The Investor Advisory Committee (IAC) met on May 21, 2020, in a public meeting held remotely online at https://www.sec.gov. The meeting convened at 10:00 a.m. ET and was broadcast live by webcast. The webcast archive can be found on the IAC web page at https://www.sec.gov/video/webcast-archive-player.shtml?document_id=iac052120.

The following persons participated in the meeting:

**Commissioners of the Securities and Exchange Commission**
Chairman Jay Clayton
Commissioner Hester Peirce
Commissioner Allison Lee
Commissioner Elad Roisman

**Members of the IAC**
Anne Sheehan (Chair)
Elisse Walter (Vice Chair)
Craig Goettsch (Secretary)
Nancy LeaMond (Assistant Secretary)
Cien Asoera
Allison Bennington
John Coates
Ted Daniels
Rick Fleming
Elissa Germaine
Stephen Holmes
Lori Lucas
Paul Mahoney
Jennifer Marietta-Westberg
Christopher Mirabile
Mina Nguyen
Barbara Roper
Damon Silvers
Anne Simpson
Jerome Solomon
Heidi Stam
J.W. Verret

**Opening**

Chair Sheehan called the meeting to order at 10:02 a.m. ET and a roll call of members was taken.
**Interim Officers and Other Business**

Chair Sheehan announced that, following the expiration her term on the IAC, Mr. Mahoney will be the interim Chair of the IAC until formal proceedings to elect a Chair can be held at the September 24, 2020 regular IAC meeting. Ms. Stam will serve as interim Chair of the Investor-as-Owner Subcommittee. Mr. Fleming will serve as interim Chair of the Investor-as-Purchaser Subcommittee. Ms. Stam has also agreed to undertake a review of the IAC governance structure. Chair Sheehan then asked for welcome remarks from each Commissioner of the Securities and Exchange Commission.

**Welcome Remarks**

Securities and Exchange Commission Chairman Jay Clayton began with introductory remarks followed by Commissioners Peirce, Roisman, and Lee. Chair Clayton and the other Commissioners praised the exemplary service demonstrated by seven soon-to-be departing IAC members - Chair Sheehan, Mr. Coates, Ms. Roper, Mr. Silvers, Mr. Holmes, Mr. Goettsch, and Ms. Walter – and welcomed the new IAC members – Mr. Daniels, Mr. Asoera, Ms. Germaine, Ms. Lucas, Mr. Khanna, and Mr. Mirabile. Chair Sheehan then invited the other soon-to-be departing IAC members for remarks.

**Approval of Minutes**

A motion was put forward and seconded to approve the minutes of the IAC meetings held on January 24, 2020, February 27, 2020, and April 2, 2020. The minutes were approved and posted to the IAC webpage.

**Panel Discussion Regarding Index Funds**

Chair Sheehan asked Mr. Coates to introduce the panelists presenting on index funds. Mr. Coates introduced each panelist followed by remarks from each panelist in the order listed below:

- Adriana Robertson, Assistant Professor, University of Toronto Capital Markets Institute
- Sebastien Lieblich, Managing Director, Research, MSCI
- Samantha Merwin, Head of Markets Advocacy for ETF & Index Investing (EII) Markets & Investments, Blackrock
- Steve Cohen, Head of Strategy, ProShares

Professor Robertson began with a simple premise – index funds are not organic but have to be created. The natural corollary, put forth by Professor Robertson, was that whoever creates them has to make many decisions on how to create and how to maintain them going forward. Her remarks then focused upon the mis-labeling of index funds as passive investments. Mr. Lieblich started with an overview of MSCI and its role in the creation of indexes. In simplest terms, according to Mr. Lieblich, indexes are created using a weighted average methodology, which MSCI makes available to the public. Ms. Merwin spoke about the dimensions of the index fund market including exchange-traded funds. Ms. Merwin recounted the myriad of decisions that the
manager of an index fund makes. Mr. Cohen relayed the benefits and advantages of index-based mutual funds and exchange-traded funds highlighting their accessibility, affordability, and variability.

A discussion between panelists and Committee members followed.

