falling over 60%.² In a sign of how expectations of its performance have fallen, Meta's share price experienced a bump in February when year end results proved less disappointing than feared and the company pledged hefty share buybacks and a 'year of efficiency' in 2023.³

Yet Meta has not adequately addressed the various governance, strategic, and social issues consistently raised by shareholders that present ongoing grave

threats to company performance. A 2022 resolution calling for an independent assessment of the Audit and Risk Oversight Committee's performance received the support of 35% of independent shareholders and of GlassLewis on its first filing but was not acted upon by the company. The stream of harmful revelations and fines has continued and Meta's core business model faces growing threats from regulation, legal actions, and increasing privacy restrictions. Two far reaching laws to curb major technology companies, including Meta, will come into effect in the EU in 2023 and 2024, while the company is still facing multiple legal actions from several US state attorneys general as well as US and EU regulatory investigations over anti-competitive practices and consumer privacy violations. All could result in potentially very significant commercial consequences for Meta's major revenue stream: digital advertising. In this context, there are concerns that a lack of rigorous risk oversight and culture at the company will ultimately result in further damage to shareholder value.

In this briefing, we describe the swiftly changing regulatory landscape which threatens Meta's advertising revenue, the company's ongoing failure to deal with harmful content on its platforms creating risks for its social license, and the increasing skepticism about the metaverse.

¹ McCormick, E. "Meta earnings drop by less than expected with boost from Reels". The Guardian. February 2 2023. <https://www.theguardian.com/technology/2023/feb/01/meta-q4-earnings-report-reels-facebook-instagram>
² Dhawan, S. "Meta stock value plunges 65% in 2022, the biggest drop among the big five tech giants". Financial Express. December 20 2022. <https://www.financialexpress.com/investing-abroad/featured-stories/meta-stock-value-plunges-65-in-2022-the-biggest-drop-among-the-big-five-tech-giants/2919629/>
³ McCormick, E. "Meta earnings drop by less than expected with boost from Reels". The Guardian. February 2 2023. <https://www.theguardian.com/technology/2023/feb/01/meta-q4-earnings-report-reels-facebook-instagram>

A resolution has been filed for Meta's 2023 annual shareholder meeting by the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) co-filing with Harrington Investments and Ekō (formerly SumOfUs) members calling for an independent assessment of the Audit and Risk Oversight Committee's capacities and performance in overseeing company risks to public safety and the public interest and in supporting strategic risk oversight on these issues by the full board.

Ekō members have also filed a resolution asking for a nonpartisan assessment of allegations of political entanglement and content management biases in its operations in India – Meta's largest market – focusing on the manner in which the platform has been utilized to foment ethnic and religious conflict and hatred.⁴ Shareholders should support both of these resolutions.

2 THREATS TO ADVERTISING REVENUE

Advertising is Meta's main source of revenue. In June 2022 Meta reported its first ever year over year decline in advertising and that trend continued throughout the year. 2022 marked the first year since 2014 that Google and Meta's advertising market share dropped below 50%, standing at 48.4%. By the end of 2023, that number is expected to drop to 44.9%.⁵ In Q4 2022, Meta's advertising business accounted for \$31.2 billion in revenue of its \$32.1 billion revenue representing a year over year fall of \$1.4bn.⁶ Meta pointed to overall weak

advertising demand driven by the wider economic situation. While advertisers are spending less money in general, Meta "has been hit particularly hard by a steady stream of economic challenges."⁷

Meta's advertising business is under increasing pressure from social media rivals such as TikTok and BeReal as well as Google and Amazon. In 2022 TikTok saw close to a 50% increase in users year-on-year.⁸ At the same time Facebook lost daily users for the first time in its 18-year history, though user growth later recovered.⁹ According to commentators "The Wall Street problem for Facebook is that it's no longer a growth story."¹⁰ Meta suffered the defection of advertisers during the 2022 holiday season to Amazon.¹¹ In an attempt to diversify revenue Meta recently launched a subscription service – Meta Verified. Commentators have questioned whether many people will sign up for this service noting that a similar move by Twitter has not been very successful.¹²

Privacy concerns impacting advertising revenue

Meta faces continuing controversies over its protection of user privacy and data harvesting. The Federal Trade Commission's (FTC) record \$5 billion fine, a result of the Cambridge Analytica scandal,¹³ is not the only privacy based monetary penalty for Meta. In Europe, Ireland's Data Protection Commission issued Meta with fines totaling over \$1bn in 2022 and January 2023 over data leaks, the handling of teenagers' data, and breaches of EU privacy rules.¹⁴ An individual user is also suing Meta

4 Wording provided below.

5 Farley, N. "Google and Meta are losing their edge as TikTok, Amazon, Instacart ads grow". Search Engine Land. January 6 2023. <https://searchengineland.com/google-and-meta-are-losing-their-edge-as-tiktok-amazon-instacart-ads-grow-391062>

6 Howley, D. "Meta's earnings aren't a great sign for the ad market". Yahoo! Finance. February 2 2023. <https://finance.yahoo.com/news/metass-earnings-arent-a-great-sign-for-the-ad-market-194525357.html>

7 Nix, N. "Meta could cut thousands of jobs, after CEO predicted no more layoffs". The Washington Post. February 22 2023. <https://www.washingtonpost.com/technology/2023/02/22/meta-layoffs/>

8 East, E. "How Meta lay-offs will impact social media marketing in 2023". Click Z. January 3 2023. <https://www.clickz.com/how-meta-lay-offs-will-impact-social-media-marketing-in-2023/267905>

9 BBC News. "Facebook: Daily active users fall for first time in 18-year history". <https://www.bbc.com/news/business-60238565>

10 Vanian, J. "Facebook scrambles to escape stock's death spiral as users flee, sales drop". CNBC. September 30 2022. <https://www.cnbc.com/2022/09/30/facebook-scrambles-to-escape-death-spiral-as-users-flee-sales-drop.html>

