AFR Americans for Financial Reform

April 2025

Proxy Advisors — What They Are And Why They Are Under Attack

Every year, public companies hold shareholder meetings where investors vote on a range of ballot items — from electing directors and approving executive compensation to weighing in on proposals filed by shareholders requesting companies address issues related to climate risk, workers' rights, racial equity, political spending, and other topics. Companies send shareholders a proxy statement describing the votes that will be taken and the corporate leadership's position on each issue. Shareholders that do not attend the annual shareholder meetings in person delegate their votes through shareholder proxy voting. For diversified investors that cast votes on behalf of millions of passive investors saving for retirement and other purposes — like pension funds and mutual funds that invest across the S&P 500 — it means voting on thousands of ballot items.

Proxy advisors like Institutional Shareholder Services (ISS) and Glass Lewis help investors analyze thousands of corporate ballot items. They are information intermediaries, simplifying the often overwhelming proxy season — the months of the year where most shareholder meetings occur — by providing investors with independent research and voting recommendations. Proxy advisors' recommendations are just that — recommendations. Investors are free to vote in whatever way they believe is in their best interest. Proxy advisors are a resource that institutional investors use to make informed decisions and exercise their voting rights on important issues that impact their investments, including climate risk, workers' rights, and corporate governance.

Proxy advisory firms overwhelmingly recommend votes in line with management recommendations. More than 95 percent of the time, proxy advisors supported companies' board members in their benchmark policy recommendations (ISS recommended opposing only 4 percent of board members and Glass Lewis only recommended opposing 5 percent of board members in 2023). The firms recommended opposing excessive executive compensation less than 20 percent of the time (ISS only 11 percent and Glass Lewis 17 percent). The firms only supported environmental and social shareholder proposals about one third of the time (ISS 37 percent and Glass Lewis 30 percent).

Big business interests such as the Business Roundtable and other entities representing corporate management have railed against proxy advisory firms because of the infrequent instances when proxy advisors recommend holding management accountable. These recommendations to buck corporate leadership often stem from egregious risks to investors on issues like excessive CEO pay, governance failures, climate risk, or racial inequity.

The attacks on proxy advisors are not about competition or antitrust, but rather about an apparent attempt to manipulate or chill independent advice. Every subsector of the financial system is controlled by a small handful of firms. This can lead to the exertion of anticompetitive market power, distortion of the market, and harms to customers. But while the House Judiciary Committee launched an antitrust investigation into ISS and Glass Lewis, the harms their reforms purport to address have nothing to do with antitrust. The proposed policy solutions in bills passed by the House last Congress and in a recent Business Roundtable report do not address proxy advisor concentration or market power, but only shield companies from shareholder accountability. The proposals make it more difficult for proxy advisors to oppose corporate recommendations, for asset managers to vote against management recommendations, and for shareholder proposals to come to a vote at all. These policies do not address monopoly power or improve transparency or market competition, they merely suppress voting analysis.

These attacks on proxy advisors are a part of the larger "anti-ESG" campaign — an effort to slow the energy transition, attack corporate progress on issues of racial justice and workplace diversity, and roll back corporate commitments to labor protections. Environmental, social, and governance (ESG) issues matter to shareholders, but there is a well-funded and well-organized campaign led by top conservative political operatives to prevent shareholders from considering ESG issues that have a real impact on investments. Prominent anti-democratic figures like the Koch brothers, Leonard Leo, and Peter Thiel have provided funding and guidance to anti-ESG efforts. The fossil fuel industry is also bankrolling this effort because it would rather let our planet burn to increase short-term profits rather than adjust its business practices to stave off the worst of the climate crisis and invest in the long term.

Proxy advisors provide independent, cost-effective analysis that is critical for responsible investing and long-term risk oversight. The policies proposed by corporate management would undermine the independence of the advice investors receive from their proxy advisors, making it more likely that important risks will be left unaddressed. These attacks serve to further insulate the management of public companies from investor input and accountability, not to protect shareholders. Undermining proxy advisor independence only benefits corporate interests and executives who don't want to answer to their investors.

See also: AFR's Letter Opposing Anti-ESG Bills (July 2023) (section II) and Hill Resource on Anti-ESG Attacks (Aug 2024).