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GOVERNMENT SPONSORED ENTERPRISES
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July 22, 2015

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

Dear Chair White:

I appreciate the ongoing efforts of the U.S. Securities and Exchange Commission (“SEC” or “Commission”) and its staff to explore ways to increase communication between public companies and their shareholders, and to improve the annual proxy process for all stakeholders. Nevertheless, I write to express serious concerns over your announcement last month to the Society of Corporate Secretaries and Governance Professionals that you have directed Commission staff to develop rulemaking recommendations related to universal proxy ballots.¹

Put simply, it is not clear that the SEC has identified a market failure that would warrant such a rulemaking. I am also concerned that instead of directing Commission staff to take a comprehensive approach towards reforming our proxy system, your announcement puts into motion a singular rulemaking that is likely to favor special interest activists over the vast majority of public company shareholders.

At the February 2015 proxy voting roundtable, Commissioner Gallagher stated, “...we have shareholder activists that are becoming louder and more assertive by the day, demanding seats on company boards, or launching proxy fights to replace board members. In the meantime, we have growing bipartisan sentiment that our current corporate governance framework is driving companies towards excessive short-termism.”²

I share Commissioner Gallagher’s concerns over the potential harm that frequent proxy fights can produce, and the tendency towards “short-termism” that exists within our current corporate governance regime. A Commission mandate for universal proxy ballots is likely to only exacerbate these problems. This initiative will distract boards of directors and management from their core responsibilities to enhance the shareholder experience and damage long-term shareholder value.

Moreover, the decision to move forward with a universal proxy ballot rulemaking stands in stark contrast to the holistic review of the U.S. proxy system envisioned by the Commission’s 2010

¹ “Building Meaningful Communication and Engagement with Shareholders,” June 25, 2015

² See Commissioner Daniel M. Gallagher Opening Statement at the Proxy Voting Roundtable, February 19, 2015: <http://www.sec.gov/news/statement/opening-statement-proxy-voting-roundtable-gallagher.html>

“Proxy Plumbing” release.³ That release examined a number of areas within our current proxy system that are ripe for reform, but has largely been ignored by the Commission since its release. Instead of moving forward with controversial rules that favor certain market participants, the Commission should continue its efforts to examine and reform our proxy system for the benefit of all stakeholders.

The potential negative impact that a universal proxy ballot rulemaking could have on public companies and their shareholders absent other changes to the proxy architecture is troubling. Please provide the following information to help the Subcommittee better understand the progress on this matter:

- A description of the man-hours and financial resources so far dedicated to this rulemaking initiative, including the roles, responsibilities, and number of staff that have or will be involved;
- Any copies of studies, reports, economic or other data-driven analysis that you used as the basis to dedicate SEC resources to a universal proxy ballot rulemaking; and
- The anticipated timeline to issue this proposed rule (if the Commission can justify the proposal of such a rule supported by a rigorous cost-benefit analysis.)

Please provide your written responses to the Subcommittee by Tuesday, August 4, 2015. Thank you for your prompt attention to this matter.

Sincerely,



SCOTT GARRETT
Chairman
Subcommittee
Capital Markets and
Government-Sponsored
Enterprises

³ See Concept Release on the U.S. Proxy System, July 24, 2010: <https://www.sec.gov/rules/concept/2010/34-62495.pdf>