

ICI Calls on SEC to Improve Proxy System for Funds and Their Investors

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Current System Is Costly, Inefficient, and Failing to Serve Fund Shareholders

Washington, DC; June 11, 2019—The fund proxy system, which funds use to solicit votes from shareholders, poses significant challenges and costs to funds and their investors, says the Investment Company Institute (ICI) in a [comment letter](#) filed with the Securities and Exchange Commission (SEC) in connection with its ongoing review of the proxy system.

“Funds have a strong interest in improving the proxy system to ensure communications and the voting process are more effective and less expensive for investors,” said ICI President and CEO Paul Schott Stevens. “But funds face difficulties and excessive costs that can only be alleviated by the SEC implementing meaningful proxy reform.”

[ICI’s letter](#) highlights several reasons why funds face problems and high costs in soliciting proxy votes:

- Nearly 90 percent of mutual fund shareholders are retail investors, who are far less likely to vote than institutional investors.
- Current rules limit funds’ abilities to directly contact shareholders, making it harder and more expensive to obtain votes.
- Proxy materials can be lengthy (pages 1–4).

Proxy Solicitation Costs Funds—and Their Shareholders

In November 2018, ICI surveyed its members about their 2017 and 2018 proxy campaigns. Respondents represented approximately 71 percent of US fund assets. Among other things, the survey found that:

- more than 35 percent of respondents said their proxy campaigns cost \$1 million or more;
- nearly 10 percent said their campaigns cost more than \$10 million; and
- one respondent said its 2017 campaign exceeded \$100 million.

ICI's letter explains why funds—and their shareholders—often bear these proxy costs (pages 4–5).

SEC Should Modify Shareholder Approval Requirements

To help make the fund proxy system more efficient and cost-effective, ICI suggests that the SEC reconsider the topics that require shareholder approval under the Investment Company Act, particularly if a fund's board approves an item and shareholders are notified about it.

For topics that need shareholder approval, ICI recommends that the Commission create a new way for funds to achieve a “majority vote” under the Act. This recommendation would permit proposed items to pass with unanimous board approval, support from at least three-quarters of the shares voted, and a quorum of greater than one-third of outstanding shares (pages 7–11).

Improving Funds' Abilities to Communicate with Investors Is Critical

ICI's letter notes that fund shareholders largely invest through intermediaries, and SEC rules limit funds' abilities to obtain shareholder information. Funds often do not know the identities of large numbers of their shareholders, which makes it extremely difficult for funds to directly communicate with their investors. As a result, successfully soliciting shareholder votes is challenging and expensive.

ICI recommends that the SEC require intermediaries to provide their lists of fund shareholders to funds at a reasonable cost, for the sole purpose of distributing fund proxy materials. Requiring intermediaries to do so would improve funds' abilities to communicate directly with their shareholders and lower their proxy solicitation costs (pages 3, 11–12).

Additional Recommendations

Finally, ICI's letter recommends that the SEC:

- enable funds using the “notice and access” proxy method to include a proxy card when first alerting investors about an upcoming vote (pages 12–13),
- reform the NYSE fee schedule so that distribution fees for proxy materials better align with actual costs (page 13), and
- make it easier for investors to read and understand proxy materials by allowing funds to link to more detailed information online (pages 13–15).