11 Johnson, L. "Some DTC Brands Moved up to 30% of their Holiday Spend from Meta to Amazon". Business Insider. December 8 2022. <https://www.businessinsider.com/dtc-brands-are-moving-ad-budgets-to-amazon-2022-12>

12 Peers, M. "Meta Launches Subscription Service Called Meta Verified". The Information. February 2023. <https://www.theinformation.com/briefings/meta-launches-subscription-service-called-meta-verified>

13 Press Release. "FTC Imposes \$5 Billion Penalty and Sweeping New Privacy Restrictions on Facebook". The Federal Trade Commission. July 24 2019. <https://www.ftc.gov/news-events/press-releases/2019/07/ftc-imposes-5-billion-penalty-sweeping-new-privacy-restrictions>

14 Pierce, D. "Instagram was fined \$402 million for mishandling teens' data in the EU". The Verge. September 5 2022. <https://www.theverge.com/2022/9/5/23338081/instagram-eu-fine-ireland-kids-data>

Roth, E. "Meta fined \$276 million over Facebook data leak involving more than 533 million users". The Verge. November 28 2022. <https://www.theverge.com/2022/11/28/23481786/meta-fine-facebook-data-leak-ireland-dpc-gdpr>

Robertson, A. "Ireland fines Meta over \$400 million for its targeted advertising practices". The Verge. January 4 2023. <https://www.theverge.com/2023/1/4/23538750/ireland-dpc-meta-instagram-facebook-gdpr-violation-fines>

“Shareholders need reassurance the Audit and Risk Oversight Committee are fully cognizant of the risks posed to shareholder value from regulatory, legal, and industry moves to protect privacy and have plans to mitigate them.”

in the UK claiming the company is disregarding her right to object against the collection of her personal data which could lead to further similar cases.¹⁵ This has driven user discontent as well as moves to protect privacy by software companies, regulators and lawmakers.

Meta’s business model is both dependent on targeted advertising and on the technology of other enterprises to maintain its mobile presence. At any time, changes made by Apple or Android developers, such as the planned Chrome third party cookie blocker, can dramatically alter its revenue model. Apple’s App Tracking Technology privacy feature which restricts Meta’s ability to track consumers’ online activity without explicit consent significantly impacts the company’s ability to provide targeted advertising. The introduction of the feature in 2021 delivered a \$10bn advertising hit to Meta in one year with Meta CFO Dave Wehner describing the software changes as “a pretty significant headwind for our business.”¹⁶ According to an internal memo from Meta Chief Marketing Officer Alex Schultz from February 2022 Meta is still “at the whim of Apple.”¹⁷

Shareholders need reassurance, given the potential impacts, that Meta’s board of directors as a whole and the Audit and Risk Oversight Committee are fully cognizant of the risks posed to shareholder value from regulatory, legal, and industry moves to protect privacy and have plans to mitigate them.

Threats to advertising revenue from privacy regulation

Meta also faces new privacy regulations that directly threaten its revenue model. Consumer protection laws in California¹⁸ “will require users’ explicit permission to share and use data generated from digital interactions...[and] the \$152 billion US digital advertising industry will lose access to most third-party data, which has powered programmatic advertising.” 2023 is likely to see further moves to protect privacy. Colorado, Connecticut, Utah, and Virginia are due to follow California’s lead with new General Data Protection Regulation (GDPR)-inspired statutes.¹⁹ Describing the potential changes as a ‘reckoning for the advertising industry’, McKinsey states that, “Our analysis suggests that up to \$10 billion in US publisher revenue is at risk.”²⁰ Other legislative proposals will impact user numbers reducing the advertising value of platforms such as Facebook. There are efforts in Congress to once again advance federal privacy legislation which would challenge the data harvesting and analysis practices of companies like Alphabet.²¹ The FTC is currently reviewing responses to its public consultation proposed rulemaking on privacy. Any such rules would likely impact Meta’s data gathering capabilities.²²

15 Milmo, D. “Facebook sued for collecting personal data to target adverts”. The Guardian. November 21 2022. <https://www.theguardian.com/technology/2022/nov/21/woman-launches-high-court-challenge-of-facebook-use-of-personal-data-for-ads>

16 Murphy, H. Waters, R. and Platt, E. “Investors wipe more than \$220bn from value of Facebook owner Meta”. Financial Times. 3 February 2022. <https://www.ft.com/content/51ea47e1-50c1-4b72-94d6-884017a1af4a>
Hutchinson, A. “Facebook Outlines Impacts of Apple’s Data Tracking Update, Provides Tips on How Brands Can Improve Ad Performance”.

SocialMediaToday. September 22 2021. <https://www.socialmediatoday.com/news/facebook-outlines-impacts-of-apples-data-tracking-update-provides-tips-on/607039>

Leswing, K. “Apple iOS privacy change will result in \$10 billion revenue hit this year”. CNBC. February 2 2022. <https://www.cnbc.com/2022/02/02/facebook-says-apple-ios-privacy-change-will-cost-10-billion-this-year.html>

17 Ghaffary, S. “Leaked memo: Meta executive warns employees they’re still ‘at the whim of Apple’”. Vox. February 15 2023. <https://www.vox.com/recode/2023/2/15/23599734/meta-facebook-stock-apple-competition-tiktok-mark-zuckerberg-alex-schultz>

18 California Consumer Privacy Act <https://oag.ca.gov/privacy/ccpa>

19 Bellamy, F.D. “U.S. data privacy laws to enter new era in 2023”. Reuters. January 12 2023. <https://www.reuters.com/legal/legalindustry/us-data-privacy-laws-enter-new-era-2023-2023-01-12>

20 McKinsey & Company. “The demise of third-party cookies and identifiers”. April 12 2021. <https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/the-demise-of-third-party-cookies-and-identifiers>

21 Grande, A. “What To Watch As House Again Picks Up Data Privacy Mantle”. Law 360. February 28 2023. <https://www.law360.com/articles/1580817/what-to-watch-as-house-again-picks-up-data-privacy-mantle>

