



CLIENT ALERT

Navigating Compensation Governance

President Trump Issues Executive Order on Proxy Advisory Firms

Earlier this month, President Trump issued an executive order that instructs several federal agencies to consider regulating ISS and Glass Lewis.

The Executive Order directs the Securities Exchange Commission (SEC), Federal Trade Commission (FTC) and the Department of Labor (DOL) to undertake rulemaking and investigative actions. Such agency actions could result in sweeping changes in the ways that proxy advisors and institutional investors engage in proxy voting matters.

Many of the potential regulatory changes would require agency rulemaking through the notice-and-comment procedures required by the Administrative Procedure Act. As such, any new rules related to matters covered by the Executive Order would likely be effective no earlier than 2027.

Purpose of Executive Order

The [Executive Order](#) states the government must “increase oversight of and take action to restore public confidence in the proxy advisor industry, including by promoting accountability, transparency, and competition” due to concerns about the influence of proxy advisors, conflicts of interest and the quality of their recommendations. The Executive Order claims that ISS and Glass Lewis regularly use their substantial power to “advance and prioritize radical politically-motivated agendas” related to diversity, equity, and inclusion (DEI) and environmental, social, and governance (ESG) over investment returns.

Directives to SEC

The Executive Order directs the SEC Chair to:

- Consider requiring proxy advisors to provide increased transparency on their recommendations, methodology, and conflicts of interest, especially regarding DEI and ESG factors.
- Consider revising or rescinding rules that are inconsistent with the order, especially to the extent that they implicate DEI and ESG policies.
- Consider revising or rescinding rules related to shareholder proposals.
- Enforce the antifraud provisions of the federal securities laws with respect to material misstatements or omissions contained in proxy advisors’ proxy voting recommendations.
- Assess whether to require proxy advisors whose activities fall within the scope of the Investment Advisers Act of 1940 to register as registered investment advisers.

- Analyze whether, and under what circumstances, a proxy advisor serves as a vehicle for investment advisers to coordinate and augment their voting decisions to engage in activism.
- Direct the SEC staff to examine whether investment advisers are violating their fiduciary duties by engaging proxy advisors to advise on non-pecuniary factors in investing, including DEI and ESG factors (especially when the investment advisor blindly follows the proxy advisors vote recommendations).

Directives to FTC and DOL

The Executive Order directs the FTC Chair, in consultation with the Attorney General, to “review ongoing State antitrust investigations into proxy advisors and determine if there is a probable link between conduct underlying those investigations and violations of Federal antitrust law,” as well as to “investigate whether proxy advisors engage in unfair methods of competition or unfair or deceptive acts or practices that harm United States consumers.”

The Executive Order also directs the Secretary of Labor to revise regulations regarding ERISA fiduciary standards applicable to investment advisors, including proxy votes and corporate engagement. Further, the Secretary of Labor is directed to take action to enhance transparency concerning the use of proxy advisors, particularly regarding DEI and ESG investment practices.

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The **Client Alert** is prepared by Meridian Compensation Partners' Governance and Regulatory Team led by Donald Kalfen. Questions regarding this Client Update or executive compensation technical issues may be directed to Donald Kalfen at 847-347-2524 or dkalfen@meridiancp.com.

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