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FOR IMMEDIATE RELEASE
November 5, 2019

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Leading Investor Group Rebukes SEC for Proposed Rules That Undercut Critical Shareholder Rights

Washington, D.C., November 5, 2019 — The Council of Institutional Investors (CII) today criticized the Securities and Exchange Commission (SEC) for proposing rules that undercut important shareholder rights and appear intended to limit shareholders' voice at public companies in which they invest.

Of particular concern is the heavy-handed regulatory structure the SEC today proposed for proxy advisory firms that provide institutional investors with independent research on the fairness of CEO compensation and other matters on company ballots at annual shareholder meetings. If adopted, the proposed rules would pressure proxy advisory firms to take a more management-friendly approach in their reports and vote recommendations, and could even jeopardize the viability of their business.

CII also objects to SEC proposals that would limit a critical channel for shareholders to express their views on company governance and other issues. Specifically, the SEC would raise the ownership and resubmission thresholds for shareholders to place their own resolutions on company ballots. This will restrict the ability of retail investors to submit shareholder proposals and impede future new social and environmental proposals, since those generally take time to gain traction.

"CEOs do not like public challenges to how and how much they are paid, or to be second-guessed by shareholders on a range of environmental, social and governance matters," said Ken Bertsch, CII's executive director. "That is what is driving the concerted effort by lobbyists for CEOs to prod the SEC to shackle proxy advisory firms and limit shareholder proposals. The rules are an unnecessary interference in the free market, and would impede investors' voice on critical matters at U.S. public companies."

"The goal of the coordinated, corporate-funded campaign to promote proxy advisor regulation is not to protect investors or even promote capital formation," Bertsch explained. "Rather, it is to make it harder and more expensive for institutional investors to get the expert advice they need to hold executives accountable and, in turn, to make it less likely that investors vote against management or even vote at all."

The proposed onerous regulation of proxy advisory firms would provide no clear benefit to investors while creating new barriers to entry in what has historically been a low-margin industry with few competitors.

CII believes that there is no compelling need for the federal government to rein in proxy advisory firms. The business community's claim that the firms' reports are strewn with errors is not supported by the facts. Nor is there any merit to charges that proxy advisory firms exert undue influence over how institutional investors vote. Just as unwarranted is the SEC's controversial requirement that proxy advisory firms grant companies the right to review advisor reports before they are sent to investors, the firms' paying clients.

"The SEC should regulate based on evidence, not pressure from CEOs who want more control of the voting process," Bertsch said.

See the fact sheet here for a detailed rebuttal of the SEC's proposed rules.

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About CII: The Council of Institutional Investors (CII) is a nonprofit, nonpartisan association of U.S. asset owners, primarily pension funds, state and local entities charged with investing public assets, endowments and foundations, with combined global assets that exceed $4 trillion. CII's associate members include non-U.S. asset owners with more than $4 trillion in global assets, and a range of asset managers with more than $35 trillion in global assets under management. CII is a leading voice for effective corporate governance, strong shareowner rights and sensible financial rules that foster fair, transparent and vibrant capital markets.