

# GAO Highlights

Highlights of [GAO-17-47](#), a report to the Chairman, Subcommittee on Economic Policy, Committee on Banking, Housing, and Urban Affairs, U.S. Senate

## Why GAO Did This Study

As institutional investment has grown over the last 30 years, institutional investors increasingly have relied on proxy advisory firms. The proxy advisory industry in the United States consists of five firms—two of which are the largest and most dominant proxy advisory firms. Some members of Congress, industry associations, and academics have raised issues about proxy advisory firms' influence on voting and corporate governance, the level of transparency in their methods, and the level of regulatory oversight.

GAO was asked to review the current state of the proxy advisory industry. This report discusses (1) the influence proxy advisory firms may have on voting and corporate governance, (2) how firms develop and apply policies to make vote recommendations, and (3) SEC's oversight activities. GAO reviewed literature; analyzed the proxy advisory firms' policies and SEC policies and examinations; and interviewed the 5 proxy advisory firms, 13 institutional investors, 11 corporate issuers, SEC officials, and industry stakeholders. GAO randomly selected corporate issuers from Standard and Poor's indexes and judgmentally selected institutional investors (based on size and type of investor) from industry associations' information.

GAO makes no recommendations in this report. GAO provided a draft to SEC for its review and received technical comments, which were incorporated as appropriate.

View [GAO-17-47](#). For more information, contact Michael Clements at (202) 512-8678 or [clementsm@gao.gov](mailto:clementsm@gao.gov).

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## CORPORATE SHAREHOLDER MEETINGS

### Proxy Advisory Firms' Role in Voting and Corporate Governance Practices

## What GAO Found

Institutional investors, such as pension plans and mutual funds, hire proxy advisory firms to obtain research and vote recommendations on issues, such as executive compensation and proposed mergers that are addressed at shareholder meetings of public corporations (corporate issuers). Market participants and other stakeholders with whom GAO spoke agreed that with the increased demand for their services, proxy advisory firms' influence on shareholder voting and corporate governance practices has increased. But recent studies, market participants, and stakeholders had mixed views about the extent of the influence. For example, some said influence can vary based on institutional investor size (there is less influence on large institutional investors that often perform research in-house and have their own voting policies).

Proxy advisory firms, specifically Institutional Shareholder Services and Glass Lewis & Company—the two largest firms—develop and update their general voting policies through an iterative process, involving analysis of regulatory requirements, industry practices, and discussions with market participants. Corporate issuers and institutional investors told GAO that unlike in the past, the firms have made more of an effort to engage market participants in the development and updating of voting policies, such as criteria for assessing the independence of board directors and executive compensation packages. According to the firms, they apply these general voting policies to publicly available company information to develop vote recommendations, which also are based on institutional investor voting instructions and criteria that firm analysts determine are applicable to the issue being voted on. Firms have taken steps to communicate with corporate issuers and allow review of data used to make vote recommendations before they are finalized. However, some corporate issuers told GAO that firms continue to apply policies in a one-size-fits-all manner, which can lead to recommendations not in the best interest of shareholders. Corporate issuers also stated that they often do not understand the rationale for some vote recommendations and would like to discuss them before they are finalized. Proxy advisory firms told GAO that to maintain objectivity and satisfy research reporting timelines for clients, they limit the breadth of such discussions.

Securities and Exchange Commission (SEC) oversight of proxy advisory firms and the services they provide has included gathering information, issuing guidance, and examining proxy advisory firms and use of the firms by investment companies, such as mutual funds. In 2010, SEC summarized concerns that market participants raised about conflicts of interest, accuracy, and transparency of proxy advisory firms and requested comments on potential regulatory solutions. In December 2013, SEC held a roundtable to discuss issues facing the proxy advisory industry, and issued guidance in June 2014 on disclosure of conflicts of interest, among other things. According to SEC, it also has continued to address concerns surrounding proxy advisory firms through its examinations of investment advisers and investment companies that retain their services. SEC made these examinations a priority in 2015 and an area of focus in its ongoing initiative for registered investment companies that had not been examined by SEC.