



July 20, 2023

The Honorable Bill Huizenga
Chairman
Subcommittee on Oversight and
Investigations
House Financial Services Committee
2232 Rayburn House Office Building
Washington, DC 20515

The Honorable Al Green
Ranking Member
Subcommittee on Oversight and
Investigations
House Financial Services Committee
2347 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Huizenga, Ranking Member Green, and members of the subcommittee,

I write to submit supplemental information to the hearing entitled “Oversight of the Proxy Advisory Industry” on behalf of US SIF: The Sustainable Investment Forum. US SIF is the leading voice advancing sustainable investing across all asset classes. Our mission is to rapidly shift investment practices toward sustainability, focusing on long-term investment and the generation of positive social and environmental impacts. Our members include regulated investment management and advisory firms, mutual fund companies, asset owners, research firms, financial planners, advisors, and broker-dealers, representing more than \$5 trillion in assets under management or advisement. US SIF members incorporate environmental, social and governance (ESG) criteria into their investment decisions and take their shareowner responsibilities seriously, including voting proxies and engaging with companies.

In July, the committee spent significant time focused on firms that provide proxy advisory services. To ensure a complete understanding of these issues I am providing supplemental information about how US SIF’s members engage with proxy advisory firms in order to satisfy the fiduciary obligations to take into account all relevant data in making their voting decisions.

Each year, companies seek votes from shareholders on items pending on their annual proxy statements, including approval of their boards of directors. The information that serves as the basis for shareholder votes is included in the company's annual proxy statement. According to the US Securities and Exchange Commission (SEC), more than 600 billion shares are voted at more than 13,000 shareholder meetings every year.¹ The SEC requires investment managers to disclose to clients their proxy voting policies and their voting records.

The investment firms and asset owners that are US SIF members are active leaders in proxy voting and take this responsibility very seriously. Proxy advisory firms issue vote recommendations on the proposals submitted by management and by shareholders. This provides our members with an additional source of information to aid in analyzing the often dense and

¹ U.S. Securities and Exchange Commission, “SEC Votes to Seek Public Comment on U.S. Proxy System,” July 14, 2010. Available at <http://www.sec.gov/news/press/2010/2010-122.htm>.

complicated questions that appear in company proxy statements before casting their votes. The proxy advisory firms also provide electronic platforms to facilitate the execution of votes, streamlining the proxy voting process for asset owners or their investment managers.

These firms increase efficiency and provide a valuable service to US SIF members therefore our membership is very concerned about the attacks on proxy advisory firms. We emphasize the following key points:

- Proxy voting advisory firms help investors meet their fiduciary responsibilities by providing efficient and cost-effective research services to them to inform their proxy voting decisions. Indeed, without the benefit of the services of proxy voting advisory firms, it would be difficult for investors to comply with those duties.
- Proxy advisory firms neither control nor dictate how their clients vote. Investors vote according to their own proxy voting guidelines and judgment, which may differ from or conform to recommendations by proxy advisory firms. Further, the relationship between investors and proxy advisory firms is fee-for-service. Investors voluntarily pay subscriptions to proxy advisors for their perspective, and the information is highly valued by investors to help them make proxy voting decisions.
- The autonomy of proxy advisors is critical to investors, as it prevents them from having to rely solely on recommendations from company management, which is mostly opposed to proposals from shareholders that address material financial risks to companies. The primary role of proxy advisory firms is to collect, synthesize, analyze, summarize and apply data extracted from issuer company disclosures, to determine how that extracted data aligns with the client investor's investment objectives and voting policies with respect to specific voting issues, and to make recommendations to those investor clients based on that analysis.
- Our members do not support giving issuers the automatic right to preview proxy advisory firm reports and to lobby the authors to change recommendations or requiring these firms to employ ombudsmen to receive complaints. These provisions would give corporate management substantial editorial influence over reports on their companies. It would slow the process during an already-time-constrained proxy voting season, increase costs, and harm investors. Giving companies a preview right would constitute an interference with the contractual relationship between private contracting parties and - by effectively regulating discussions between shareholders and their service providers - could be deemed improper regulation of speech in violation of the First Amendment.

Under state law, the norms of corporate governance provide that corporations are accountable to their shareholders. In this connection, the proxy voting system is the sole means by which shareowners have a legal right to communicate with companies and with one another on substantive issues.

During the hearings, comments were made that the proxy advisors blindly suggest that investors vote for ESG-oriented resolutions. In reality, the proxy advisors focus on the shareholder

resolution's relevance to the company and, in fact, regularly vote for management's recommendations and against ESG-oriented resolutions.

Finally, there are corporate governance trends that most companies now endorse (e.g., annual election of directors, producing sustainability reports, or setting GHG emissions goals) that came from the shareholder proposal process. Now, investors at a company that has not yet made such changes are likely to get a recommendation from the proxy advisory firms to vote in favor of proposals requesting those changes because it makes common business sense.

We believe that legislation to constrain the important work of proxy advisory firms would interfere with shareholder rights and weaken the ability of investors to fulfill their fiduciary duties. Therefore, we urge you not to consider any further attempts to restrict the work of proxy advisory firms as proposed in the bills being considered by the committee this month.

Thank you for taking our views into consideration. If you have any questions regarding the contents of this letter, please contact me directly at bmgannon@ussif.org or US SIF's Director of Policy and Programs, Rachel Curley, at rcurley@ussif.org.

Sincerely,

A handwritten signature in black ink, appearing to read "Bryan McGannon", with a long horizontal flourish extending to the right.

Bryan McGannon
Managing Director

Cc: Members of the House Financial Services Committee