

Public Statement

Remarks to the SEC Investor Advisory Committee



Chairman Jay Clayton

Sept. 13, 2018

As Prepared for Delivery

Thank you, Anne (Sheehan). Good morning everyone.

I want to welcome, or should I say welcome back, Commissioner Elad Roisman. This is Commissioner Roisman's first Investor Advisory Committee meeting. Elad was confirmed just last week and he joins us as the 98th Commissioner of the SEC. We met many years ago when Elad first worked at the Commission and I am certain he will again make a lasting contribution to our work.

Turning to today's business, I am delighted that the Committee will focus this morning on our proxy voting infrastructure. We recently announced that the staff will hold a roundtable on the proxy process later this fall.^[1] It is clear to me that accuracy, transparency, and efficiency in the proxy system both instill — and are critical to — confidence in our shareholder governance processes. In 2010, the Commission issued a concept release that solicited feedback on the proxy system.^[2] A lot has changed in our markets since then, and I commend you for taking the time this morning to discuss how the proxy voting infrastructure could be modernized and improved.

In the afternoon, you will discuss the Commission's proposal to conduct a transaction fee pilot in NMS stocks.^[3] The pilot is designed to generate data to help us

meaningfully analyze the effects of exchange fees and rebates on order routing behavior, execution quality, and our market structure generally. In my view, a pilot of the type proposed should provide the Commission with data that will help us make better informed and effective policy decisions. I look forward to hearing your perspectives on the proposal and any recommendations you may have in this area.

Finally, the schedule for the afternoon also includes a discussion of the growth of passive investing and its implications. Many say that passive investing provides a low-cost, low-maintenance way to obtain diversified investment exposure. A meaningful portion of market commentators also point to benefits of active management. Market analysts also posit that risk may be amplified as a result of concentration in passive strategies. And, there are the questions around how passive funds should approach engagement with companies on the one hand and engagement with their investors on the other hand. This issue also applies to funds that are actively managed and may dovetail with your proxy process discussions in the morning sessions.

I hope you will approach these issues as I try to do: with a view to what is best for the long-term interests of America's Main Street investors. For example, those who are investing monthly in their retirement accounts to fund expenses that may be years away.

You have an interesting and packed agenda ahead of you. But before I let you get on with it, I want to thank all of you for your service on this Committee. You have very busy schedules. Yet, you take substantial time to share your knowledge and expertise for the betterment of investors and our markets.

Also, I have a supplement to my remarks.

This morning, I issued a statement reiterating that SEC staff views are nonbinding and create no enforceable legal rights and obligations. My statement notes an ongoing effort by our divisions and offices to review prior staff statements and documents and consider whether they should be modified, rescinded or supplemented in light of market or other developments. Also this morning, in connection with the upcoming Roundtable on the Proxy Process, the Division of Investment Management issued a statement withdrawing two 2004 letters to Egan-Jones Proxy Services (May 27, 2004) and Institutional Shareholder Services, Inc. (Sept. 15, 2004).

[1] See Chairman Jay Clayton, Statement Announcing SEC Staff Roundtable on the Proxy Process (July 30, 2018), *available at* <https://www.sec.gov/news/public-statement/statement-announcing-sec-staff-roundtable-proxy-process>.

[2] *Concept Release on the U.S. Proxy System*, Release No. 34-62495 (July 14, 2010) [75 FR 42982 (July 22, 2010)].

[3] *Transaction Fee Pilot for NMS Stocks*, Release No. 34-82873 (March 14, 2018) [83 FR 13008 (March 26, 2018)].