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Proxy System Can Be Improved to Better Serve All Market Participants

Washington, DC; March 15, 2019—The proxy system is vital to US capital markets and should be modernized, says the Investment Company Institute (ICI) in a comment letter filed today.

“We applaud the Securities and Exchange Commission (SEC) for assessing proxy issues,” said ICI President and CEO Paul Schott Stevens. “As both investors and issuers, funds have a strong interest in a well-functioning, cost-efficient proxy system. Enhancing the transparency of proxy voting, improving communication among relevant stakeholders, and updating shareholder proposal requirements would help better serve and advance investors’ interests.”

ICI’s letter provides important perspective and recommendations on specific aspects of the proxy system, including disclosure requirements, communication among market participants, shareholder proposals, and the system’s “plumbing.”

Extend Transparency to Other Investors

Regulated funds take their proxy voting responsibilities seriously. As part of these responsibilities, funds must publicly disclose the actual votes they cast. ICI research shows that regulated funds account for less than one-third of the overall share of US corporate equity, while other institutional and retail investors account for more than two-thirds. ICI’s letter urges the SEC to consider requiring other institutional investors—not just funds—to disclose their votes. ICI explains that calling for all institutional investors to do so would increase transparency in the proxy system (pages 10–11).

“Pass Through” Voting Is Utterly Misguided and Impractical

Funds cast their proxy votes in the best interest of their shareholders. Some parties have proposed requiring mutual funds to consult shareholders before voting on a proxy proposal for each portfolio company. This would essentially “pass through” the fund’s voting decisions to its shareholders. ICI’s letter strongly advocates against this idea, explaining why it is misguided and would be extremely impractical for both funds and their investors.

According to ICI research, an average mutual fund votes on more than 1,500 separate proxy proposals a year. If mutual funds were required to get shareholders’ opinions on each proposal, a fund would have to contact, obtain, and process feedback from thousands or even millions of shareholders within the highly compressed proxy season. This would heavily burden funds and their shareholders.

In addition, many investors hold shares in more than one fund, meaning they would receive and be expected to respond to countless proxy notices. Based on retail investors’ relatively low response rates to existing proxy notices, there is no reason to believe that those same investors would want to vote on hundreds or thousands more proxy proposals—or pay the associated costs (pages 11–12).

Improving Communication Would Benefit All Market Participants

Constructive communication among the relevant market participants is important. In its letter, ICI emphasizes that funds should be able to receive independent, objective, and accurate information from proxy advisory firms in a timely and cost-effective manner. ICI suggests that the SEC explore how it could help investors more easily access public companies’ objections to proxy advisory firms’ recommendations.

The letter underscores that any solution must be crafted so that it doesn’t burden funds or compromise the objectivity of proxy advisory firms’ reports. Making it easier for companies to convey their concerns about proxy advisory firms’ research and recommendations to investors would help shareholders have more complete and accessible information before casting their votes (pages 13–14).

Enabling Funds to Confirm Their Votes Are Cast as Instructed Is Critical

ICI strongly encourages the Commission to consider a rule that would make it easier for shareholders to affirm that their votes were cast correctly. Any new rule should enable investors to verify their votes, permit flexible alternatives to encourage competition, and be technology-neutral to allow for improvements over time (page 17).

Additional Recommendations

Finally, ICI’s letter recommends:

- Improving the shareholder proposal process by reviewing and reconsidering the criteria for resubmissions (pages 15–16)
- Revamping the SEC’s internal process for deciding whether a public company may exclude a shareholder’s proposal (page 16)

- Making it more efficient and cost effective for funds to solicit shareholder votes in response to fund proxies (pages 17–18)