A Study on the Regulation of Proxy Advisory Firms

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Recently, in the EU and United States, the role of proxy advisory firms has been receiving considerable attention in corporate governance circles as the amount of money managed by institutional investors continues to increase. Institutional investors typically own securities in a large number of issuers and have a fiduciary responsibility to vote on matters presented at shareholder meetings. Many retain proxy advisory firms to advise them in deciding how to vote. As a result, a small number of dominant proxy advisory firms seemingly exercise significant influence not only over the outcome of shareholder votes but also over the management of corporations.

However, the use of proxy advisory firms by institutional investors may raise potentially significant issues. In particular, these firms have been criticized for influencing shareholder voting without appropriate regulatory oversight. This article considers the influence of voting recommendations by proxy advisory firms and identifies the two principal areas of concern —— conflicts of interest and lack of accuracy in formulating voting recommendations. It also analyzes several regulatory responses to these issues, pointing out the particular problems to be solved.