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September 12, 2016

The Honorable Maxine Waters
Ranking Member, Committee on Financial Services
United States House of Representatives
2221 Rayburn House Office Building
Washington, DC 20515

Dear Ranking Member Waters:

As the House Committee on Financial Services begins its consideration of the Financial CHOICE Act, I want to thank you for your past vote in Committee against H.R. 5311, the Corporate Governance Reform and Transparency Act of 2016. Despite its name, this bill would destroy the fiduciary bond that proxy advisers have with their clients, and make it more difficult for shareholders to cast informed proxy votes, thereby decreasing the transparency of corporate boardroom decisions. I urge you to continue your stand against this bill, which is now in Subtitle Q of Title X of the draft CHOICE Act.

Subtitle Q would replace an existing fiduciary regulatory regime with a brand new, non-fiduciary regulatory regime for proxy advisory firms, an industry with only five players in the United States. One of the most troubling aspects of the proposed new regime is the requirement that proxy advisers provide the corporations who are the subjects of their proxy analyses with access to drafts of these reports (and to the reports' authors) and an opportunity to provide "meaningful" comments. Proxy advisory firms would also be required to employ an ombudsman to receive complaints from the corporations about the so-called "accuracy" of voting information used in making vote recommendations, and would require that such complaints be resolved prior to the voting on the matter to which the recommendation relates.

Given the already short time period between when companies issue their proxy materials and the shareholder meeting date, this draft review right would, in practice, severely limit institutional clients' ability to receive in a timely manner the information they need to make informed proxy voting decisions. More egregiously, the multi-layered review process would provide corporations with substantial influence over the work of proxy advisory firms, potentially undermining the independence and objectivity of that work. Since it is the corporation itself – not the proxy adviser – that controls the timing of the proxy vote, an inability to resolve issuer complaints (real or imagined) could prevent the proxy adviser from providing timely recommendations to its clients, effectively granting corporations veto power over the advice that is provided to their shareholders.

For a political analogy, this would be similar to requiring that the majority party be given the power to review and approve the minority party leadership's vote recommendations before they could go out to Members. Just as Members have the right to choose the source(s) of their information, shareholders should also have the right to choose the tools,

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services and information they need to make informed proxy voting decisions– without it being filtered by the management of the corporation in question.

In short, the requirements in the bill would destroy the ability of proxy advisory firms, such as Institutional Shareholder Services (ISS), to provide timely and impartial research and recommendations to those who have hired them. This and other concerns with the legislation are detailed further in my statement for the record which was submitted to the Committee's Subcommittee on Capital Markets and Government Sponsored Enterprises on May 17, 2016.

As I explained in that statement, proxy advisers do not have an activist agenda. In fact, they do not even review and analyze issues unless and until those issues are put on the agenda for a shareholder vote. It is the corporations (and in some cases their shareholders), not proxy advisers, who set those meeting agendas. Even then, the analyses are done based on publicly available information, and the recommendations are tailored to the proxy voting and governance philosophy and voting policies of the individual client. Moreover, no one is required to follow these vote recommendations, let alone to hire a proxy adviser. Proxy advisers such as ISS are an expense for institutional investors. These investors would not be purchasing our services if they did not see the value in what we do and if we were not delivering the high-quality, independent research which they require.

ISS is currently regulated as an investment adviser under the Investment Advisers Act of 1940. Under that Act, the Securities and Exchange Commission has promulgated a strong, investor-centric regulatory regime that governs *all* investment advisers, including those whose advice pertains only to proxy votes and other matters of corporate governance. A new regulatory regime is not needed, and – given the strong public opposition to this bill by major pension funds and other institutional investors—it is clearly not wanted by those that the bill's proponents claim they are helping to protect.

Again, we thank you for your earlier vote. We urge your continued opposition to these provisions, and are happy to answer any questions you may have.

Sincerely,

Institutional Shareholder Services Inc.

Gary Retelny, President and Chief Executive Officer