**Discussion of the Recommendation of the Investor-as-Owner Subcommittee on Accounting and Financial Disclosure**

Chair Sheehan asked Mr. Coates to present the first proposed recommendation of the Investor-as-Owner Subcommittee relating to accounting and financial disclosure. Following Mr. Coates’ presentation, Chair Sheehan opened up the discussion to additional comments from IAC members.


**Discussion of the Recommendation of the Investor-as-Owner Subcommittee on ESG Disclosure**

Chair Sheehan asked Ms. Bennington to present the second proposed recommendation of the Investor-as-Owner Subcommittee relating to ESG disclosure. Following Ms. Bennington’s presentation, Chair Sheehan opened up the discussion to additional comments from IAC members.

A motion was put forward and seconded to vote on approval of the recommendation of the Investor-as-Owner Subcommittee relating to ESG disclosure. The recommendation was approved with four IAC members abstaining and with four IAC members voting against. The approved recommendation is available at [https://www.sec.gov/spotlight/investor-advisory-committee-2012/esg-disclosure.pdf](https://www.sec.gov/spotlight/investor-advisory-committee-2012/esg-disclosure.pdf).

**Recess**

The Committee went into a non-public administrative session at 12:59 p.m.

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1 The four members abstaining were Ms. Germaine, Ms. Lucas, Mr. Asoera, and Mr. Mirabile.
2 The four members abstaining were Ms. Germaine, Ms. Lucas, Mr. Asoera, and Mr. Mirabile. The four members voting against were Mr. Holmes, Mr. Mahoney, Ms. Nguyen, and Mr. Verret.
Chair Sheehan called the afternoon session to order and asked Ms. Nguyen to introduce the panelists for the afternoon session.

**Panel Discussion on Credit Rating Agencies**

Ms. Nguyen introduced each panelist followed by remarks from each panelist in the order listed below:

- Van Hesser, Senior Managing Director and Chief Strategist, Kroll Bond Rating Agency
- Frank Partnoy, Professor, University of California Berkeley
- Marc Joffe, Senior Policy Analyst, Reason Foundation
- Yann Le Pallec, Managing Director, Head of Global Rating Services, Standard & Poors
- Joe Grundfest, Professor, Stanford University

Mr. Hesser started the discussion with background on KBRA and moved into the firm’s response to COVID-19. Professor Partnoy set out three topics to discuss – reliance, oversight, and enforcement – and several specific suggestions on improvement. Mr. Joffe provided a historical overview of credit rating agencies, the industry business model, and the dysfunction of ratings across rating symbols and across asset classes. Mr. Le Pallec focused upon the changes made by S&P following the 2008 financial crisis including overhauling the criteria on multiple development processes, creating a cross-functional credit conditions committee, and instituting an annual formal review process for ratings and methodologies. Professor Grundfest advocated for more fundamental change of the industry including the creation of investor-owned ratings agencies whose ratings would be required in cases where an issuer retains an NRSRO.

A discussion between panelists and Committee members followed facilitated by Mr. Solomon.

**Discussion of the Recommendation of the Investor-as-Purchaser Subcommittee on Disclosure Effectiveness**

Chair Sheehan asked Ms. Roper to present the proposed recommendation of the Investor-as-Purchaser Subcommittee relating to disclosure effectiveness. Following Ms. Roper’s presentation, Chair Sheehan opened up the discussion to additional comments from IAC members.

A motion was put forward and seconded to vote on approval of the recommendation of the Investor-as-Purchaser Subcommittee relating to disclosure effectiveness. The recommendation was approved with four IAC members abstaining. The approved recommendation is available at [https://www.sec.gov/spotlight/investor-advisory-committee-2012/disclosure-effectiveness.pdf](https://www.sec.gov/spotlight/investor-advisory-committee-2012/disclosure-effectiveness.pdf).

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3 The four members abstaining were Ms. Germaine, Ms. Lucas, Mr. Fleming, and Mr. Mirabile.
Subcommittee Reports

Chair Sheehan called upon Mr. Mahoney to report on matters of the Market Structure Subcommittee. Mr. Coates and Ms. Stam were called upon to deliver the report on matters of the Investor-as-Owner Subcommittee. Ms. Roper and Mr. Fleming were called upon to deliver the report on matters of the Investor-as-Purchaser Subcommittee.

Adjournment

Chair Sheehan adjourned the meeting at 3:43 p.m. ET.