Davis, J. “Lawmakers seek to end Big Tech’s ‘operating in the dark’ when it comes to privacy”. SC Media. March 2 2023. <https://www.scmagazine.com/news/privacy/lawmakers-privacy-law-consumers-data>

22 Jennings - Pool, G. “FTC weighs public comments as US privacy proposal possible in 2023”. S&P Global Market Intelligence. 20 December 2022. <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/ftc-weighs-public-comments-as-us-privacy-proposal-possible-in-2023-73458533>

USA

In a first-of-its-kind privacy by design law in the United States that will go into effect on July 1, 2024 the California Age-Appropriate Design Code Act regulates how children's data is processed and managed, and will have a broad impact on children's experience with online products and services. Lawmakers in states including New York, Maryland, New Mexico, New Jersey, Texas, Virginia, and West Virginia are now considering children's privacy bills, with more states expected to see lawmakers file more of these bills after California passed its Age-Appropriate Design Code law.²³

- The Maryland, Oregon, New Jersey, and New Mexico bills are similar to the California law.
- The Texas bill would prohibit individuals between 13 and 18 years of age from using a social media platform.
- The Virginia companion bills would amend the Virginia Consumer Data Protection Act to protect children under the age of 18.
- The West Virginia bill would complement federal children's privacy law by extending protections to children under the age of 18.

UK

The UK's Online Safety Bill, once enacted, is expected to include various child protection measures including a duty of care to keep children safe online, including taking proportionate measures to prevent them encountering harmful content and ensuring age limits are enforced which could reduce user numbers, hitting advertising revenue on platforms including Instagram.²⁴

EU

The EU has introduced antitrust legislation which would have far-reaching consequences for current business practices key to Meta's market performance. The Digital Markets Act (DMA) applies from May 2023 and is intended to promote more open and fairer competition and to protect consumers. It was described by the New York Times as "one of the world's most far-reaching laws to address the power of the biggest tech companies ...", potentially reshaping app stores, online advertising, e-commerce, messaging services and other everyday digital tools.²⁵ According to legal experts, it "could lead to a substantial change in digital markets in the EU...".²⁶ Meta will no longer be able to collect data from different services to offer targeted ads without users' explicit consent. Violations can result in large fines of up to 10% worldwide turnover (rising to 20% for repeated infringements). Companies will need to be fully compliant with the DMA by around March 2024.²⁷

The DMA and the Digital Services Act (DSA) which is discussed below in the context of harmful content also has implications for data collection on privacy grounds.

Brazil

The Brazilian General Data Protection Law came into force in August 2021 and is similar to the EU's GDPR. From February 2023, the regulator - the National Data Protection Agency - has the ability to issue administrative fines against Meta and other companies if it deems it necessary.²⁸

²³ Lima, C. "Maryland is the latest state to weigh online safety rules for kids", The Washington Post, February 13 2023. <https://www.washingtonpost.com/politics/2023/02/13/maryland-is-latest-state-weigh-online-safety-rules-kids>

²⁴ Johnston, J. & Criddle, C. "Social media platforms brace for hit to user numbers from age checks", The Financial Times, January 15 2023. <https://www.ft.com/content/9909d944-2b18-4077-bd91-afff28a5a1e3>
UK Parliament. "Online Safety Bill", March 2 2023. <https://bills.parliament.uk/bills/3137>

Explanatory Notes to the Online Safety Bill. <https://bills.parliament.uk/publications/49376/documents/2822>

²⁵ Satariano, A. "E.U. Takes Aim at Big Tech's Power With Landmark Digital Act", March 24 2022. The New York Times. <https://www.nytimes.com/2022/03/24/technology/eu-regulation-apple-meta-google.html>

²⁶ "Competition | UK Regulatory Outlook October 2022". OsborneClarke, October 26 2022. <https://www.osborneclarke.com/insights/Regulatory-Outlook-October-2022-Competition>

²⁷ "Competition | UK Regulatory Outlook October 2022". OsborneClarke, October 26 2022. <https://www.osborneclarke.com/insights/Regulatory-Outlook-October-2022-Competition>

²⁸ Federal Law no. 13,709/2018, available in English at: <https://iapp.org/resources/article/brazilian-data-protection-law-igpd-english-translation>

Artificial intelligence

Meta is turning to machine learning and artificial intelligence(AI) to counter the impact of the new Apple restrictions and issues around child protection. According to the Financial Times, “[...] Advantage+ uses artificial intelligence to automatically generate multiple adverts according to the specific objectives of the marketer, such as whether a brand is seeking to sell products or win new customers.”²⁹

The concern about how companies track consumers’ online activity and gather their data is evolving to consider how such data is used by complex algorithms and AI to make or affect decisions with serious consequences for people’s lives.³⁰ Given the importance of AI, regulation is on the horizon. Its growing importance to Meta’s advertising revenue and the inevitability of legislation governing its use bolsters the need for an independent assessment of the adequacy of the Audit and Risk Oversight Committee’s oversight.

AI - Regulation on the Horizon

EU

As with data protection, the EU is leading the way and is currently drafting the first regulation on AI (the AI Act), setting a precedent globally.³¹ If passed, Meta will have to comply with guidelines for risk management, technical documentation and transparency requirements, data governance, and accuracy and cybersecurity standards. The European Parliament has introduced, via amendments to the European Commission’s original proposal, a fundamental rights impact assessment for AI uses that fall under areas deemed at high-risk. Under the AI Act Meta will have to adopt a human rights due diligence process to identify, prevent,

mitigate and account for how it addresses the potential negative impact of its activities on human rights.

Lawmakers are also discussing extending the list of AI uses considered high-risk and are adding a new risk area for systems seriously affecting vulnerable groups, such as children. Some Members of the EU Parliament are pushing for the regulation of algorithms that could influence democratic processes like elections, with a residual category covering generative AI models such as ChatGPT and deep fakes.

