

# GovernanceMetrics

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October 20, 2010

Elizabeth M. Murphy  
Secretary, Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

Dear Ms. Murphy

## **RE: File Number S7-14-10 – Concept Release on the U.S. Proxy System**

I am writing on behalf of GovernanceMetrics International (GMI), a global corporate governance research and ratings company based in the United States. This letter is in response to Release 34-62495, File S7-14-10 known as the “Concept Release on the U.S. Proxy System”.

GMI believes the consideration by the S.E.C. of the operation of the proxy system is timely indeed. The proxy system in the United States is unique. It has a critical role to play in facilitating the position of investors in being effectively heard by the board and management on the performance and direction of the companies they own, given the inherent agency problems of publicly held corporations.

One area of particular concern to GMI and upon which we wish to comment is the consideration of proxy advisory firms and their role in the proxy process.

GMI is not a proxy advisory firm and we do not make voting recommendations in our reports. However, we do undertake research for our clients on many of the same issues that are examined by proxy advisory firms in making their recommendations. As a result, we believe that proxy advisory firms play a vital role in the proxy system, including the provision of alternative views and information to the market on the exercise of investors’ voting rights.

The role of the proxy advisory firms has enhanced the effective exercise of voting by many investors, particularly institutional asset owners and their asset managers. The facilitation of voting by the provision of advice on the issues before investors has enhanced the informed exercise of voting rights and ensured that independent information sources are available to investors outside of the solicitation by the company itself.

The history of proxy advice by these firms shows that in the vast majority of cases, the advice is to support management proposals. However, where there are real issues with a company’s performance or governance, proxy advisory firms are able to inform their clients of the issues behind any concerns and make recommendations on voting. Their clients are not obliged to follow that advice and often do not. This is a normal process regarding advice on voting issues and should be encouraged. There is no real evidence that sophisticated clients of proxy advisory firms do not undertake a process of their own in considering the recommendations of their advisors. If this is found to be the case, surely it is the investors that are responsible for this and not the proxy advisory firms.

GMI is particularly concerned about any moves to regulate proxy advisory firms, particularly when it comes to their voting recommendations. There is no reason that we can see for such regulatory

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interference with a normal operation of the market place. The fact that issuers do not always like the recommendations of proxy advisory firms or have a difference of opinion does not in our view constitute a reason to regulate voting recommendations. When an issuer is not happy with a recommendation, the issuer is perfectly able to provide alternative information to investors in counter argument and this is the process that should be permitted to continue. GMI does not have a direct interest in proxy advisory work, but we believe that this advice should not be subject to potential interference by issuers or the S.E.C. The more information available the better and unnecessary regulation could have the potential to stifle information rather than facilitate it.

Thank you once again for the opportunity to comment on this Concept Release. We are happy to elaborate on the contents of this response.

Sincerely yours,



John Jarrett  
Chief Operating Officer and Research Director