September 17, 2024

The Honorable Mike Johnson
Speaker
US House of Representatives
Washington, DC 20515

The Honorable Hakeem Jeffries
Democratic Leader
US House of Representatives
Washington, DC 20515

RE: Protecting Americans' Retirement Savings from Politics Act (H.R. 4767)

Dear Speaker Johnson and Leader Jeffries:

We are writing to express the Milken Institute's[1] support for the Protecting Americans' Retirement Savings from Politics Act (H.R. 4767). This legislation improves investor protections for everyday Americans saving and investing for retirement. H.R. 4767 proposes sensible regulations for proxy advisory firms and asset managers who use proxy advisory firm recommendations in their voting decisions.

Overview

The Milken Institute has a longstanding commitment to helping Americans manage lifetime financial security leading to a financially secure retirement. Two recent examples are our support of the SECURE 2.0 Act of 2022 and the release of our 2023 report on *Shifting the Retirement Paradigm: Moving toward Lifetime Financial Security*.

For the past six years, the Milken Institute has delved into the role of proxy advisory firms by conducting research, meeting with experts, and holding convenings. Our 2019 report, *Proxy Advisory Firms, Governance, Market Failures, and Regulation*, examines the role and power of proxy advisory firms and their significance in corporate governance in light of proposed legislative and regulatory changes. That report contains several findings that provide a rationale for some of the provisions in H.R. 4767.

Proxy advisory firms play a key role for asset managers in the ecosystem for corporate governance. Their voting recommendations can have a huge impact on proxy voting outcomes. The power of proxy advisory firms may make it difficult for the public companies that are subject to their recommendations, as well as the asset managers that rely on them, to challenge their advice and perspective.

The role of proxy advisory firms is arguably among the most crucial for corporate governance, yet proxy advisory firms are subject to very little regulation. The issue is not just about the regulation of the proxy advisory firms in a vacuum. Their situation is striking when compared to the heavy regulation applied to other investment advisers (asset managers) and intermediaries (auditors and credit rating agencies) that provide crucial inputs to the investment process.

Key Provisions

The Milken Institute supports H.R. 4767 because it improves protections for Americans' retirement savings and investments in four important ways.

[1] The Milken Institute is a nonprofit, nonpartisan think tank focused on accelerating measurable progress on the path to a meaningful life. With a focus on financial, physical, mental, and environmental health, we bring together the best ideas and innovative resourcing to develop blueprints for tackling some of our most critical global issues through the lens of what's pressing now and what's coming next.

1. **Provisions that would require proxy advisory firms to register with the US Securities and Exchange Commission (SEC).** This would improve transparency about proxy advisory firms for asset managers who may use their recommendations in voting decisions and public companies that are the subject of those recommendations. The SEC would be given the authority to require registered proxy advisory firms to disclose, mitigate, and/or remove conflicts of interest.

2. **Provisions that would require proxy advisory firms to allow public companies to correct incorrect information underlying proxy voting recommendations.** Proxy advisory firm voting recommendations can have a huge impact on proxy voting outcomes. Public companies subject to those recommendations should be provided with a reasonable opportunity to evaluate the accuracy of information that is relied upon for those recommendations.

3. **Provisions that would prohibit robovoting.** This would ban the practice of automatically voting a proxy advisory firm's recommendations. An asset manager that relies solely on a proxy advisory firm's recommendations when voting the shares it manages on behalf of retail customers is not fulfilling its fiduciary duty.

4. **Provisions that improve the transparency of the voting process of asset managers.** One provision would require asset managers to disclose to their retail customers how they use proxy advisory firm recommendations. Another provision would encourage asset managers that oversee passively managed funds to provide their retail customers with the opportunity to express their proxy voting preferences.

Conclusion
The Milken Institute strongly supports the passage of H.R. 4767. We welcome the opportunity to provide additional detail regarding the information above. We would be pleased to meet with you and your staff to discuss these important issues and serve as a resource as you consider this legislation.

Thank you for your continued work to protect Americans' retirement savings and investments.

Sincerely,

Michael S. Piwowar
Executive Vice President, Finance,
Milken Institute

Chester S. Spatt
Pamela R. and Kenneth B. Dunn Professor of Finance,
Tepper School of Business, Carnegie Mellon University;
Senior Fellow, Milken Institute

cc:
The Honorable Patrick McHenry
Chairman, US House Committee on Financial Services

The Honorable Maxine Waters
Ranking Member, US House Committee on Financial Services

The Honorable Bryan Steil
Member, US House Committee on Financial Services
Sponsor, H.R. 4767