

July 23, 2019

Ms. Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street, N.E. Washington, D.C. 20549

Re: File No. 4-725 for Comments on Statement Announcing SEC Staff Roundtable on the Proxy Process

Dear Ms. Countryman,

We applaud your efforts to bring a spotlight to issues and concerns of the proxy advisory world. We agree that there are areas that need improvement, particularly involving conflicts of interest. However, we wish to caution that regulation of all proxy firms, not just the largest and most problematic ones, may serve to make things worse via additional consolidation and increased barriers to entry.

We write to you as one of the few independent proxy advisory firms in the industry. Further, our firm focused on proxy advice rather than paid governance consulting because we recognize and wish to avoid the conflicts and other issues of providing governance consulting to issuers while providing vote recommendations to investors.

As is well-known, the proxy advisory business is considered to be low-margin business. With a pretax profit margin of 5%, a 20 million dollar per year in revenues would generate one million dollars in profit before taxes. The additional costs of a proxy DCO, compliance assistant, more programmers for enhanced internal systems, additional outside data and consultants, and external legal costs could easily exceed 1 million dollars, pushing a firm into profitless status. The Ratings Division of our firm is currently a regulated NRSRO and therefore we have insight into the relevant additional costs and overhead. Thus, without a size exclusion, a likely result of proxy advisor regulation would be further consolidation and the creation of significant entry barriers with further harm to the market.

Regarding our providing reports to issuers, we are generally reluctant to do so without a legal waiver. In our subscription rating business, we are typically paid by institutional investors who are generally seeking early warning about deteriorating credit conditions. Issuers are normally not shy about protecting their image and we have been threatened with suit numerous times when issuers learned about our issuing ratings which were lower than those issued by larger rating firms. For example, approximately a decade ago,

Lehman, MBIA and General Motors threaten us with lawsuits prior to their eventual bankruptcy filings/ restructurings. Our either not issuing reports on these troubled issuers or withdrawing them to forestall litigation would have hurt our clients and the market.

Regarding consulting, the SEC now prohibits rating firms from providing consulting to issuers who typically want a higher rating. We believe a similar case can be made in the proxy advisory area; issuers desire a more attractive review and therefore consulting has a fundamental, unmanageable conflict of interest.

A final area which probably needs attention is the incentives of firms providing 401K services by way of corporations. It is difficult to vote against the proposals of such corporations and maintain access to their 401K business.

Hence, we recommend the following:

Carve-out - Proxy Advisors with less than \$30M in proxy advisory business should be excluded from any proposed regulation.

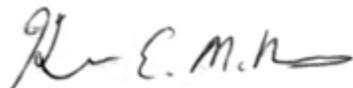
Provision of Reports to Issuers – issuers will be provided with reports if such issuers provide a release to the proxy advisor and cover reasonable costs.

Prohibition on Consulting -Proxy advisors and their affiliates shall be prohibited from providing advice to issuers or their agents regarding proxy or related matters.

401K Providers – firms providing investment advisory and related services to corporate clients shall be prohibited from voting on matters related to such corporate clients.

We respectfully submit that proxy advisory firms like our self-have not been a cause of many of the issues such as conflicts associated with consulting or activism. Those same small firms could be dramatically harmed by well-intentioned but burdensome regulation. Large firms engaging can easily absorb such costs as they gain ever increasing influence over the proxy vote which means corporations must pay whatever price such Kingmakers demand for “consulting” on any at risk vote.

Sincerely,



Kevin E. McManus
Director of Proxy Services
Egan-Jones Ratings Co.