DEVELOPMENTS THAT MATTER

Why the SEC is Right to Regulate Proxy Advisory Firms

For too long, proxy advisory firms have been allowed to frustrate public companies with factual mistakes, methodological weakness, conflicts of interests, and a lack of transparency.

In July, the Securities and Exchange Commission (SEC) finalized its Proxy Advisor rule, which marked an important step in making the corporate governance landscape more hospitable for public companies.

The proxy advisory industry is challenging the lawsuit in federal court. The U.S. Chamber filed an amicus brief supporting the SEC's regulatory efforts.

What we argue:

- The SEC acted within the scope of its statutory powers.
- The rule is reasonably tailored to address significant concerns about the provision of proxy voting advice.

The Chamber's Center for Capital Markets Competitiveness (CCMC) also published a white paper examining the SEC's rule. It concludes the SEC has statutory authority to promulgate the rule and that the final rule reflects reasoned decision-making.

What we found:

- The SEC demonstrated the need for regulation given the potential conflicts of interest and poor-quality governance advice in the proxy advisory industry.
- The agency made thoughtful changes between proposal and finalization of the rule.

Why it matters: For decades, the U.S. has seen a decline in the number of public companies, which has had an adverse impact on growth, innovation, and job creation. The SEC's Proxy Advisor rule takes significant steps to ameliorate these issues.

Our take: This rule is a step in the right direction to address deficiencies in the proxy advisory system. The rule brings greater transparency, better oversight and clarity around conflicts of interest, and heightened investor protection in the proxy voting process. The Chamber will continue advocating and defending reforms like this one.

–Tom Quaadman, Executive Vice President, U.S. Chamber Center for Capital Markets Competitiveness