

MEMORANDUM

To: Members of the Committee on Financial Services

From: Financial Services Majority Staff

Date: July 10, 2023

Re: July 13, 2023, Subcommittee on Oversight & Investigations Hearing Entitled “Oversight of the Proxy Advisory Industry”

On Thursday, July 13, 2023, at 2:00 p.m. in Room 2128 of the Rayburn House Office Building, the Subcommittee on Oversight and Investigations (Subcommittee) will hold a hearing entitled “Oversight of the Proxy Advisory Industry.” Testifying at the hearing will be:

- Eric Shostal, Senior Vice President for Research and Engagement, Glass Lewis
- Steven Friedman, General Counsel, Institutional Shareholder Services
- Professor Shiva Rajgopal, Columbia Business School

This hearing will examine the growing influence of proxy advisory firms on America’s capital markets. The Subcommittee will review the metrics that proxy advisory firms use to measure the impact of Environmental, Social, and Governance (ESG) policies on maximizing long-term value and identify what factors are prioritized when making voting recommendations.

Background

The House Committee on Financial Services plays an essential role in promoting the transparency and accountability of our capital markets, as well as protecting the interests of retail investors. Two proxy advisory firms, Glass Lewis and Institutional Shareholder Services (ISS), control 97 percent of the proxy advisory market.¹ Their dominance raises questions about bias, accountability, and oversight, as these firms have the power to influence institutional investors’ voting decisions.

The increasing influence of proxy advisors can be attributed to several factors. First, these firms provide recommendations on how institutional investors should vote on various shareholder proposals. Institutional investors lack the time and resources to conduct extensive research on every proposal and rely on the expertise and guidance of proxy advisors. Second, the rise of passive investing has further amplified the role proxy advisors play, as they often dictate voting decisions for a significant portion of shares held by passive funds.

In addition, proxy advisors operate without sufficient transparency – declining to disclose their historical recommendation data and the process they use to develop their guidelines.

¹ James R. Copland, David F. Larker & Brian Tayan, The Big Thumb on the Scale: An Overview of the Proxy Advisory Industry (Stan. U. Graduate Sch. Bus., Research Paper No. 18-27, 2018), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3188174.

Insulation from meaningful oversight makes it difficult to assess the objectivity and reliability of their recommendations.