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Proxy Voting Advice Has Become the Latest Political Football

By Paul Andrews   Aug 4, 2022

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The Securities and Exchange Commission recently adopted new rules governing proxy voting advice. The July 13 press release announcing the new rules was innocuous. SEC Chairman Gary Gensler was pleased, he said, to support an effort to "address issues concerning the timeliness and independence of proxy voting advice, which would help to protect investors and facilitate shareholder democracy." Investors, he continued, need "independent and timely advice."

To the casual observer, it was business as usual—the SEC making routine upgrades and clarifications to maintain U.S. securities laws. In this case, however, routine belies the growing politicization of the SEC. The regulation of proxy advisers has been disconnected from the goals of governing financial markets and is now just another political object for Washington politicians to fight over. The accelerating invective and misinformation spread by corporates about the proxy advisory business and even the shareholders that use such services has surprised even political pros.

Proxy voting advisory firms provide recommendations to customers on how to vote on public company proxy proposals. These customers are typically big institutional investors invested in hundreds of individual portfolio companies, each generating proxies to review and vote every year. Proxy advisory services have been a godsend to the quality, efficiency and transparency of the annual proxy voting process since the early 1990s. Among other things, these firms help their shareholder customers in establishing detailed proxy voting guidelines. Once confirmed by the customer, these guidelines provide a consistent and transparent road map for how proxy ballots get executed.

Gary Gensler, chairman of the U.S. Securities and Exchange Commission, said recently that new rules about proxy advisors would help ensure shareholder democracy. Al Drago/Bloomberg

Next up is proxy season, when proxy statements start arriving. The advice firms scour thousands of global and domestic proxies each year, conducting detailed, independent financial analysis. This analysis is then compared and contrasted to the proxy voting guidelines of the customer. Based on this research, the advisory firms offer informed voting recommendations to their customers. Advisory services have become a big deal in the world of corporate governance both in terms of the tens of thousands of recommendations and votes they facilitate each proxy season but also in terms of the growing influence their recommendations play in how shareholders ultimately vote.

Understandably, U.S. corporate boards and CEOs do not appreciate negative voting recommendations on their proxy matters. Over the years, some have gone to great lengths to both disparage advisory firms and even block negative recommendations. This corporate response is one of textbook analyst retaliation, something which CFA Institute is intimately familiar with. Often when a stock analyst issues a sell or sell short recommendation on a company, the analyst, the methodology and the accuracy or integrity of the recommendation are quickly discredited. Negative proxy recommendations