

United States Senate

WASHINGTON, DC 20510

May 9, 2018

Mr. Gary Retelny
Institutional Shareholder Services
702 King Farm Blvd.
Suite 400
Rockville, MD 20850

Dear Mr. Retelny,

As members of the Senate Banking, Housing, and Urban Affairs Committee, we have been actively reviewing current practices within the proxy advisory industry. For years, your organization has significantly increased its influence in shareholder voting practices, and between Institutional Shareholder Services (ISS) and Glass, Lewis & Company (Glass Lewis), you now control 97 percent of the proxy advisory industry.

The proxy advisory industry has been the subject of two recent Government Accountability Office (GAO) investigations: "Issues Relating to Firms That Advise Institutional Investors on Proxy Voting" (GAO-07-765) and "Corporate Shareholder Meetings: Proxy Advisory Firms' Role in Voting and Corporate Governance Practices" (GAO-17-47). The findings of these reports along with academic research, Congressional hearings and oversight by regulators, raise serious questions regarding business practices within the proxy advisory industry.

Therefore, we request that the following questions be answered by you by May 30, 2018:

- 1) Voting System - We understand that the Proxy Exchange system enables ISS clients to transmit voting instructions electronically through ISS to various intermediaries involved in tabulating votes at shareholder meetings.

According to new public descriptions of this voting service, clients of ISS can develop custom voting guidelines and then ISS automatically pre-populates each shareholder ballot with voting instructions based on the client's policies. This ballot is then voted on automatically at the appropriate shareholder meeting, unless a client decides to manually override their prior instructions. Many times, clients use ISS recommendations as their default instructions.

In the event that an ISS client seeks to deviate from its standard voting guidelines or policies, it is allowed to manually enter a modification to a voting decision into its interface with the Proxy Exchange system. However, if no affirmative action is taken by a client, the ballot for each shareholder meeting is automatically submitted for tabulation, using the client's default voting instructions.

There are serious questions as to whether this voting system, as described, may be inconsistent with Question 7 of Staff Legal Bulletin 20, issued by the Securities and Exchanges Commission (SEC) on June 30, 2014. According to this SEC Bulletin, a proxy advisory firm is not eligible for an exemption to the proxy solicitation rules under Exchange Act Rule 14a-2(b)(1) if the firm offers "a service that allows the client to establish, in advance of receiving proxy materials for a particular shareholder meeting, general guidelines or policies that the proxy advisory firm will

apply to vote on behalf of the client.” The Bulletin also notes that a proxy advisory firm is soliciting “the power to act as a proxy” for its client even if the authority is revocable by the client.

- We request that you provide detailed information on how the Proxy Exchange voting service works and why you think your company is in compliance with SEC Staff Legal Bulletin 20, especially in circumstances where each client does not have to formally approve or submit the pre-populated electronic ballot that you are producing for each shareholder meeting.
- 2) Report Accuracy - Many U.S. public companies schedule their annual meetings between February and June, resulting in a short shareholder proxy season. We understand that your company and other proxy advisory firms hire more staff to meet the demands of proxy season by hiring temporary workers and outsourcing a significant amount of research and analytical work.

Questions have been raised about factual mistakes and incorrect assumptions made in the company reports issued by proxy advisory firms to institutional clients. Currently there are no standards or regulations that apply to these reports prepared by proxy advisory firms to summarize proxy statements, and provide analysis and recommendations. Unfortunately, there are often questions about the dependability, accuracy of factual material, and correct assumptions made for each company evaluated.

One recommendation to solve mistakes or misunderstandings in proxy advisory firm reports is to provide each public company with a draft of the report before it is issued and request comments on any factual issues or incorrect assumptions. We understand that your company currently permits this type of draft review process for companies listed in the S&P 500 index.

According to your website: “ISS believes that this review process helps improve the accuracy and quality of its analyses, an outcome that is in the best interest of both the institutional investors for whom the analyses are prepared, as well as for the companies that are the subject of these reports.”

- Why hasn't ISS expanded this draft review process to include more companies, in order to improve the quality of the reports for issuers not listed in the S&P 500 index?
 - Are you willing to expand the draft review process to companies listed in the S&P 1500, with a reasonable transition period?
 - Do you have specific policies and procedures regarding providing draft reports to issuers? If so, please include a copy of those policies and procedures.
 - When do you provide issuers draft reports and how much time do they have to provide their comments on factual issues?
 - If an issuer identifies an error in a draft report what corrective measures do you take?
 - Do you publicly disclose your guidelines and methodologies for preparing draft reports? If not, why not?
- 3) Conflicts of Interest - Your company has established a consulting service that charges public companies a fee to learn how best to comply with ISS benchmark voting policies and obtain favorable recommendations in the future. Many market participants consider this a conflict of interest.

We understand that Glass Lewis & Company, unlike ISS, discloses any potential or actual conflict of interest to its clients on the front page of a company report.

- What types of conflicts do you disclose and how accessible are these disclosure to your clients when voting decisions are being made?
- Are you willing to disclose potential and actual conflicts on the front page of company reports, as Glass Lewis does?
- Do your disclosures include, in monetary terms, the size of the client relationship involved and do you disclose conflicts involve more than one proponent or active supporter of a particular shareholder proposal?
- Does ISS allow hedge fund clients to purchase Special Situations Research or other services at the same time that ISS is recommending for or against a pending merger, buyout, or proxy fight in which the hedge fund has an interest?
- Please provide a record of each instance of proxy voting advice that your company or any regulatory body has determined constituted or may have constituted a conflict of interest over the last 10 years, and all related documents and communication. If no such record is maintained, please explain why.
- Please provide a list of all outside entities from whom you obtain information referring or relating to your proxy voting advice, and descriptions of any evaluations that are performed to ensure such information is accurate and that the information provider does not have a conflict of interest with the company with respect to which the information is being provided.

Finally, we are interested in whether you disclose two other types of conflicts of interest. The first of these two conflicts involves cross-ownership, where owners or executives of your firm may have a significant ownership interest in, or serve on the board of directors of entities that have proposals on which the firm is offering vote recommendations. The second conflict involves other financial interests by your owner, Genstar Capital.

- Are you disclosing these financial or business relationships when they involve or include a proponent or an active supporter of matters in which you are making voting recommendations?

We appreciate your prompt completion of this task.

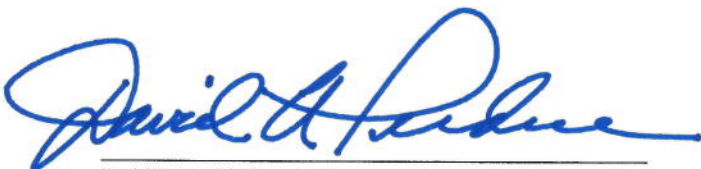
Sincerely,



DEAN HELLER
U.S. Senator



THOM TILLIS
U.S. Senator



DAVID PERDUE
U.S. Senator



M. MICHAEL ROUNDS
U.S. Senator

Tom Cotton

TOM COTTON
U.S. Senator

Tim Scott

TIM SCOTT
U.S. Senator