

MEMO# 33953

December 14, 2021

ICI Files Comment Letter with SEC on Proposal to Enhance Reporting of Proxy Voting Information

[33953]

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TO: ICI Members
ESG Advisory Group
Proxy Working Group
SEC Rules Committee
Small Funds Committee SUBJECTS: Disclosure
ESG
Investment Advisers
Operations RE: ICI Files Comment Letter with SEC on Proposal to Enhance Reporting of Proxy Voting Information

ICI has filed a comment letter with the Securities and Exchange Commission on its proposed amendments to enhance reporting of proxy voting information by registered investment companies ("funds") and institutional investment managers ("managers") on Form N-PX ("Proposal").[\[1\]](#) ICI's comment letter is attached and is summarized below.

The letter explains that ICI supports the SEC's goals to modernize Form N-PX and make information reported on the form more usable. We are concerned, however, that several elements of the Proposal would not accomplish the SEC's goals and would raise significant operational challenges for reporting persons.

First, we recommend, in Section II.A. of the letter, that the Commission replace its 17 proposed categories and 89 subcategories for proxy matters with a smaller number of higher-level categories that are more likely to be "evergreen" and not require regular updating by the Commission. Instead of requiring subcategories, we recommend that the SEC provide, in the adopting release, non-exclusive examples of matters that would fall within each category. We note that there is less need for granular categories, given that the Proposal would require reporting persons to data tag the information reported on Form N-PX.

Accordingly, we suggest the following categories, which largely correspond to those the SEC has proposed, with some combined:

- Director elections
- Audit-related
- Compensation-related
 - Section 14A say-on pay votes
 - Other compensation-related
- Capital structure
- Extraordinary transactions
- Corporate governance
- Social/Environmental
- Investment company matters
- Miscellaneous

Second, we recommend in Section II.B. of the letter, that the SEC not require reporting of shares loaned and not recalled. Instead, to provide more relevant information about reporting persons' securities lending and share recall practices, the SEC should require reporting persons that engage in securities lending to describe, on Form N-PX, their policy regarding recalling lent securities for purposes of proxy voting (or reference their description of the policy, if the description is already disclosed in another SEC-filed document). This approach would allow reporting persons to provide appropriate context for their share recall practices and would be consistent with global requirements and standards, such as the EU Shareholder Rights Directive (SRD 2) and the UK Stewardship Code.

Third, as discussed in Section II.C. of the letter, the SEC's proposed requirement that reporting persons describe ballot matters using the same language, and present them in the same order, as in the issuer's form of proxy raises operational challenges and may increase costs for funds and their shareholders. To address these challenges, we recommend that the SEC require corporate issuers to data tag the description of each ballot matter in their proxy statements so that reporting persons can readily "pull" this data from the issuer's proxy statement. We recommend that the SEC not require that ballot matters be presented in the same order as in the issuer's form of proxy. Instead, we believe the SEC's concerns about comparability can be addressed through data tagging, particularly if the SEC adopts our recommendation to require corporate issuers to data tag the description of each ballot matter in the proxy statement.

Fourth, as discussed in Section III of the letter, we recommend that the SEC provide a longer time period for reporting persons to implement any final rule. The SEC should provide a minimum of one full reporting period for funds and managers to implement the extensive changes that the SEC proposes. To achieve this, we recommend that the SEC require that the first reports on amended Form N-PX be filed by the August 31 that is a minimum of 14 months from the rule's effective date. Reporting persons also will need additional time to incorporate the new XML taxonomy into their systems and make test filings.

ICI supports many aspects of the Proposal including:

- Completing the Dodd-Frank Act required "say on pay" rulemaking;
- Requiring reporting persons to prepare reports on Form N-PX using an XML taxonomy (i.e., data tagging);
- Requiring that funds make their proxy voting records available on or through the fund's website;
- Providing for optional joint reporting requirements; and

- Retaining the current time frame for reporting proxy votes on Form N-PX.

As the SEC works to finalize its proposed amendments, we urge the Commission to analyze more closely the costs and burdens of the proposed amendments for smaller funds and managers. The Commission's economic analysis of the Proposal does not address key costs and burdens of the proposed amendments for smaller firms. For example, many smaller funds do not currently use a vendor to prepare Form N-PX but anticipate that they may hire one for this function if the SEC adopts the amendments as proposed. Finally, we encourage the Commission to address several proxy voting reform matters that remain critical for funds, including reform of the processing fee framework, reform of the OBO/NOBO system, and end-to-end vote confirmation.

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endnotes

[1] See Enhanced Reporting of Proxy Votes by Registered Management Investment Companies; Reporting of Executive Compensation Votes by Institutional Investment Managers, Exchange Act Release No. 93169; Investment Company Act Release No. 34389 (Sept. 29, 2021), available at <https://www.sec.gov/rules/proposed/2021/34-93169.pdf>. For a summary of the Proposal, please see ICI Memorandum No. 33803 (Oct. 6, 2021), available at <https://www.ici.org/memo33803>. We refer to funds and managers collectively in this memorandum and in our letter as "reporting persons."

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