Compensation
Advisory Partners

1133 Avenue of the Americas
New York, NY 10036
P 212 921 9350 F 212 921 9227
capartners.com

January 17, 2020

The Hon. Jay Clayton
Chairman
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Comment Letter on SEC Proxy Advisory Firm Rule Proposal – File Number S7-22-19

Dear Chairman Clayton:

We believe the proxy advisory firms serve an important role in providing valuable voting advice for institutions, in particular for smaller institutions that do not have the resources to review and opine on all companies. Given proxy advisory firms' important role, we think it is critical that they operate with greater transparency, provide an easy way for issuers to engage with them, and operate with less of a "one size fits all" approach to evaluating proxy submissions.

Management and boards spend significant time considering the reaction of Institutional Shareholder Services (ISS) and Glass Lewis to executive compensation programs. Many times, boards make decisions that they know are in the best interest of shareholders but fall outside the ISS and Glass Lewis frameworks. The boards find themselves playing defense trying to justify a decision that they believe is right for the company. Boards should have a more robust mechanism for engaging with proxy advisors to address concerns and explain the business case for decisions.

Given the impact that the proxy advisors can have on actual votes, their reports need to have accurate information and well-thought-out logic for how the advisors are making their vote recommendations. It is not rare to see an "against" recommendation based on faulty analytics or logic. All companies should have an opportunity to review the report for factual accuracy before it is released to the public.

Proxy advisors owe it to their clients to make sure information is right. Providing issuers with the opportunity to review the proxy advisors' reports can help to limit the possibility of an error appearing in a published report. In terms of resources, innumerable hours can be spent by corporations trying to address a mistake in a report. We have seen Legal, Human Resources, Finance, Investor Relations, the board, and outside advisors spend hours upon hours trying to figure out how to address a misinterpretation in a proxy advisor report that led to a negative recommendation. This just is not a good use of corporate resources. Allowing all issuers to verify data and address errors before publication will go a long way toward saving corporate resources and enhancing the credibility of the issued report.

We also think that proxy advisors would be well served to consider input that the companies provide to them on the underlying logic of their voting recommendations. We often find that proxy advisors' quantitative models do not take into account contextual factors. This can result in companies receiving "against" recommendations on Say on Pay due to the timing of stock price movements, inclusion of inappropriate peers, or the failure to annualize multi-year awards. It is often not appropriate to customize the company's Compensation Discussion and Analysis (CD&A) disclosure to meet the needs of a proxy advisory firm, as the CD&A is intended to address all shareholders. We think that direct interaction between the proxy advisors and the issuers could help ensure that, when the proxy advisor issues an "against" recommendation, it has considered important company-specific factors.

Sincerely,

Daniel Laddin
Partner

Eric Hosken
Partner