Testimony

Senator Dan Sullivan

Before the Senate Committee on Banking, Housing, and Urban Affairs
"Considering the Index Fund Voting Process"

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- Thank you Chairman Brown for holding this hearing on this important issue.

- And thank you Ranking Member Toomey for your leadership, and for your work and support on the INDEX Act.

- Additionally, thank you to my other friends and colleagues on the dais who cosponsored this important bill.

- At the outset, I want to acknowledge that the impetus for this legislation was due to my ongoing frustrations with America's largest banks and insurance companies black balling oil and gas development – specifically in my state – while at the same time eagerly doing business in China and propping up the CCP.

- These companies feel the need to do this, in part, because of pressure from their largest shareholders – the big three investment advisers and their index funds.

- However, this Alaska-centric frustration uncovered a broader concern about the sheer power that is consolidated within these three firms, and the massive distortion in our public market that it creates.

- I'm sure you are all familiar with the numbers. The Big 3 – Blackrock, Vanguard, and State Street, who:
    - Manage around $20 trillion in combined assets;
    - Are the largest owner in around 90% of the S&P 500 companies; and
    - Cast nearly 1/4th of all votes at annual meetings.

- These numbers were even larger before the recent market correction, and they will only grow as more and more Americans move into passive funds.

- In many ways, this is a success story – investors are benefiting from greater diversification and lower fees, however the unintended consequence has been the consolidation of ownership and voting power with these three firms.

- These companies wield this market dominance through behind-the-scenes engagements with company management and by voting with complete discretion at thousands of shareholder meetings on behalf of millions of Americans.

- They can steer our public market toward policies that they prefer – completely bypassing the political accountability of our legislative process, and completely disconnected from the interests of their massively diverse universe of investors.

- This should concern all of us – regardless of political party.

- For now, you may like some of the positions that these entities advocate for, but leadership and positions can change at these powerful investment advisers – look at the ongoing Twitter saga.

- I know some of my Democrat colleagues have expressed concerns and frustrations with these firms: primarily, that the big 3 are deferring far too much to management.

- In fact, just a few months ago, Senator Bernie Sanders held an entire Budget Committee hearing about this problem.

- At its core, my bill, the Investor Democracy is Expected Act (INDEX Act) is politically neutral.

- In many ways, it is the next logical step in Dodd-Frank. Before it became law, broker dealers were allowed to vote shares held in street name even though the beneficial owner of the shares were the clients.

- Congress recognized then that shares should be voted to reflect the wishes of the investor, not based on the wishes of intermediaries. The INDEX Act is the same exact principle extended to index funds.

- The bill simply requires that investment advisors of passively-managed funds vote proxies in accordance with the instruction of fund investors, and not at the discretion of the adviser.

- It would return the voting power back to the beneficial owners of the shares, not the index fund managers. And I think it is a little condescending to say that the average American doesn't vote their shares, which is true, so they shouldn't have the opportunity or power to do it. Not voting is a vote in and of itself.

- The big 3 recognize this, and some are already announcing steps to increase investor choice on proxies – but obviously they are still retaining significant discretion.

- This issue requires Congressional action—just like it did in 2010 with Dodd Frank.

- We know that there are complexities to implementing this kind of pass-through voting mechanic, especially for retail investors. The bill is not overly prescriptive on these mechanics, and it is only targeting the largest firms who have with the necessary resources and infrastructure to successfully implement a system like this.

- The INDEX Act would accomplish two important goals: it would neutralize the massive power that the largest investment advisers have amassed, and it would empower real investors – fostering a healthier, more competitive, and democratic corporate governance ecosystem.

- I will close with a quote from Jack Bogle, the founder of Vanguard, and father of the index fund, who voiced a warning before his passing in 2019: "If historical trends continue, a handful of giant institutional investors will one day hold voting control of virtually every large U.S. corporation. Public policy cannot ignore this growing dominance".

- This day is upon us. This prophetic warning has proven itself out, and we need to act in a bipartisan manner on this important issue.

- I look forward to the rest of the hearing today and working with all of you on this issue, and I would encourage all my colleagues to consider the INDEX Act as a non-partisan solution.

- Thank you again to the Chairman, Ranking Member, and Members of the Committee for having me today.