



CENTER FOR CAPITAL MARKETS
COMPETITIVENESS

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February 24, 2014

The Honorable Mary Jo White
Chair
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Proxy Advisory Services Roundtable File No. 4-670

Dear Chair White:

The U.S. Chamber of Commerce is the world's largest business federation, representing more than three million businesses and organizations of every size, sector, and region. The Chamber created the Center for Capital Markets Competitiveness ("CMCC") to promote a modern and effective regulatory structure for capital markets to fully function in the 21st century economy. An important priority of the CMCC is to advance an effective and transparent corporate governance system that encourages shareholder communications and participation. We wish to bring to you attention an issue that underscores need to have increased oversight, transparency and accountability of proxy advisory firms.

As you know, we look forward to working with the Securities and Exchange Commission ("Commission") and its Staff in implementing those ideas raised at the Roundtable that the Commission ultimately concludes is worth pursuing. One of the principles on which it seemed all participants at the Roundtable agreed is that the prevalent conflicts of interest afflicting the major proxy advisory firms, as well as their lack of transparency and accountability, is troubling and growing worse, with the likely consequence that the continuation of these facets of present day proxy advisory firms will likely undermine public confidence in, and stall progress in the development of, strong corporate governance.

To remedy these circumstances, an examination of the actual roles proxy advisory firms play has become even more important as the number and complexity of issues required to be included on public company proxy ballots have grown exponentially. To assist you and the Commission's Staff in understanding how far-reaching these problems currently are, and threaten to become, we have attached a letter the CCMC recently submitted to Institutional Shareholder Services ("ISS") regarding its solicitation of views on its proposed amendment to its benchmark policies with respect to mandatory auditor rotation.

We request that this letter—and any comments on, or observations regarding, it you and the Commission choose to offer—be placed in the public file the Commission has established in connection with its Proxy Advisory Firm Roundtable, and that this letter be deemed part of the record to be considered by the Commission and its Staff in connection with logical follow-up efforts implementing Commission policies with respect to this powerful, yet unaccountable, industry affecting millions of U.S. shareholders, and potentially premitting the Commission's own prerogatives in connection with its regulation of our securities markets.

As our letter makes clear, the CCMC has serious concerns about ISS' proposal to override policy determinations made by Congress as well as the Commission and the Public Company Accounting Oversight Board (entities vested with, and that have exercised, the authority to formulate—and oversee the actual implementation of, policies affecting financial reporting). It should also be noted that a clear majority of investors do not support mandatory audit firm rotation. ISS' efforts to override the policy decisions of those with actual authority and responsibility regarding financial reporting, in our view, is an inappropriate over-reach by a proxy advisory firm to impose its own worldview upon investors and businesses, especially since those views are not supported by public policy decisions made after extensive debate, academic studies and positions taken by investors.

As troublesome as this effort is, it is not a new development. Under the so-called "Say-on-Pay" provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act, shareholders were given the opportunity to decide if "Say-on-Pay" votes should occur every one, two or three years. By permitting shareholders to decide the frequency of such votes, Congress clearly entrusted *them* with the power to decide how frequently they wished to vote on a public company's pay schedule for senior executives. Notwithstanding that Congressional choice, and without any empirical evidence to

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buttress their positions, ISS and Glass Lewis—who together account for approximately 97% of all the proxy advisory business in the U.S.—decreed that such votes should occur annually, irrespective of the circumstances affecting particular companies (such as the fact that, at many U.S. companies, executives’ salaries are set every three years, thus making an annual vote an inherently wasteful exercise).

Whatever the purported basis was for these two proxy advisory firms to mandate an annual “say-on-pay” vote and override Congress’ more flexible approach, it cannot be ignored that requiring annual “Say-on-Pay” votes for U.S. companies ipso facto generates the need for more proxy advisory firm services (and more frequently) than does triennial “Say-on-Pay” votes. As the *de facto* standard setters of corporate governance in the U.S., both ISS and Glass Lewis thwarted the intent of Congress, usurped the statutorily conferred right of shareholders to make those decisions, and generated more “business” for themselves than would have been the case if this decision had been left where Congress intended it to reside.

Our letter to ISS on mandatory auditor rotation, as well as these two examples, evidence the need to see proxy advisory firms adhere to the highest standards of conflict-free behavior, accountability and transparency, especially given their outsized influence over the governance of U.S. public companies. We look forward to working with you on this important issue.

Sincerely,

A handwritten signature in black ink, appearing to read 'TK' followed by a long horizontal flourish.

Tom Quaadman

CC: The Honorable Luis A. Aguilar
The Honorable Daniel Gallagher
The Honorable Kara Stein
The Honorable Michael Piwowar
Keith Higgins, Esq.
Norm Champ, Esq.