USA

More than 80 percent of Americans favor regulating all or most uses of AI technologies, according to a survey from the U.S. Chamber of Commerce.³² Respondents identified self-driving vehicles, law enforcement and health care as the top uses of AI they want to see regulated, based on the survey of 1,000 respondents throughout the country. The White House Office of Science and Technology Policy has identified five principles in its ‘Blueprint for an AI Bill of Rights’ (safety, avoid discrimination, protect data privacy, inform consumers when AI is being applied, and allow opt-out) that should guide the design, use, and deployment of automated systems to protect the American public in the age of artificial intelligence. Although not a law, it is a framework for a way ahead.

Threats to advertising revenue from antitrust laws

In December 2022, the European Commission warned Meta that it might investigate the company for breaches of EU antitrust laws in online classified

²⁹ The Financial Times. “Meta’s AI-driven advertising system splits marketers”. 2023. <https://www.ft.com/content/fc95a0f7-5e4e-4616-9b17-7b72daee6c60>

³⁰ Candelon, F. et al. “AI Regulation Is Coming”. Harvard Business Review. September-October 2021. <https://hbr.org/2021/09/ai-regulation-is-coming>

³¹ The European Commission. “Regulatory framework proposal on artificial intelligence”. 2021 <https://digital-strategy.ec.europa.eu/en/policies/regulatory-framework-ai>

³² Teneo and The US Chamber of Commerce. “AI and Public Opinion: A view from the American Public”. <https://americaninnovators.com/wp-content/uploads/2022/01/CTEC-US-Outlook-on-AI-Detailed-Analysis.pdf>

advertising and abusing its dominant position.³³ There is an ongoing complaint by the FTC against Meta alleging that it adopts a “buy or bury” strategy against competitors.³⁴ In 2022, 48 attorneys general, led by New York’s Attorney General Letitia James, appealed the dismissal of their lawsuit against Meta claiming the company had obtained a monopoly through its acquisitions of Instagram and WhatsApp and had harmed competition.³⁵

In February 2023, the FTC announced the creation of the Office of Technology to “strengthen the agency’s ability to enforce the nation’s competition and consumer protection laws”.³⁶ This follows the FTC adopting a more robust approach with technology companies since Lina Khan assumed the role of Chair in 2021. This includes taking cases against “Amazon on wage theft allegations, Meta on antitrust issues and Google on reportedly deceptive advertising.”³⁷ The FTC’s challenges to mergers and acquisitions – even if unsuccessful in and of themselves – are having a chilling effect on the industry’s dealmaking which has long been a critical component of Meta’s strategy.³⁸

3 THREATS TO SOCIAL LICENSE AS A RESULT OF HOSTING HARMFUL CONTENT AND HUMAN RIGHTS ISSUES

Meta’s social media platform Facebook has faced an advertising boycott as well as regulatory and political backlash in different jurisdictions over the platform’s facilitation of and failure to prevent disinformation on a range of issues from Covid-19³⁹ to violence against ethnic minorities in countries including Ethiopia⁴⁰, Myanmar⁴¹ and India⁴². It is being sued in Kenya over claims of amplifying hate speech and inciting violence⁴³ and in the US by the Seattle school district over mental health impacts on children.⁴⁴ Its decision earlier this year to allow Donald Trump to return to Facebook drew criticism as did the company’s failure to tackle online extremism in the run up to the January 6th Capitol Hill riots.⁴⁵ These controversies also threaten Meta’s key revenue stream: corporate advertising.⁴⁶ Numerous campaigns in recent years have successfully leveraged the power of advertising boycotts and Facebook is particularly vulnerable. In 2020, five months into the pandemic and at the peak of the Black Lives Matter protests, more than 1,200 companies boycotted Meta through a campaign called Stop Hate for Profit.

Internal documents reveal that in a number of instances Meta staff and management were aware the platform was being used to spread disinformation and/or incite violence but inadequate action was taken.⁴⁷ Meta doesn’t appear to understand the scale of the moderation problem – which it typically minimizes or denies⁴⁸ – because it hasn’t invested in the infrastructure and capabilities that would enable it to understand the scale or to address the harms its platforms are causing. In many places, for example, the company lacks fluent language speakers and has no idea what is being

³³ Reuters, “EU warns Meta over Facebook Marketplace antitrust breach”, December 19 2022. <https://www.reuters.com/technology/eu-commission-meta-is-likely-breaching-antitrust-laws-2022-12-19>

³⁴ Kay, J, “Meta Lawyer Urges Dismissal of ‘Buy or Bury’ Claim Amid FTC Suit”, Bloomberg Law, February 15 2023. <https://news.bloomberglaw.com/us-law-week/meta-lawyer-urges-dismissal-of-buy-or-bury-claim-amid-ftc-suit>

³⁵ Press Release, “Attorney General James Leads Multistate Lawsuit Seeking to End Facebook’s Illegal Monopoly”, New York State Office of the Attorney General, December 9 2020. <https://ag.ny.gov/press-release/2020/attorney-general-james-leads-multistate-lawsuit-seeking-end-facebook-illegal>

Kang, C, “States appeal a judge’s decision to throw out their Facebook antitrust case”, The New York Times, January 14 2022. <https://www.nytimes.com/live/2022/01/14/business/stock-market-economy-news>

³⁶ Nguyen, S, “A Century of Technological Evolution at the Federal Trade Commission”, FTC, February 17 2023. <https://www.ftc.gov/policy/advocacy-research/tech-at-ftc/2023/02/century-technological-evolution-federal-trade-commission>

³⁷ Kerr, D, “Lina Khan is taking swings at Big Tech as FTC chair, and changing how it does business”, NPR, March 8 2023. <https://www.npr.org/2023/03/07/1161312602/lina-khan-ftc-tech>

³⁸ Kerr, D, “Lina Khan is taking swings at Big Tech as FTC chair, and changing how it does business”, NPR, March 8 2023. <https://www.npr.org/2023/03/07/1161312602/lina-khan-ftc-tech>

