



**STATE OF WASHINGTON  
STATE INVESTMENT BOARD**

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January 22, 2020

Vanessa A. Countryman  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549  
Submitted via [rule-comments@sec.gov](mailto:rule-comments@sec.gov)

Re: **S7-22-19** Amendments to Exemptions from the Proxy Rules for Proxy Voting Advice  
**S7-23-19** Procedural Requirements and Resubmission Thresholds under Exchange Act Rule 141-8

Dear Madam Secretary and SEC Commissioners:

The Washington State Investment Board (WSIB), representing \$140 billion in invested assets on behalf of more than 780,000 retirement plan beneficiaries, opposes specific aspects of the rules amendments proposed by the Securities and Exchange Commission (SEC). This letter outlines our concerns with flawed aspects of these rulemaking proposals. We also identify several areas of conceptual agreement.

I hope that by outlining the realities of institutional asset ownership and proxy voting, we can provide an effective antidote to the industry myths and misrepresentations that appear to have become the basis for the SEC's latest proposed rulemaking. Others are already providing a compelling case that the proposed rules appear to conflict with the SEC's own mission and policies. Many have expressed legitimate concern about rushed handling of input and reliance on thinly assembled data. These points deserve serious attention, and we trust the SEC will respond in an accountable manner.

Rather than reiterate those issues, I will point directly to the features of these rules that threaten to interfere with our role as a fiduciary of public trust funds. Highlighted below are the issues we consider disruptive and detrimental to the WSIB's engagement in the public markets. Personally, I am fearful these changes will undermine our corporate governance program and unnecessarily constrain our ability to bring constructive thinking to the companies that generate value for our beneficiaries.

- **WSIB's proxy advisors are providing guidance, data, tracking and timely execution of our voting on proxy resolutions. Our advisors are NOT soliciting us to vote in support of particular policies or in a particular direction.**

By classifying proxy advice as "solicitation," the SEC effectively will saddle our advisory firms with a debilitating layer of procedural work that will translate into added pass-through cost and less time for thoughtful analysis of shareholder resolutions. The business of proxy advice deserves a fair and even-handed regulatory structure, not a complex minefield of exemptions engineering. The existing structure has not been shown to be burdensome to public companies.

For context, the WSIB works with both Glass Lewis and ISS to carry our proxy analysis and annual voting. In 2019, the WSIB voted on approximately 3,058 U.S. corporate shareholder meetings and cast proxy votes on approximately 26,832 proposals dealing with the election of directors, executive compensation, diversity on boards and other governance issues. We have consistently opposed rules that would impose constraints that interfere with our ability to gather and act on proxy intelligence and data.

- **WSIB allocates more than \$480,000 annually to fund its proxy voting advisory services and corporate governance work. Our appropriated resources are limited, but ours is a cost-effective program that relies on outside advice coupled with internal decision-making.** Our proxy advisory services are competitively procured contractual agreements that entitle us to be first in line for analytical information without having our due diligence dampened and slowed by advance notice being provided to companies that are the subject of the research.

The proposed rules would extend the proxy process by essentially adding a week for company previews before investors (the clients) receive the same information. Imagine you hire a recruiter or consultant to advise you on selecting a new CEO. Now imagine they provide their analysis of your top job candidates to the candidates themselves, and they share the report before you are able to receive it and conduct the interviews? By the way, *you* pay the bill for the service!

Such an arrangement clearly undermines the research process, complicates workflow, harms relationships, and compromises the value of the interaction between investors and companies. By detouring the deliverables, the rules would erode the flow of information in a manner that is less constructive and more compromising for both the client and the advisor.

- **Systems for proxy voting and shareholder proposals are not broken. Granted, the plumbing system could benefit from careful updates, but the SEC's proposed overhaul is overkill and does not address the system's plumbing.** Our beneficiaries expect the WSIB to maximize performance at prudent levels of risk. To this end, we engage with companies and vote proxies on issues that are material to risk-adjusted investment performance. We do not divest from broad swaths of the market. We do not blanket-vote our proxies based on environmental, social or governance agendas. We vote proxies and review proposals based on Board-approved policies and our view what's best for beneficiaries.

ESG factors are gradually finding their footing inside the due diligence investment process, rather than being imposed in a greenwashed, agenda-driven fashion from outside of that process. Indeed, all risk factors start out by being "far from settled," as Commissioner Hester Peirce recently described ESG issues. This unsettled state of risk also creates inefficiencies that can be valuably exploited by innovative companies and skilled investors alike.

As ESG matures, investors and companies are responding and engaging, together. The number of shareholder proposals going to a vote is shrinking: Glass Lewis reviewed 426 proposals in 2019 compared to 585 in 2015, a 27% decline in four years. At the WSIB, the volume of our voting has held steady since 2017. More meaningful engagement is stemming the tide of incoming proposals. The existing system and the companies within it are responding appropriately to change. This is not the time for rules upheaval. We urge you to err toward deliberate, data-based refinement rather than overreactive shifts to unwieldy restrictions.

- **The proposed proxy rules introduce a business development barrier for providers of proxy services, and will stifle competition in the proxy services space.**

By characterizing proxy advisory services as “solicitation” and by inserting company management between advisor and client, these rules will unhinge the business models of proxy advisory businesses, discourage competition, and dissuade new entries in the proxy space. Technology has the potential to provide meaningful improvement of the proxy plumbing system, and therefore promises hope for advancements and newly innovative providers. The addition of compromising procedures and government-mandated vetting by corporations will have a chilling effect on innovation and solution-building. The concept of requiring company-filtered advisory services is at minimum a sign of government micro-management. At its worst, it’s offensive to free speech and a barrier to the open marketplace of ideas and opinions.

On balance, the WSIB sees merit in some aspects of the SEC’s proposals, assuming the changes are based on demonstrated data and applied in a way that allows suitable time for input and adjustment.

- **We support rules that would require clear, specific and robust disclosure of any potential, perceived or actual conflicts of interest on the part of proxy advisory service businesses.**  
We agree with the SEC that these disclosures “*should be sufficiently detailed so that clients . . . can understand the nature and scope of the interest, transaction, or relationship to appropriately assess the objectivity and reliability of the proxy voting advice they receive.*” The WSIB expects similar transparency from all its service providers and investment managers.
- **A moderate increase in the dollar thresholds and time requirement for share ownership are workable, at least at the lower end of the rules.**

With inflation at moderate levels and the fact that the entry level for proposals would remain at \$2,000 if stock is held for more than three years, we believe this entry level for shareholder proposals is fair and workable. The change from one year of ownership to three years encourages a somewhat longer-term perspective from shareholders.

However, we believe more documented study is needed to ensure that the upper-end requirement (\$25,000 of ownership for one to two years) does not curtail meaningful input from share owners at the smaller end of the market. Also, the proposed increase for resubmission thresholds are worrisome because companies have enacted valid ESG improvements (e.g., majority voting standards, proxy access, meaningful sustainability reporting) in response to gradual momentum in the shareholder community over time. We believe a gentler adjustment in thresholds (e.g., 3%/10%/15%) would be effective for all concerned. Furthermore, the provision that would disqualify proposals if support falls by 10% strikes us as an unnecessary overreach that artificially interferes with the natural “life expectancy” of shareholder initiatives.

Thank you for this opportunity to provide our views on the rules proposals. I hope this is helpful.

Sincerely,



Theresa Whitmarsh  
Executive Director

cc: WSIB Board Members