Egan-Jones
PROXY SERVICES

U.S. House of Representatives
Subcommittee on the Administrative State, Regulatory Reform, and Antitrust of the Committee on the Judiciary

Hearing Entitled: "The Proxy Advisor Duopoly's Anticompetitive Conduct"

Testimony of Sean Egan
Co-Founder and Managing Partner of the Egan-Jones Company

2141 Rayburn House Office Building
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Chairman Fitzgerald, Ranking Member Nadler, and members of the subcommittee – thank you for the opportunity to testify today. I am Sean Egan, co-founder and managing director of Egan-Jones.

Egan-Jones has two primary businesses: a credit rating agency registered with the Securities and Exchange Commission (SEC) as a Nationally Recognized Statistical Rating Organization (NRSRO), and a proxy advisor business. I am testifying today on behalf of the proxy advisor business.

Egan-Jones Proxy Services was established in 2002 and has become the leading independent provider of proxy vote guidance. Unlike the other two major proxy advisory firms, Egan-Jones does not offer corporate consulting services, which creates an unmanageable conflict of interest. In our opinion, disclosures and perceived firewalls do not sufficiently mitigate the inherent conflicts. Additionally, unlike our foreign-owned competitors, Egan-Jones Proxy Services is owned and operated in the United States.

Egan-Jones Proxy Services was formed because investors came to us demanding alternative voices. We have heard time and again from market participants how the U.S. capital markets and our corporate governance system were not being well served by the existing duopoly of ISS and Glass-Lewis. Today, these two firms' combined market share exceeds 90 percent of the proxy advisory business[1].

I will also highlight how ISS and Glass-Lewis use their market dominance to erect barriers to entry by keeping smaller competitors from gaining market share through restraint of trade practices.

There is a bipartisan consensus on the need for additional competition and reducing barriers to entry across the economy. In fact, the Biden Administration established the White House Competition Council and issued an executive order not only promoting competition policies but pursuing enforcement actions against anti-competitive behavior[2].

[1] Testimony of Professor Paul Rose. Dean, School of Law, Case Western Reserve University. Hearing Entitled: Exposing the Proxy Advisory Cartel: How ISS & Glass Lewis Influence Markets. Before the Subcommittee on Capital Markets Committee on Financial Services U.S. House of Representatives. April 29, 2025.

[2] https://bidenwhitehouse.archives.gov/briefing-room/presidential-actions/2021/07/09/executive-order-on-promoting-competition-in-the-american-economy/

The Trump Administration has a unique opportunity to continue enhancing market competition, promoting corporate governance reforms, and ensuring the U.S. capital markets remain the envy of the world.

About Egan-Jones Proxy Services

Our customers rely upon our recommendations for voting in shareholder meetings and proxy ballots for proposals regarding director elections, compensation, M&A and other items. We offer customized voting guidance so that investors can choose which methodology best aligns with their values.

While we offer several methodologies, our fastest growing policy is our "Wealth Focused Policy." That is because Egan-Jones believes the vast majority of investors are investing to save for retirement and to grow their nest egg. Our "Wealth Focused Policy" is based only on protecting and enhancing investor wealth. The policy is not a "board aligned" policy because directors with poor impact on shareholder return will be opposed.

Need for Competition

Egan-Jones has long advocated for additional competition in both the ratings business and the proxy advisory business. We were founded on the notion that the market is better served with multiple voices; not less (or fewer). Today's powerful duopoly has resulted in anti-competitive market behavior, whereby the economic interests of issuers, investors, and the country are harmed.

As the predominant player in the proxy advisory sector, ISS effectively controls access to the plumbing due to its market share. ISS has erected several barriers to entry by controlling the proxy voting platform.

I'd like to offer several key observations and examples of how ISS and Glass-Lewis use their dominant market share to prevent newer entrants from growing and competing.

- Some proxy advisors risk a conflict of interest by selling vote recommendations to investors and governance consulting to issuers. Our main competitors offer a robust consultancy practice offering companies the opportunity to improve their corporate governance scores, manage executive compensation decisions, and strengthen ESG ratings[3].
  FIX: Consulting and proxy advisory should be separately owned businesses.

- One proxy advisor controls a major voting platform and prevents or limits third parties, including other proxy advisors, from being listed and refuses to share critical public information with those parties.
  FIX: Voting platforms and proxy advisory should be separately owned businesses. Voting platforms should share information neutrally across proxy advisors.

[3] https://www.iss-corporate.com/solutions/governance-solutions/

- There are concerns regarding the concentration among asset managers and seeking to appeal to corporations to attract 401k business.
  FIX: Enable investors who use asset managers to select votes themselves through a proxy advisor by expanding "voting choice" programs.

- Corporations can only respond to proxy advisors' vote recommendations after "the die is cast," meaning after the recommendations are published and votes have been executed.
  FIX: Provide corporations with advance notice and awareness of proxy advisors' vote recommendations and justification prior to report publication.