³⁹ Klepper, D. and Seitz, A, “Facebook froze as anti-vaccine comments swarmed users”, AP News, October 26, 2021. <https://apnews.com/article/the-facebook-papers-covid-vaccine-misinformation-c8bbc569be7cc2ca583dadbd4236a0613>

Doctors for America, “Letter to Facebook: Disclose your data now”, November 23 2021. <https://doctorsforamerica.org/letter-to-facebook-disclose-your-data-now>

⁴⁰ McKinstosh, E, “Facebook knew it was being used to incite violence in Ethiopia. It did little to stop the spread, documents show”, CNN Business, October 25 2021. <https://edition.cnn.com/2021/10/25/business/ethiopia-violence-facebook-papers-cmd-intl/index.html>

⁴¹ Steveson, A, “Facebook knew it was being used to incite violence in Ethiopia. It did little to stop the spread, documents show”, New York Times, November 6 2018. <https://www.nytimes.com/2018/11/06/technology/myanmar-facebook.html>

⁴² Perrigo, B, “Facebook Let an Islamophobic Conspiracy Theory Flourish in India Despite Employees’ Warnings”, Time, November 1 2021. <https://time.com/6112549/facebook-india-islamophobia-love-jihad/>

⁴³ <https://www.insurancejournal.com/news/international/2022/12/14/699424.html>

⁴⁴ Syme, P, “A lawsuit filed by Seattle’s public schools accuses Meta, TikTok, Google, and Snapchat of creating a youth mental health crisis”, Insider, January 9 2023. <https://www.businessinsider.com/meta-tiktok-google-accused-creating-youth-mental-health-crisis-lawsuit-2023-1>

Yang, M, “3 reasons why Seattle schools are suing Big Tech over a youth mental health crisis”, NPR, January 11 2023. <https://www.npr.org/2023/01/10/1134832529/seattle-schools-big-tech-lawsuit-takeaways>

⁴⁵ McCormick, E, “Meta earnings drop by less than expected with boost from Reels”, The Guardian, February 2 2023. <https://www.theguardian.com/technology/2023/feb/01/meta-q4-earnings-report-reels-facebook-instagram>

⁴⁶ Johnston, M, “How Facebook (Meta) Makes Money”, Investopedia, February 4 2022. <https://www.investopedia.com/ask/answers/120114/how-does-facebook-fb-make-money.asp>

⁴⁷ McKinstosh, E, “Facebook knew it was being used to incite violence in Ethiopia. It did little to stop the spread, documents show”, CNN Business, October 25 2021. <https://edition.cnn.com/2021/10/25/business/ethiopia-violence-facebook-papers-cmd-intl/index.html>

⁴⁸ Multilingual, “Facebook linguistic gaps allow hate speech to spread, don’t match demographic realities”, October 27 2021. <https://multilingual.com/facebook-linguistic-gaps-allow-hate-speech-to-spread-dont-match-demographic-realities>

posted, suggesting that the platform may well be so large as to be fundamentally unmanageable. Internal company documents show that Meta “has, in many cases, failed to adequately scale up staff or add local language resources to protect people in these places” and has instead relied on AI for moderation.⁴⁹ This failure to invest adequately in content moderation in those countries such as India which are key growth markets for Meta is concerning.

Facebook - a catalyst for violence in India

Meta’s largest user base is in India, with “over half a billion Indians using Meta services.”⁵⁰ It has been alleged that Facebook has become a critical catalyst of religious violence in the country by allowing anti-Muslim hate speech to spread and remain on the platform, and by failing to flag politicians who pose risks in this regard. For instance, in February 2020, Muslim-majority neighborhoods of north-east Delhi were stormed by a mob, destroying mosques, shops, homes and cars, and killing 53 people. In months preceding the massacre, the head of a powerful North Indian temple videoed a speech onto Facebook, declaring “I want to eliminate Muslims and Islam from the face of the Earth.” It has been viewed well over 40 million times.⁵¹

According to the Wall Street Journal,⁵² Facebook’s top policy official in India, Ankhi Das, pushed back against employees who wanted to label BJP politician T. Raja Singh “dangerous” and to ban him from the platform after he used Facebook to call Muslims traitors, threaten to raze mosques, and call for Muslim immigrants to be shot. Das argued that punishing Singh would hurt Facebook’s business prospects in India.

Facebook in India’s top remaining employee has ties to the BJP.⁵³ Shivnath Thukral, who now heads public policy across all India platforms after the resignations of other top management personnel, assisted in the BJP’s 2014 election campaign. Al Jazeera reported that Facebook provided political advertisements to the ruling BJP at preferential rates, and permitted surrogate advertising in support of BJP, further suggesting partisan bias in the India operations.

Further, content moderation in India is undercut by the poor capacity of Meta’s “misinformation classifiers” (algorithms), as well as its human moderators, to recognize many of India’s 22 officially recognized languages.

In 2019, Meta commissioned law firm Foley Hoag for a Human Rights Impact Assessment on its India operations. The four page summary released by Meta provides scant transparency and explicitly acknowledged that the assessment “did not assess or reach conclusions” about whether Meta’s India operations had bias in content moderation.

Meta’s lack of transparency concerning these issues presents a clear and present danger to the company’s reputation, operations and investors.

