

Via Hand Delivery

December 12, 2017

The Honorable Paul Ryan
Speaker of the House of Representatives
United States House of Representatives
Washington, DC 20515

The Honorable Nancy Pelosi
Minority Leader
United States House of Representatives
Washington, DC 20515

Re: H.R. 4015

Dear Mr. Speaker and Minority Leader Pelosi:

On behalf of the Council of Institutional Investors (CII or Council), we are writing to express our opposition to H.R. 4015, which we understand will soon be voted on by the United States House of Representatives.

CII is a nonpartisan, nonprofit association of public, corporate and union employee benefit funds, other employee benefit plans, state and local entities charged with investing public assets, and foundations and endowments with combined assets under management exceeding \$3 trillion. CII's member funds include major long-term shareowners with a duty to protect the retirement savings of millions of workers and their families. The Council's associate members include a range of asset managers with more than \$20 trillion in assets under management.¹

Many of our members and other institutional investors voluntarily contract with proxy advisory firms to obtain research reports to assist the funds in voting their proxies according to the funds' own proxy voting guidelines. This contractual relationship provides investors a cost-efficient means of obtaining supplemental research on proxy voting issues, which is particularly beneficial since many funds hold thousands of companies in their investment portfolios.

H.R. 4015 would establish a new federal regulatory scheme for proxy advisory firms that would (1) grant "companies," apparently meaning corporate management, the right to review the proxy advisory firms research reports before the paying customers—investors—receive the reports; (2) mandate that the proxy advisory firms hire an ombudsman to receive and resolve corporation's complaints; and (3) if the ombudsman is unable to resolve the complaints, and if the company management submits a written request, proxy advisory firms would be required to publish company management's dissenting statement. These provisions would result in the federal government interposing corporate management between investors and those proxy advisory firms that investors hire to provide them with research on issues, such as executive compensation, in which corporate management can have its own interests, sometimes in conflict with investors and with the corporate entity.

¹ For more information about the Council of Institutional Investors (Council) and our members, please visit the Council's website at http://www.cii.org/about_us.

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Setting aside whether the provisions of H.R. 4015 are consistent with First Amendment rights of freedom of speech, the provisions are not practical. The provisions would require proxy advisory firms to provide the management teams of more than 4,000 corporations the opportunity to present detailed comments on the firm's reports in a matter of weeks before the reports are provided to investors. Thus, investors would have limited time to analyze the reports in the context of their own proxy voting guidelines to arrive at informed voting decisions. Time is already tight, particularly in the spring "proxy season," due to the limited period between a corporations' publication of the annual meeting proxy materials and the date in which investors are permitted to vote on proxy issues.

In addition, the provisions of H.R. 4015 would likely result in fewer market participants in the proxy advisory firm industry. The provisions would add significant costs increasing barriers to new entrants and potentially leading some existing firms to exit the industry altogether.

We also note that the United States Department of Treasury recently performed extensive outreach to identify views of company management teams and other market participants on proxy advisory firms in connection with its recently issued report to President Trump on "A Financial System that Creates Economic Opportunities, Capital Markets." In its report the Treasury found that "institutional investors, who pay for proxy advice and are responsible for voting decisions, find the [proxy advisory firm] services valuable, especially in sorting through the lengthy and significant disclosures contained in proxy statements." More significantly, the Treasury *did not call for legislation* of the proxy advisory firm industry.

Finally, we have attached for your information and review a November 9, 2017 letter signed by 45 investors and investor organizations describing in more detail the basis for their strong opposition to H.R. 4015.

Thank you for considering our views. We would welcome the opportunity to discuss our perspective on this important issue with you or your staff in more detail. I can be reached at jeff@cii.org or by telephone at 202.822.0800.

Sincerely,



Jeffrey P. Mahoney
General Counsel

Attachment

cc: The Honorable Jeb Hensarling, Chairman, Committee on Financial Services, United States House of Representatives
The Honorable Maxine Waters, Ranking Member, Committee on Financial Services, United States House of Representatives