

Dr. Talal A. Debs



January 10, 2020

Vanessa A. Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

Re: S7-22-19: “Amendments to Exemptions from the Proxy Rules for Proxy Voting Advice”

Dear Ms. Countryman:

The Commission’s efforts to hold proxy advisors more accountable, as well as enforce greater transparency in their voting recommendations, are both important and timely. I fully support the work of the SEC’s Commissioners and its staff; proxy advisory firms, whose services are understood to be valuable, must like the rest of the “financial ecosystem” live within the bounds of sound and commercially appropriate regulation.

My career has spanned academia, investment banking, commercial banking, and executive recruiting. Along the way, I have become aware of the recommendations and services of proxy advisory firms. Recently, these recommendations have garnered additional focus from the trend towards investors who desire that their environmental, social, and governance (“ESG”) considerations be reflected in their holdings, and where appropriate in proxy voting. In this light, it seems clear that oversight of these firms would be advantageous to not only their investment manager clients, but also the public pensions and retail investors who count on these investment managers to vote in accordance with maximizing the value of their portfolios.

I have recently learned that, in the 35 years since the proxy advisory industry emerged, the voting recommendations issued by these firms have become more about political and social issues, sometimes in tension with financial, mandated ones. This should give policymakers and investors alike reason to consider whether existing regulation requires additional attention; please see the very helpful review of issues published on the Harvard Law Forum on Corporate Governance, <https://corpgov.law.harvard.edu/2019/09/01/sec-guidance-for-investment-advisers-and-proxy-advisory-firms-an-analysis/>.

While there are many enhancements contained in this Proposed Rule, one that seems especially salient to me is the updated guidance concerning automatic voting. The rate at which clients of the large proxy advisory firms vote in lockstep with the firms’ recommendations is highly noteworthy. Excellent research has been undertaken to detail just how often investment managers “robo-vote”.

To highlight one such example here, Paul Rose, professor of law at Ohio State University, offers a data set that examines investors who have voted overwhelmingly in line with ISS.¹ I take the first three line items of his data, representing 136 large investors who have combined assets under

¹ Paul Rose, “Re: File Number S7-22-19, Amendments to Exemptions from the Proxy Rules for Proxy Voting Advice”, November 14, 2019, <https://www.sec.gov/comments/s7-22-19/s72219-6429308-198569.pdf>.

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management of \$3.85 trillion,² to run an additional calculation. For 9,401,185 resolutions, these 136 investors voted with ISS 99.872 percent of the time. These findings, if verified more broadly, suggest an extremely limited diversity of view and may raise the question in the investors' mind as to the sense in which these recommendations are reflecting their specific investing objectives.

A leader in this field is ISS, which describes itself as “the world’s leading provider of...responsible investment solutions”.³ This may be, but I support the proposal that the appropriate regulator, in this case the SEC, should constantly be probing to ensure that ISS and other competitors in this field make recommendations that are truly responsible.

In sum, I echo a past comment from Alexander Cutler, former chairman of Business Roundtable’s Corporate Governance Committee, in which he states what should be common sense, that “these firms exert significant influence in the proxy voting process and should be subject to appropriate oversight.”⁴ It is hoped that the SEC finalizes this rule.

Thank you kindly for this opportunity to provide my thoughts; wishing you a happy New Year.

Sincerely,

A handwritten signature in blue ink that reads "Talal Debs".

Dr. Talal A. Debs
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Centre for Philosophy of Natural and Social Science
The London School of Economics and Political Science

² Ibid., pg. 2.

³ Institutional Shareholder Services Inc., “About ISS”, 2019, <https://www.issgovernance.com/about/about-iss/>.

⁴ Business Roundtable, “New SEC Guidance Concerning Proxy Advisory Firms a Good First Step”, <https://www.businessroundtable.org/archive/media/news-releases/new-sec-guidance-concerning-proxy-advisory-firms-good-first-step>.