Meta’s inadequate response to problematic content on its platform is an example of how decision-making is unhelpfully centralized in Mr. Zuckerberg and the need for independent assessment of the capacity and performance of the Audit and Risk Oversight Committee. He resisted making adjustments to the platform’s algorithm even after multiple staffers and content providers reported that a failure to do so increased outrage and divisiveness, political polarization, and promoted misinformation and harmful content.⁵⁴

⁴⁹ McKinstosh, E. “Facebook knew it was being used to incite violence in Ethiopia. It did little to stop the spread, documents show”. CNN Business. October 25 2021. <https://edition.cnn.com/2021/10/25/business/ethiopia-violence-facebook-papers-cmd-intl/index.html>

⁵⁰ Singh, M. “Meta appoints new India head amid key departures in its largest market”. TechCrunch+ November 17 2022. <https://techcrunch.com/2022/11/16/meta-appoints-new-india-head-amid-key-departures>
⁵¹ Imran Mulla, Peter Osborne “Facebook in India: Why is it still allowing hate speech against Muslims?” Middle East Eye. October 6 2022. <https://www.middleeasteye.net/big-story/facebook-meta-india-muslims-allow-hate-speech>

⁵² Purnell, N. & Horwitz, J. “Facebook’s Hate-Speech Rules Collide With Indian Politics”. The Wall Street Journal. August 14 2020. <https://www.wsj.com/articles/facebook-hate-speech-india-politics-muslim-hindu-modi-zuckerberg-11597423346>

⁵³ Mathi, S. “Facebook India’s Biased Policy Head Quits, Only to Pave Way for Another”. Medium. November 4 2020. <https://sarveshmathi.medium.com/facebook-indias-biased-policy-head-quits-only-to-pave-way-for-another-7a567230565b>

⁵⁴ Perrigo, B. “Facebook’s Ties to India’s Ruling Party Complicate Its Fight Against Hate Speech”. Time. August 27 2020. <https://time.com/5883993/india-facebook-hate-speech-bjp>

⁵⁴ Hagey, K. and Horwitz, J. “Facebook Tried to Make Its Platform a Healthier Place. It Got Angrier Instead”. The Wall Street Journal. September 15 2021. <https://www.wsj.com/articles/facebook-algorithm-change-zuckerberg-11631654215>

Cooper, P. “How the Facebook Algorithm Works in 2021 and How to Make it Work for You”. Hootsuite. February 10, 2021. <https://blog.hootsuite.com/facebook-algorithm>

The board and the Audit and Risk Oversight Committee have failed to demonstrate a robust approach to the identification, mitigation, and management of risks to human rights and public well-being from its operations. An independent assessment of the Committee's activities in this area is necessary as is a nonpartisan assessment of allegations of political entanglement and content management biases in its operations in India. For investors, maintaining a stake in a company being blamed for genocide and hate crimes carries additional reputational risk as well as raising questions over investors' own human rights and due diligence obligations when it comes to investee companies.

Harmful Content - Increasing regulatory burden

EU

The Digital Services Act (DSA) will make Meta responsible and accountable for moderating content to prevent the spread of illegal content and disinformation in the EU. They will need to be more transparent about how they collect and use data and how their algorithms generate recommendations. Noncompliance could put Meta at risk of billions of Euros in fines; violations are subject to fines of up to 6% of annual revenue.⁵⁵

While many of the obligations of the DSA do not fully apply until February of 2024, platforms had to publicly release their number of users by February 17, 2023. Companies will need to calculate, on an ongoing basis, the number of average monthly EU recipients and publish it on their website/mobile apps. There are also proposals for EU legislation limiting targeted political advertising in the EU ahead of the 2024 European Parliament elections.⁵⁶

Recommendations for Shareholders



Support shareholder resolutions calling for the publication of independent assessments of civil and human rights risks and efforts to mitigate such risks including a specific assessment on its operations in India.



Support calls for more active oversight of the CEO from board members including the appointment of an independent Chair.



Engage with Meta on their plans to address the likely continuing risk to advertising

4 THE METAVERSE – AN EXPENSIVE STRATEGIC GAMBLE

As continuing controversies hit the news, discourage users, and worry advertisers, the company's attempt to shift attention away from these problems is its plan to become a 'metaverse company'. From its launch, commentators questioned this strategy with academic Scott Galloway⁵⁷ stating that "in actuality Facebook is basically spending \$10bn on a prayer that in the short run, it might change the conversation. It gives them an opportunity to talk about the metaverse instead of insurrection and teen depression." He went on to describe Meta's metaverse as "dead on arrival".⁵⁸

In the year since, the metaverse has proved an expensive but underwhelming endeavor that is increasingly drawing criticism from analysts and

⁵⁵ Figas, N. and Sweeney, M. "What Does the EU's DSA and DMA Mean for AdTech." Clearcode, October 10 2022. <https://clearcode.cc/blog/dma-dsa-adtech>

Algorithm Watch. "A guide to the Digital Services Act, the EU's new law to rein in Big Tech". September 21 2022. <https://algorithmwatch.org/en/dsa-explained>

⁵⁶ Goujard, C. "Big Tech platforms could face new major EU limits on targeted political ads". Politico, July 6 2022. <https://www.politico.eu/article/big-tech-platforms-could-face-new-major-limits-on-targeted-political-ads>

⁵⁷ NYU Stern. "Faculty Directory Scott Galloway, Professor of Marketing". <https://www.stern.nyu.edu/faculty/bio/scott-galloway>

⁵⁸ Walsh, J. "Why Facebook's Metaverse is Dead on Arrival". New York Magazine, November 8, 2021. <https://nymag.com/intelligencer/2021/11/why-facebooks-metaverse-is-dead-on-arrival.html>

investors. Internal documents reveal that the metaverse has had a disappointing start with user numbers falling short of targets, and limited engagement with most of the worlds built on the platform. Search traffic for the term 'metaverse' fell by around 80% over the year.⁵⁹ Meta's Reality Labs unit, which is responsible for developing the virtual reality and related augmented reality technology that underpins the yet-to-be built metaverse, made an operating loss of \$13.7 billion in 2022.⁶⁰ Despite this, Zuckerberg pledged to continue spending billions more in the metaverse.⁶¹ The New York Times has described the metaverse spending as 'bonkers' with no guarantee the bet will pay off".⁶² In December 2022, John Carmack, who was the consulting CTO of Meta's virtual-reality initiative [Reality Labs], including its Meta Quest headset, left the company in what was reported as a 'big setback' for Zuckerberg's vision for the metaverse.⁶³

In October 2022, Brad Gerstner, whose fund Altimeter Capital owns hundreds of millions of dollars worth of Meta shares, published an open letter to Mark Zuckerberg and Meta's board of directors writing that the company's focus on the metaverse had distracted it from focusing on its core business, which, unlike the company's Reality Labs segment, generates profit. He called for spending on the metaverse to be restricted to \$5bn per year.⁶⁴ Since then Zuckerberg and other investors have continued to defend planned expenditure on the metaverse claiming that it is not the 'majority of what we're doing' and that the company retains a focus on its other businesses.⁶⁵

As we warned last year, there is no evidence that the company has adequately assessed the potential psychological and civil and human rights harms to users that may be caused by the use and abuse of the metaverse platform - issues the company executive leading the project admits pose an "existential threat" to the company's ambitions.⁶⁶ Given the impacts already felt by Meta on its existing business and platforms from such failures, shareholders would be prudent to demand the company commission robust independent assessments and implement appropriate governance measures.

