Recommendations of the SEC Investor Advisory Committee Regarding Fund Proxy Voting

Fund Proxy Voting — Challenges, Costs, and Pathways to Modernization

I. INTRODUCTION

The current fund proxy voting system for open-end mutual funds and exchange traded funds ("ETFs") is increasingly challenged by modern fund ownership and communication realities. The system's mechanics — particularly quorum and voting thresholds, paired with constrained outreach channels — are driving rising costs, repeated adjournments, and occasional failed proxy campaigns even when voting shareholders overwhelmingly support proposals.

On March 12, 2026, the U.S. Securities and Exchange Commission's Investor Advisory Committee ("Committee") held a panel discussion with industry participants on fund proxy voting.[1] The panel represented a cross section of the industry including small and large fund complexes; a key industry trade association; a leading investor protection association; and a prominent law firm.[2] The discussion focused on the challenges associated with the fund proxy voting framework and ecosystem, and explored potential pathways for modernization. Most panelists noted that reform is necessary and all agreed investor protection is vital to any reforms.

Informed by the panel discussion, experiences of stakeholders, and relevant fund proxy literature, the Committee recommends a phased modernization agenda that improves proxy "plumbing" in the near term and pursues durable, investor-centered reforms through Securities and Exchange Commission ("Commission") staff action and rulemaking, where appropriate.

II. BACKGROUND AND PROBLEM STATEMENT

The open-end fund proxy process, governed primarily by the Investment Company Act of 1940 (the "1940 Act") and its rules, seeks to protect investors by requiring shareholder approval for major governance and operational changes.[3] While open-end funds are not required to hold annual meetings, shareholder approval is required for certain matters, including approving advisory contracts, electing fund directors, changing fundamental investment policies, and approving many fund mergers.

The proxy framework was designed for a voting environment supported by mail, landline telephones, and broker discretionary voting, which historically helped funds reach quorum; these

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[1] Investor Advisory Committee, U.S. Securities and Exchange Commission Panel Discussion on Fund Proxy Voting (Mar. 12, 2026), https://www.sec.gov/about/advisory-committees/investor-advisory-committee/iac031226-agenda; U.S. Securities and Exchange Commission Investor Advisory Committee—Panel Discussion on Fund Proxy Voting, YouTube (Mar. 12, 2026), https://www.youtube.com/watch?v=mMs7lhQBfwA.

[2] Panel participants were: (i) Teresa Nilsen, Chief Operating Officer and Secretary, at Hennessey Advisors, Inc.; (ii) Adam Henkel, Assistant General Counsel, U.S. Product Strategy & Governance, at Invesco; (iii) Paul Cellupica, General Counsel at the Investment Company Institute; (iv) Corey Frayer, Director of Investor Protection, at Consumer Federation of America; and (v) Robert Robertson, Partner at Dechert LLP.

[3] See, for example, 1940 Act Sections 13(a), 15(a), and 16(a) (requiring shareholder approval for changes in certain investment policies and practices, approval of advisory contracts, and election of directors).

conditions have changed. Over the last several decades, household mutual fund ownership surged from ~6% in 1980 to over 50% by the early 2000s and has remained near or above that level, reaching roughly 54% in 2024.[4] During the same period, proxy solicitation evolved from paper mailings and phone calls to electronic delivery, notice and access models, and mobile and digital voting platforms.

Despite these innovations, proxy campaigns have become longer and prohibitively expensive. Investment Company Institute ("ICI") analysis of fund proxy campaigns from 2012 to 2019 found the cost of 145 proxy campaigns over the period totaled $373 million as funds struggled to engage shareholders and obtain sufficient votes.[5] Recent analysis[6] estimates that the total costs for fund proxy campaigns since 2020 have ranged from $675 million to $1.14 billion, with the single most expensive campaign totaling $111 million. The analysis documented three campaigns in the last 20 years that individually exceeded $100 million in costs, underscoring the material cost borne by shareholders and sponsors.

Current proxy voting requirements include:

- Quorum – To act affirmatively on non-routine matters (e.g., approval of an advisory agreement), a shareholder meeting typically requires the presence (in person or by proxy) of more than 50% of the fund's outstanding shares. For routine matters, each fund (or its trust) must achieve quorum by having shares representing more than a certain percentage (e.g., thirty-three and one-third percent (33 1/3%)) of the total combined net asset value of a fund's shares on the record date represented at the meeting, either by virtual attendance or proxy.
- Voting Thresholds - Certain matters—including changes to fundamental investment policies, investment advisory agreements, and mergers – require approval by a "majority of outstanding voting securities," defined as either 67% of shares voted (i.e., votes cast) at a meeting with more than 50% of shares present, or more than 50% of all outstanding shares—whichever is less (a "1940 Act Majority").[7] Other matters—including director elections—do not require a 1940 Act Majority approval although they still require shareholder approval.

