

December 21, 2017

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U.S. House Approves Proxy Advisor Reform Bill

On December 20, the U.S. House of Representatives [voted](#) 238-182 to approve H.R. 4015, the "Corporate Governance Reform and Transparency Act of 2017," which would direct the Securities and Exchange Commission to regulate proxy advisory firms. The bill, sponsored by Rep. Sean Duffy (R-WI) and Rep. Gregory Meeks (D-NY), passed with bipartisan support, with 12 Democrats joining almost all the House Republicans to vote for the legislation.

NIRI, the Society for Corporate Governance, Nasdaq, NYSE, the U.S. Chamber of Commerce, and other business advocates supported the legislation, which would mandate a draft review process and require proxy firms to improve disclosure of their conflicts of interest. In a 2016 NIRI advocacy survey, 87 percent of U.S. IR practitioners agreed that proxy advisors should be required to provide proxy report drafts to all issuers.

"We are asking for accountability, transparency, and competition in the proxy advisor space," Rep. Duffy said during floor debate on the bill, which he described as common-sense legislation to provide needed oversight of the proxy advisory business, which is dominated by two firms with a 97 percent market share. Responding to opponents' arguments that the bill would be too burdensome and could silence shareholders, Rep. Jeb Hensarling (R-TX), chair of the House Financial Services Committee, said: "This is a disclosure bill -- pure and simple."

"NIRI is pleased that the U.S. House has passed H.R. 4015, and we thank Rep. Duffy and Rep. Meeks for their leadership on this important bipartisan legislation, which will improve the accuracy of proxy advisor reports for the benefit of both investors and companies," said NIRI President and CEO Gary A. LaBranche, FASAE, CAE.

Here are notable provisions of the proxy advisor bill:

- The bill would require proxy advisory firms to register with SEC under the Securities Exchange Act of 1934.
- Each proxy advisor would be required to establish, maintain, and enforce written policies and procedures reasonably designed to "address and manage any conflicts of interest that can arise from such business." The SEC would be granted broad authority to prohibit or regulate specific conflicts of interest, including the offering of consulting services to issuers.
- Each proxy advisory firm would be required to have "staff sufficient to produce proxy voting recommendations that are based on accurate and current information."

- Each proxy firm would be required to develop procedures “sufficient to permit companies receiving proxy advisory recommendations access in a reasonable time (not less than three business days) to the draft recommendations, with an opportunity to provide meaningful comment thereon, including the opportunity to present details to the person responsible for developing the recommendation in person or telephonically.”
- Each proxy firm would have to designate an ombudsman to receive complaints about the accuracy of information used in making recommendations.
- Each proxy advisor would be required to make public its “methodology for the formulation of proxy voting policies and voting recommendations.”

A companion bill has not yet been introduced in the U.S. Senate. If every Republican in the Senate votes for this bill, proponents of proxy advisor reform would need to win support from at least nine Democrats to overcome a potential filibuster in 2018. NIRI encourages members and their companies to contact their home state senators and share their views on proxy advisors.

Resources

- [H.R. 4015, Corporate Governance Reform and Transparency Act of 2017.](#)
- [NIRI Briefing Paper: The Case for Proxy Advisor Reform](#)
- [Letter from the Corporate Governance Coalition for Investor Value, December 19, 2017](#) (in support of H.R. 4015).

About the National Investor Relations Institute (NIRI)

Founded in 1969, NIRI (www.NIRI.org) is the professional association of corporate officers and investor relations consultants responsible for communication among corporate management, shareholders, securities analysts and other financial community constituents. NIRI is the largest professional investor relations association in the world with more than 3,300 members representing 1,600 publicly held companies and \$9 trillion in stock market capitalization.

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