Recommendations for Shareholders



Shareholders should satisfy themselves that the pivot to a metaverse strategy is based on sound business assessments, is being developed fully cognizant of the myriad social risks involved, has adequate independent oversight, and is not a rushed attempt to divert attention from fundamental issues with Meta's core business under the sole control of a dual CEO/President already shown to have made strategic misjudgements on key issues resulting in litigation and controversy.

⁵⁹ Kelly, J. "Whatever happened to the metaverse?". The Financial Times. February 16 2023. <https://www.ft.com/content/bddec314-3f4c-4296-ae6f-eb2a5328c109>

⁶⁰ Kelly, J. "Whatever happened to the metaverse?". The Financial Times. February 16 2023. <https://www.ft.com/content/bddec314-3f4c-4296-ae6f-eb2a5328c109>

⁶¹ Vanian, J. "Meta plans to lose even more money building the metaverse while its ads business shrinks". CNBC. October 27 2022. <https://www.cnbc.com/2022/10/26/meta-plans-to-lose-even-more-money-building-the-metaverse.html>

⁶² Issac, M. "6 Reasons Meta Is in Trouble". The New York Times. February 3 2022. <https://www.nytimes.com/2022/02/03/technology/facebook-meta-challenges.html>

⁶³ November 30 2022. Insider. Clark, T. "Meta issued a full-throated defense of its metaverse spending, saying it still 'believes in the future' and won't bow to 'short-term thinking'". Insider. December 19 2022. <https://www.businessinsider.com/meta-is-sticking-with-spending-on-the-metaverse-2022-12>

⁶⁴ Gerstner, B. "Time to Get Fit - an Open Letter from Altimeter to Mark Zuckerberg (and the Meta Board of Directors)". Medium. October 24 2022. <https://medium.com/@alt.cap/time-to-get-fit-an-open-letter-from-altimeter-to-mark-zuckerberg-and-the-meta-board-of-392d94e80a18>

⁶⁵ Leswing, K. "Meta shareholder writes critical open letter saying company needs to slash headcount and stop spending so much money on 'metaverse'". CNBC. October 24 2022. <https://www.cnbc.com/2022/10/24/altimeter-capitals-brad-gerstner-calls-on-meta-to-slash-headcount.html>

⁶⁶ Delouya, S. and Nguyen, B. "Meta CEO Mark Zuckerberg says the metaverse is 'not the majority of what we're doing'". <https://www.businessinsider.com/mark-zuckerberg-metaverse-not-majority-were-doing-facebook-meta-focus-2022-11>

November 30 2022. Insider. Clark, T. "Meta issued a full-throated defense of its metaverse spending, saying it still 'believes in the future' and won't bow to 'short-term thinking'". Insider. December 19 2022. <https://www.businessinsider.com/meta-is-sticking-with-spending-on-the-metaverse-2022-12>

⁶⁶ Murphy, H. "How will Facebook keep its metaverse safe for users?". The Financial Times. November 12 2021. <https://www.ft.com/content/d72145b7-5e44-446a-819c-51d67c5471cf>

Ekō members have co-filed two resolutions for the 2023 Meta Annual Meeting:

Performance Review of Audit and Oversight Committee

This resolution requests the Board to commission an independent assessment of the Audit and Risk Oversight Committee's capacities and performance in overseeing company risks to public safety and the public interest and to company value. Going back to the Cambridge Analytica scandal and continuing to recent news, such an assessment would ensure investors are being provided with accurate and actionable information and provide valuable guidance to the Board and shareholders.

Assessing Allegations of Biased Operations in Meta's Largest Market

Shareholders request the Company commission a nonpartisan assessment of allegations of political entanglement and content management biases in its operations in India, focusing on the manner in which the platform has been utilized to foment ethnic and religious conflict and hatred, and disclose the results in a report to investors. Among other things, the assessment can evaluate:

- Evidence regarding political biases in the Company's activities, and any steps the Company is taking to ensure its activities are non-partisan;
- Whether content management algorithms and personnel in India are at the scale and multilingual capacity needed to curtail mass dissemination of hate speech and disinformation;
- Disclosure of the full human rights impacts assessment commissioned in India so that investors can read the recommendations and discussions that may be germane to the company's biases, exposures and impacts.

6. CONCLUSION

Meta's chief financial officer admitted in February 2022 that the company "faced a perfect storm of 'headwinds'".⁶⁷ Those headwinds were in full force throughout the year and show no signs of abating. The company's main revenue source faces unprecedented challenges globally with lawmakers and regulators in the USA and Europe which are inextricably linked to Meta's failure to respond adequately to human and civil rights concerns. There is a lack of transparency and reassurance to shareholders that the board is exercising sufficient oversight of these issues. We believe shareholders should consider the prudence of continued investment in the company if Meta and Mr. Zuckerberg remain indifferent to investor concerns and the obvious need to change. Meta's governance structure poses challenges to shareholders hoping to hold the company to account other than by exiting. However, shareholders should consider at least being more public about their engagements with Meta and their requests of the company on key issues. The annual shareholder meeting provides an opportunity to do so.

For more information on our resolutions, these issues or our work, please contact corporate@eko.org.