The changing landscape, including specific factors below as highlighted in the ICI Whitepaper[8], offers an opportunity to review whether current requirements enable and ensure shareholder participation in achieving quorum and considering proposals.

- Funds' large, diffuse, and retail-heavy shareholder bases; historically, retail shareholders' voting participation rates have been far lower than those of institutional investors.

[4] Sarah Holden et al., *Ownership of Mutual Funds and Shareholder Sentiment, 2024*, ICI Research Perspective, Vol. 30, No. 8, at 2 (Oct. 2024).
[5] 2019 ICI survey of 64 member firms representing 76% of US registered fund assets. See Confronting the Growing Burden of Fund Proxy Campaigns: Analysis of Recent Fund Campaigns and Policy Solutions March 2026 (the "ICI Whitepaper") at 8.
[6] See ICI Whitepaper at 1.
[7] See 1940 Act Section 2(a)(42).
[8] See ICI Whitepaper at 6-7.

- Funds' high degree of intermediation (i.e., shareholders often own shares through broker-dealers, retirement plans, and other third parties), Commission rules that restrict funds' ability to contact directly their objecting beneficial owners, and the practicalities (e.g., fees imposed for obtaining shareholder lists; lists can lack sufficient shareholder information) that cause funds to communicate through intermediaries instead of directly can hinder the ability to effectively engage with beneficial owners on matters requiring them to affirmatively act.
- Federal restrictions under the Telephone Consumer Protection Act, which impede funds from contacting shareholders through their cell phones without prior consent.
- The shift from landlines to cell phones, reducing the effectiveness of traditional solicitation methods.
- Prevalence of telecommunications scams and phishing, chilling shareholder response, and engagement rates.

These growing challenges have increased costs for funds and shareholders and led to frequent meeting adjournments to obtain necessary votes. A 2025 ICI survey revealed that of the 73 responding funds that sought to become non-diversified between 2020-2025, over one-third needed at least one adjournment.[9] Survey results also demonstrated that no funds were unsuccessful due to a lack of obtaining affirmative support from shareholders while 6 funds were unsuccessful because they could not reach quorum. Simply put, adjournments are costly and can negatively impact the shareholder experience due to frequent communications (e.g., phone; mail; e mail) to shareholders seeking their vote. Given the changing landscape, the Committee believes there is an opportunity to evaluate and update the current approach.

III. RECOMMENDATIONS

The Committee recommends that the Commission and its staff pursue a sequenced modernization of the fund proxy system for open-end funds and ETFs that (1) preserves investor protections and meaningful oversight, (2) improves investor experience and participation, and (3) reduces avoidable costs and failure risk driven by outdated mechanics. The Committee urges the Commission and/or its staff to begin to act now so that funds, their shareholders and the fund ecosystem, can realize the numerous benefits of an improved proxy voting system.

a. Near-Term Action: The Committee recommends that the Commission and staff prioritize near-term steps that can reduce friction in the system while maintaining investor choice and transparency.

   Recommendation 1: Permit opt-in retail voting programs, similar to the approach outlined in the Exxon Mobil Corporation no action letter,[10] to increase investor participation without treating silence as consent. The Committee recommends Commission staff permit retail voting programs that provide shareholders with a clear opt-in mechanism for standing voting instructions, with transparent disclosures and easy opt-out, as a way to improve participation while preserving investor autonomy. The retail voting programs could provide

[9] See ICI Whitepaper at page 30.
[10] Exxon Mobil Corporation, SEC Staff No-Action Letter (Sept. 15, 2025).

shareholders with the option to provide standing voting instructions for (1) all matters except contested director elections, or (2) all matters except for the following:

- contested director elections;
- acquisitions, mergers, divestures;
- approvals of and amendments to investment advisory or sub-advisory contracts that result in advisory fee increases; and
- adoption of or changes to Rule 12b-1 distribution plans that result in fee increases (collectively, "non-routine matters").

Given the critical role directors play in overseeing funds for the benefit of their shareholders, the Committee believes that standing instructions should not apply to contested director elections, which arise infrequently for open-end funds.

In furtherance of investor protection, the Committee believes retail voting programs should allow shareholders to override their standing instructions by voting at the meeting. To facilitate this important protection, we recommend funds provide a reminder notice to standing instruction shareholders that informs them that they may override their instructions by voting via their proxy materials. Our recommendation allows retail investors to direct their shares consistent with their desired level of involvement and management support while benefiting from the ability to change their standing instruction if desired.

b. Medium-Term Action: The Committee recommends that the Commission and staff pursue notice-and-comment rulemaking and other actions, to the extent required, to modernize core mechanics and provide legal durability for reforms.

