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Letter to SEC Urges Regulation of Proxy Advisory Firms

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The Shareholder Communications Coalition, a group that includes the Business Roundtable, the National Investors Relations Institute and the Society of Corporate Secretaries and Governance Professionals, recently sent a **letter** to the SEC advocating for a proposed regulatory framework for proxy advisory firms, as a result of recent public statements from the SEC indicating that the agency may finally move forward on the proxy plumbing concept release issued in July 2010. The Coalition recommends that the SEC develop rulemaking that includes:

– ***Regulatory oversight.*** The Coalition suggests that any rulemaking include minimum standards of professional conduct and full disclosure of conflicts of interest, and require proxy advisory firms to disclose relationships with clients who are the proponents of shareholder proposals or "vote no" campaigns when making favorable recommendations on those items. The rules should also address whether the firms are permitted to offer consulting services to any public company for which they then provide voting recommendations.

– ***Increased transparency***. The Coalition states that increased transparency is needed regarding the firms' internal procedures, guidelines, standards, methodologies and assumptions used in developing voting recommendations, especially where they apply policies without taking into account company-specific factors.

– ***Accuracy of factual information***. The Coalition seeks to have proxy advisory firms provide advance drafts to all public companies so factual errors can be corrected, and asks the SEC to consider whether disclosures of disagreements with companies should be disclosed in the reports.

In addition, the Coalition discusses the need for the SEC and the Department of Labor to review the existing regulatory framework for the use of proxy advisory firms by institutional investors, and whether those investors are sufficiently exercising their oversight responsibilities to satisfy their fiduciary duties.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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