⁶⁷ Murphy, H. Waters, R. and Platt, E. "Investors wipe more than \$220bn from value of Facebook owner Meta". Financial Times. 3 February 2022. <https://www.ft.com/content/51ea47e1-50c1-4b72-94d6-884017a1af4a>

PERFORMANCE REVIEW OF AUDIT AND COMPLIANCE COMMITTEE

Resolved:

Shareholders request the Board of Directors (the “Board”) of Meta Platforms, Inc. (“Meta”) commission an independent review of the role of the Audit and Risk Oversight Committee (the “Committee”) in ensuring effective Board oversight of material risks to public well-being from Meta’s operations. The review should be conducted at reasonable expense with a public summary, omitting confidential or privileged information. A full report of the review should be publicly disclosed on Meta’s website.

Supporting Statement:

In 2018, following the Cambridge Analytica scandal in which the company allowed Facebook user data to be improperly acquired and used for political purposes, the Board broadened the charter of the Audit Committee, renamed the Audit and Risk Oversight Committee, making it responsible for reviewing “at least annually” risk exposures, including ESG risks, such as data privacy, community safety, and cybersecurity, as well as management’s efforts to monitor and mitigate such exposures.

Nevertheless, Meta’s social media platforms have continued to contain troubling content including:

- advertisements on Facebook by white supremacist groups that have violated Facebook’s terms of service;
- far-right militia groups that have organized and recruited on Facebook;
- the spread of COVID-19 misinformation on Facebook;

- the spread of election misinformation on Facebook leading up to the January 6, 2021 attack on the U.S. Capitol; and
- content on Instagram that Meta’s internal research has shown is damaging to adolescent girls’ mental health; and
- inappropriate behavior by users on Meta’s VR platforms.

Further, the D.C. attorney general has filed litigation against Mark Zuckerberg for Meta’s alleged data abuses, and Meta is facing a class action lawsuit led by Ohio Public Employees Retirement System for over \$100 billion in lost shareholder value, alleging Meta intentionally misled the public and investors about the negative impact of its products on minors.

Proponents recommend a review assessing the Committee’s role in promoting effective fiduciary oversight by the Board, including the extent to which the Committee ensures Board access to necessary data on issues related to risks to public well-being, the frequency with which management brings “red flag” issues to the attention of the Board, and the depth of Board consideration of these issues. We note directors are liable under Delaware law if they “consciously failed to monitor or oversee [the company’s] operations thus disabling themselves from being informed of risks or problems requiring their attention,” particularly if they lack an effective system to flag and monitor material issues.

In our view, an independent assessment of the Committee’s oversight of public safety and public interest risks will help identify any needed mitigation measures such as additional access to internal and external experts, director training, increasing the frequency of Committee engagement with management, or providing an avenue for employees to anonymously report issues to the Committee.

For these reasons, we urge shareholders to vote for this proposal to protect investor value through authentic, well-resourced risk oversight at Meta.

ASSESSING ALLEGATIONS OF BIASED OPERATIONS IN META'S LARGEST MARKET

Whereas:

Meta's largest user base is in India, with "over half a billion Indians using Meta services." Facebook is apparently a critical catalyst of religious violence in India from¹ disseminating anti-Muslim hate speech, and failing to flag posts and speakers who pose risks in this regard.

For instance, in February 2020, Muslim-majority neighborhoods of north-east Delhi were stormed by a mob, destroying mosques, shops, homes and cars, and killing 53 people. In months preceding the massacre, the head of a powerful North Indian temple videoed a speech onto Facebook, declaring "I want to eliminate Muslims and Islam from the face of the Earth." It has been viewed well over 40 million times.

According to the Wall Street Journal, Facebook's top policy official in India, Ankhi Das, pushed back against employees wanting to label BJP politician T. Raja Singh "dangerous" and to ban him from the platform after he used Facebook to call Muslims traitors, threaten to raze mosques, and call for Muslim immigrants to be shot. Das argued that punishing Singh would hurt Facebook's business in India.²

Facebook India's top remaining employee has ties to the BJP. Shivnath Thukral, who now heads public policy across all India platforms after resignations of other top personnel, assisted in BJP's 2014 election campaign. Al Jazeera reported that Facebook provided preferential rates for political advertisements of the BJP, and permitted surrogate advertising supporting BJP, suggesting partisan bias.

Further, content moderation in India is undercut by poor capacity of Meta's "misinformation classifiers" (algorithms) and its human moderators to recognize many of India's 22 officially recognized languages.³

In 2019, Meta commissioned law firm Foley Hoag for a Human Rights Impact Assessment (HRIA) of its India operations. The four page summary released by Meta provides scant transparency and explicitly acknowledged the assessment "did not assess or reach conclusions" about whether India operations had bias in content moderation.⁴

The proponent believes Meta's lack of transparency concerning India presents a clear and present danger to the Company's reputation, operations and investors.

Resolved:

Shareholders request that the Company commission a nonpartisan assessment of allegations of political entanglement and content management biases in its operations in India, focusing on how the platform has been utilized to foment ethnic and religious conflict and hatred, and disclose results in a report to investors, at reasonable expense and excluding proprietary and privileged information. Among other things, the assessment can evaluate:

- Evidence of political biases in Company activities, and any steps to ensure it is non partisan;
- Whether content management algorithms and personnel in India are at scale and multilingual capacity necessary to curtail mass dissemination of hate speech and disinformation;
- The relevance of any evidence germane to biases, exposures, and impact disclosed in the previously commissioned India HRIA, as investors have been unable to read the full recommendations.

¹<https://techcrunch.com/2022/11/16/meta-appoints-new-india-head-amid-key-departures>

² <https://www.wsj.com/articles/facebook-hate-speech-india-politics-muslim-hindu-modi-zuckerberg-11597423346>

³ <https://slate.com/technology/2021/10/facebook-papers-india-modi-misinformation-rss-bjp.html>

⁴ Meta Human Rights Report, July 2022, p. 59.

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