Recommendation 2A: Create an alternative approval pathway for items that currently require quorum above 50% (e.g., approval of advisory contracts). The Committee recommends exploring the pairing of a lower quorum requirement (e.g., 33⅓%) with a higher affirmative vote threshold (e.g., 75%). To utilize the lower quorum requirement, we suggest unanimous approval of the proposed action by the fund's board. The Committee recommends that the Commission evaluate this approach through rulemaking, including robust cost-benefit analysis and investor protection guardrails. As an investor protection guardrail, we urge the Commission to consider affording this relief only to funds that have boards consisting of a supermajority (at least 75%) of independent directors (the "supermajority independent director requirement").

Recommendation 2B: Expand board approval authority with advance notice for select actions (at least 60 days), paired with appropriate investor protections such as supermajority independent board safeguards. This recommendation is an alternative to shareholder approval for certain defined topics (e.g., changes from diversified to non-diversified status and certain fundamental policy changes) that the fund board has approved and advance notice to shareholders will be provided. The Committee recommends careful scoping of which items could shift solely to board action, with explicit carve-outs for matters where shareholder voting remains essential.

As an investor protection guardrail, we recommend the Commission limit any such relief to funds that meet the supermajority independent director requirement. Tailoring the relief to funds with a supermajority of independent directors ensures it would only be available where a fund's governance already meets a high standard of independence and accountability. The Committee believes this guardrail is helpful in the absence of a majority shareholder vote because it helps maintain investor confidence that any changes would require approval by a substantial majority of independent directors acting in shareholders' best interests. Additionally, we recommend prohibiting funds, for a period of time, from imposing any redemption fees or other similar charges on shareholders who want to redeem fund shares after receiving notice of the policy change.

Recommendation 2C: Permit fund boards to appoint a greater number of new independent directors.[11] The recommendation allows boards to appoint more independent directors without triggering costly proxy solicitations. The Committee recommends that the Commission evaluate this approach as part of a broader effort to keep boards strong while reducing barriers to bringing on directors identified by existing directors using their business judgement. As an investor protection guardrail, we urge the Commission to consider affording this relief only to funds that meet the supermajority independent director requirement. The condition ensures that this flexibility is confined to funds where a significant number of independent board members overwhelmingly determine board decisions.

c. Long-Term Action:

Recommendation 3A: Improve shareholder communication pathways. Many funds are held through intermediaries and sometimes through multiple intermediaries. The intermediary structures offer benefits but create communication challenges for funds holding a shareholder meeting as funds do not have a straight-forward, cost effective way to reach their shareholders directly. Funds are unable to contact "objecting beneficial owners" directly and practical realities (e.g., fees imposed for obtaining shareholder lists; lists can lack sufficient shareholder information) limit their ability to directly contact "non-objecting beneficial owners." We recommend modifying rules to allow funds held through intermediaries to communicate directly with their shareholders on proxy voting matters, which could reduce costs and improve voter participation.

The Committee also recommends revisiting proxy processing fees charged by NYSE member firms. Currently, broker-dealers for funds held through intermediaries are reimbursed by funds for delivering proxy materials. If funds were able to deliver proxy materials directly through their selected vendor, we believe competition would be enhanced and funds could negotiate lower proxy processing rates, which would save overall proxy costs. Taken together, these recommendations allow funds to select vendors and communicate with shareholders more directly, which could reduce delays and costs, and potentially enhance the shareholder experience.

[11] Section 16(a) of the 1940 Act allows a board to appoint new members if, after the appointment, at least two-thirds of directors have been elected by shareholders.

Recommendation 3B: Enable modern, investor-friendly communications and disclosures for fund proxies. The Committee recommends allowing fund proxy statements to be shortened and made more navigable through greater use of links and modern digital design, consistent with the policy objective of improving engagement.

Recommendation 3C: The Committee recommends that the Commission and its staff continue a longer-term review of whether the current shareholder governance model for funds is optimally aligned with the fund context, given that investor protection is also delivered through substantive restrictions and independent board oversight. This longer-term work should consider whether certain statutory or structural constraints are contributing to repeated quorum failures and whether additional changes are warranted after near- and medium-term reforms are pursued.

The Committee's recommendations are anchored in investor outcomes and do not eliminate meaningful investor protections. The current system imposes direct and indirect costs on shareholders, including repeated outreach and solicitation expenses, as well as opportunity costs when sponsors redirect resources away from technology improvements, service enhancements, or other shareholder-benefiting initiatives to fund solicitation efforts. In addition, the system can deter funds from pursuing transactions or changes that directly benefit shareholders due to cost, uncertainty, and the risk of quorum failure.

The Committee recommendations also recognize the investor experience dimension. The current structure can reduce trust and satisfaction because outreach methods are increasingly experienced as intrusive or suspicious, particularly in a landscape shaped by scam avoidance behaviors.