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May 20, 2021

Ms. Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Re: Request for Comment on Climate Disclosure

Dear Ms. Countryman:

I appreciate this opportunity to provide input for the Securities and Exchange Commission's (SEC) request for public comment on climate change disclosure (Request). Attached to this letter is a report I recently authored entitled "Proxy Advisors and Market Power: A Review of Institutional Investor Robovoting," (Robovoting Report), which I believe is pertinent to this discussion.

The SEC's request comes in the midst of an ongoing public debate regarding the role and authority of the SEC when it comes matters such as climate change and the broader environmental, social, and governance (ESG) set of issues. In addition to this request for comment, the SEC is reviewing the proxy voting practices of asset managers on climate and ESG issues and has also created an enforcement "task force", charged with identifying material misstatements or gaps in the SEC filings of public companies.

As the SEC becomes increasingly active on these matters, it should keep in mind the influence that proxy advisory firms have on corporate governance and voting outcomes at public companies, especially on matters related to climate change and ESG. The institutional investors that hire proxy advisory firms for voting advice have a fiduciary duty to their clients—the majority of which are "Main Street" investors—to cast proxy votes in a manner that maximizes economic return. Relying solely on proxy advisory firm recommendations to vote in favor of politically or socially oriented shareholder proposals that have no relation to economic return, is a violation of this duty.

Last year, the SEC finalized a long overdue rule and Commission-level guidance to increase transparency in the proxy advisory industry and ensure that institutional investors always cast votes in the economic interest of their clients. These actions were result of a years-long examination of the many deficiencies of proxy advisors, and in particular of the two largest, Institutional Shareholder Services (ISS) and Glass Lewis.

As outlined in the Robovoting Report, in 2020 114 institutional investors—collectively controlling more than $5 trillion in assets—voted in lockstep with either ISS or Glass Lewis. This continued outsourcing of voting obligations to ISS and Glass Lewis is in tension with the SEC's guidance and raises a host of questions, most importantly whether the voting advice received by institutional investors is tainted by conflicts of interest or intended to advance objectives unrelated to maximizing return.

Moreover, evidence suggests that socially-oriented, non-wealth-maximizing investors have successfully influenced proxy-advisory firms' voting recommendations. In a study last fall, University of Southern California professor John G. Matsusaka and researcher Chong Shu found that proxy-advisory firms have tended to "tilt their advice away from policies that maximize issuer value toward policies that give more weight to social issues." This finding is corroborated by proxy advisors' custom reports, which overwhelmingly address socially-oriented criteria, suggesting a bias in favor of these issues.

In other words, proxy advisory firms have a vested interest in promoting certain issues at public companies, regardless of whether they are tied to enhancing a company's long-term performance. It is little wonder that the largest proxy firms have integrated climate and ESG analytics and ratings into their business models and would stand to benefit from further SEC regulation in this area. Any honest SEC assessment of climate change and ESG issues should include an examination of 1) whether proxy advisory firms are issuing vote recommendations in the best interest of investors, including around ESG issues, and 2) the compounding impact that institutional investors' continued robovoting has on those recommendations.

Notwithstanding the heightened interest surrounding climate change and ESG, there is no consensus that mandated disclosures would improve corporate performance or deliver long-term returns for investors. Further, as with executive compensation disclosure, there is no guarantee that increased disclosures will have the intended policy effect. Climate change is a deadly serious concern, but the SEC should proceed cautiously in this area and consider how potential rulemakings could benefit the business models of proxy advisory firms at the expense of Main Street investors.

Sincerely,

Paul Rose

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