March 12, 2018

The Honorable Mike Crapo
Chairman
U.S. Senate Committee on Banking, Housing, & Urban Affairs
534 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Sherrod Brown
Ranking Member
U.S. Senate Committee on Banking, Housing, & Urban Affairs
534 Dirksen Senate Office Building
Washington, DC 20510

H.R.4015, THE CORPORATE GOVERNANCE REFORM AND TRANSPARENCY ACT OF 2017

Dear Mr. Chairman and Ranking Member Brown:

I am writing to express strong opposition to the inclusion of H.R.4015, the Corporate Governance Reform and Transparency Act of 2017 in S.2155, the Economic Growth, Regulatory Relief, and Consumer Protection Act.

The PRI is the world's leading initiative on responsible investment, which is an approach to investment that explicitly acknowledges the financial relevance to the investor of environmental, social and governance (ESG) factors, and the long-term health and stability of the market as a whole. The PRI has 1900 investor signatories globally with over $70 trillion in assets under management. The United States is the PRI's largest market with more than 350 signatories and $37 trillion in assets under management.

We have serious concerns that H.R.4015 would significantly weaken the role institutional investors play in the corporate governance of U.S. companies.

First, the bill requires that proxy advisory firms submit their recommendations to companies prior to publication. This not only complicates a process that already works, but could have negative consequences for both proxy advisory firms and investors. Institutional investors need unbiased, reliable, well-resourced research to exercise voting rights on the companies in which they invest. Companies are not the ultimate clients and they do not pay for this service.

If a proxy advisory firm must share its recommendation to management before sharing it with investors, the recommendations have the potential to be biased towards the management. As a result, this legislation threatens to undermine equity owners' ability to receive independent information. This is an essential component of the corporate governance structure. If this change is enacted, we also have concerns that it could compromise the proxy advisory firms' fiduciary duty to the investors. Further, the proposed change may reduce investors already limited time to analyze the proxy advisory firm's recommendation.

Second, the legislation requires that the U.S. Securities and Exchange Commission "issue final rules to prohibit, or require the management and disclosure of, any conflicts of interest relating to the offering of proxy advisory services by a registered proxy advisory." This is unnecessary since under Rule 14a-2(b)(3) of the Exchange Act, proxy advisory firms are already required to disclose any significant relationship with a soliciting company or shareowner proponent or material interest in a matter that is the subject of a voting recommendation. The current requirement already provides transparency for investors and companies.

Third, we believe the bill would impose additional disproportionate compliance costs on proxy advisory firms and add substantial expense to institutional investors. The legislation requires that the proxy advisory firms employ an ombudsman to receive complaints "from the subjects" of voting recommendations. The creation of an ombudsman position would lead to increased costs for proxy advisory firms.

H.R.4015 also requires proxy firms to register with the Commission. It is likely that the cost of registration would disproportionately impact new or smaller firms providing analysis and voting recommendations. Additionally, the bill exposes proxy advisors to share their research methodology and confidential intellectual property. We are concerned that this would force institutional investors to develop greater capacity in-house or pay more for services that are in shorter supply. All costs would need to be passed onto institutional investors.

We appreciate the opportunity to share our concerns with the bill. Thank you for your consideration.

Sincerely,

Fiona Reynolds
Managing Director
Principles for Responsible Investment