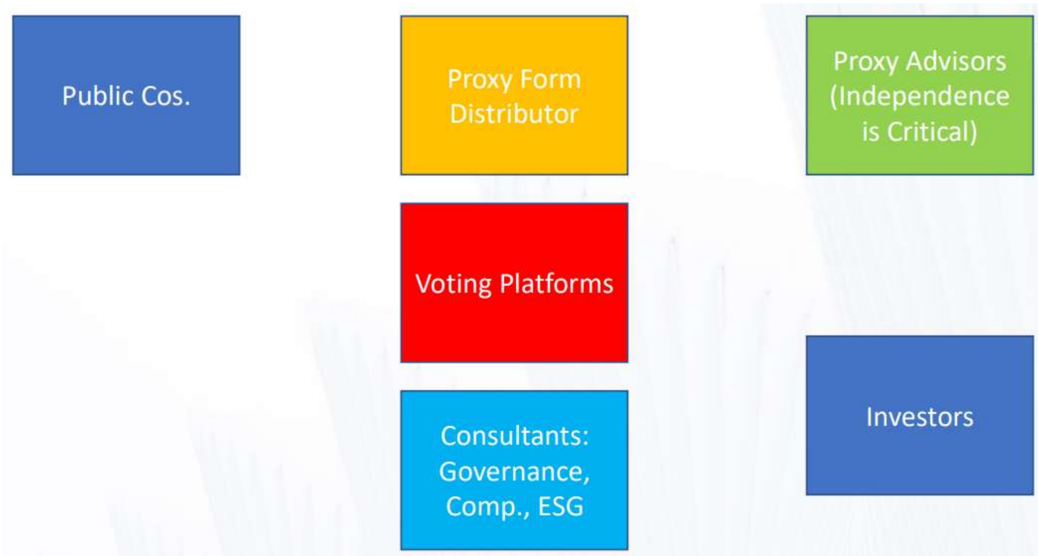
How Corporate Governance Has Evolved

Traditionally, shareholders had a responsibility to hold the management accountable via the annual proxy shareholder process.

Over time, the corporate governance system has become increasingly complex with proxy advisors filling in all the roles in green.

How to Modernize Proxy Advisory

The existing system is riddled with conflicts of interest. The corporate governance process, including shareholders, management, and other stakeholders, would be better served by separating the functions.



Congress should adopt legislative proposals that bring competition to the marketplace and level the playing field by focusing on the following recommendations:

- **Make the voting platforms neutral** – Currently, one of the large proxy advisors provides the voting platform that is used by the bulk of institutional investors. For years, Egan-Jones has tried to be included widely in the platform with little success.

  One of the large proxy advisors will host recommendations from Egan-Jones but only if a customer explicitly requests those recommendations. For all other potential customers, the proxy advisor hides Egan-Jones as an option.

  Further, the same large proxy advisor has hidden critical public information from third parties such as voting deadlines. It is difficult to deliver votes to the advisor as a third-party if one doesn't know when the vote is due. They have also hidden information to identify public companies, such as the exchanges on which a stock trades. It is difficult to offer vote recommendations if a third party can't easily identify the company in question.

  Competition is restricted if managers cannot access the work product of competing proxy advisors and serves to restrict competition.

- **Restrict conflict-laden consulting services** – Proxy advisory firms' selling of corporate governance, executive compensation, DEI, and ESG ratings creates a conflict of interest. Simply put, no one can serve two masters. A "wall" between the businesses does not address the underlying conflict of interest as ratings or assessments from the consulting side are typically used by the proxy advisory side, thereby inappropriately monetizing the proxy advisors' market power.

  Investors can be harmed by the arrangement because proxy advisory firms have an incentive to support their most lucrative customers, corporate boards, rather than reject management proposals.

  Issuers may be harmed because they may decide to pay for expensive governance consulting rather than face potential lack of support from proxy advisory firms. A legitimate use of the proxy advisory firms by issuers is accessing their data and algorithms at a reasonable price.

- **End robo-voting and other dubious practices** – Shareholders' votes on directors and major actions by corporations are critical to the proper functioning of the economy. Thus, abdicating that responsibility should be disallowed. Examples of negligence include **(1)** always voting with management or **(2)** voting in a manner that replicates the voting of other investors, which is also known as "mirror voting."

- **Expand Proxy Voting Choice Programs** – Pressure has been building on the largest asset managers to allow underlying investors to vote on individual proxy ballots via "voting choice" programs. Several Egan-Jones methodologies are now available for investors in index funds to select as voting options. This democratization of the voting programs allows for investors to vote on annual proxies aligning with their own values rather than simply defaulting to the views of the fund managers. Policymakers should continue encouraging these reforms so investors have greater choice and optionality.

Legislative Proposals and Regulatory Reforms

We commend Representative Fitzgerald's (R-WI) draft legislation, the "Stopping Proxy Advisor Racketeering Act." The legislation would prohibit proxy advisory firms from issuing proxy voting advice if the proxy advisory firm also offers consulting services such as ESG rating scores, corporate governance and executive compensation consulting, among others. As we outline above, companies feel obligated to purchase consulting services from proxy advisor firms so that they will receive better recommendations and outcomes at the ballot box. It is essentially a shakedown. Companies are being forced to manage their businesses to the likes of ISS and Glass-Lewis's recommendations rather than focusing on the best interest of shareholders, employees, and the long-term value creation of the company.

Conclusion

Investors have not been well served by the current duopoly. This sector is in dire need of reform. Investors would be better served by more competition and more optionality. Egan-Jones Proxy Services strongly believes the market will benefit from additional choices, which will in turn increase shareholder value and generate positive returns for investors to grow their nest egg and achieve a comfortable retirement.

Thank you again for inviting me to testify, and I look forward to answering your questions.