

Crapo Statement at Hearing on Proxy Process and Rules

December 6, 2018

WASHINGTON – U.S. Senator Mike Crapo (R-Idaho), Chairman of the U.S. Senate Committee on Banking, Housing and Urban Affairs, delivered the following remarks during a full committee hearing entitled “Proxy Process and Rules: Examining Current Practices and Potential Changes.”

The text of Chairman Crapo’s remarks, as prepared, is below.

“Today’s hearing will focus on several aspects of our proxy voting system, including the role of proxy advisory firms, the shareholder proposal process and retail shareholder participation.

“As SEC Chairman Clayton noted earlier this year, ‘Shareholder engagement is a hallmark of our public capital markets and the proxy process is a fundamental component of that engagement.’

“I commend the SEC for its ongoing attention to this issue, including its recent staff roundtable on the proxy process and rules, and I encourage them to move forward with their reform efforts.

“Many of these rules have not been examined for decades.

“In that time, there have been a number of changes to the proxy environment, including the growing influence of proxy advisory firms and fund managers on voting outcomes and, more generally, corporate behavior.

“There has also been a rise in the number and substantive scope of proposals pursuing an environmental, social or political agenda.

“Many of these proposals have little or nothing to do with a company’s financial performance or shareholder value.”

“But companies and investment advisers alike nevertheless devote time and resources to evaluate these proposals, often relying upon proxy advisory firms or other consultants to assist them and reduce their costs.

“It is time to re-examine the standards for inclusion of these proposals as well as the need for fiduciaries to vote all proxies on all issues in light of the proliferation of environmental, social or political proposals, and the rise of diversified passive funds.

“Chairman Clayton has also expressed concerns that the ‘voices of long-term retail investors may be underrepresented or selectively represented in corporate governance.’

“According to an SEC staff estimate, retail investors own roughly two-thirds of Russell 1000 companies, often through mutual funds or pensions.

“But it is not always clear whether the proxy rules promote the long-term financial interests of those retail investors, many of whose interests are expressed through intermediaries.

“Last week, John Bogle, the creator of the index fund, warned that ‘if historical trends continue, a handful of giant institutional investors will one day hold voting control of virtually every large U.S. corporation.’

“With this level of concentration and intermediation, it is even more important that the proxy voting process and voting decisions of fiduciaries reflect the clear economic interests of the retail investors on whose behalf these institutional investors engage.

“I look forward to hearing the views of our witnesses on these and other proxy-related issues, and I thank them for their willingness to appear here today.”

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