

December 14, 2021

Ms. Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: *Enhanced Reporting of Proxy Votes by Registered Management Investment Companies; Reporting of Executive Compensation Votes by Institutional Investment Managers (File No. S7-11/21)*

Dear Ms. Countryman:

Federated Hermes, Inc.¹ (“Federated Hermes”) appreciates the opportunity to comment on the Securities and Exchange Commission’s (“SEC” or “Commission”) proposal to amend Form N-PX (the “Proposal”).² We are broadly supportive of the SEC’s objective to modernize Form N-PX and to improve standardization and comparability for the end users of this reporting.

We raise concerns about several elements of the Proposal where we believe there to be operational challenges, and/or where we have reasons to believe that the Proposal may not achieve the Commission’s stated objectives. Of equal concern would be activities that would place a higher emphasis on the voting of proxies relative to an asset manager’s fiduciary duty to its investors.

In particular, we do not believe that the proposed requirement for reporting persons to disclose the number of shares on loan and not recalled to vote a proxy is an effective reflection of the balancing of multiple considerations undertaken by fund advisers when weighing the opportunity cost of recalling lent shares against the benefits of voting the associated proxies. We have also identified potential issues with the Proposal’s requirements for organizing each proxy voting item according to a list of categories and subcategories defined in SEC rulemaking, and with the proposed requirement for reporting persons to match the description of voting matters on Form N-PX with the issuer’s form of proxy and to report each item in the same order as that presented by the issuer.

1. Managing more than \$600 billion in total assets, Federated Hermes, Inc. (NYSE: FHI) is a leading global asset manager focused on meeting the diverse and evolving needs of today’s investors. Guided by our conviction that responsible investing is the best way to create wealth over the long term, we offer investors around the world specialized investment capabilities across a wide range of asset classes.

2. See *Enhanced Reporting of Proxy Votes by Registered Management Investment Companies; Reporting of Executive Compensation Votes by Institutional Investment Managers*, 86 Fed. Reg. 57478 (Oct. 15, 2021), available at <https://www.govinfo.gov/content/pkg/FR-2021-10-15/pdf/2021-21549.pdf> (“Proposing Release”).

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We support the Commission's decision to maintain the current cadence of reporting on Form N-PX, as we believe this strikes the right balance between the costs and benefits of the reporting.

We address each of these matters in further detail below.

Quantitative Disclosures: Number of Shares Loaned and Not Recalled

The Proposal sets out required new quantitative disclosures on Form N-PX. Among these is a requirement for reporting persons to disclose the number of shares loaned and not recalled ahead of a vote. The SEC states that this requirement is intended to “provide transparency into how a reporting person's securities lending affects its proxy voting.”³

Fundamentally, we do not believe that disclosure of this specific datapoint will provide the intended benefits to end-users, and may in fact present a distorted picture absent other important contextual information that a fund must take into account when deciding whether to recall shares ahead of a vote. We would echo Commissioner Roisman's comments, who in his statement described this disclosure as “ill-designed to communicate to investors the balancing that funds go through when considering how to maximize value for fund investors.”⁴ In a vacuum, disclosure of this singular datapoint fails to account for the significant value generated by shares out on loan or properly characterize the materiality of the proxy being considered, which, among other factors, may cause a fund manager to determine not to recall the shares, consistent with their duties as a fiduciary and in the best interests of the fund's shareholders.

This element of the Proposal seems to pit securities lending against proxy voting as a binary choice to the fund manager – a choice which may present a conflict of interest – when in practice there are a number of considerations which must be taken into account (in addition to the income generated by securities lending), such as the feasibility of recalling the shares, the size of the share position held by the fund, and the materiality of the issues to be voted. As an example of operational constraints to recalling securities, some foreign markets continue to enforce “share blocking,” which requires shares that are to be voted to be held with a depository, preventing any trading or lending of the shares until after the shareholder meeting. Another impediment, which the SEC acknowledges in the Proposal,⁵ is that in some markets (including the U.S.), proxy statements are typically not delivered to shareholders until after the record date. This delay results in a dynamic whereby shareholders must decide whether to recall any shares on loan before they have visibility of the issuer's proxy statement.

3. Proposing Release at 57489.

4. Roisman Statement.

5. Proposing Release at 57490.

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Weighing all of these factors together, a fund manager may reasonably conclude that the financial benefits of the income generated by securities lending outweigh the benefits of recalling a security for a particular vote. We are concerned that the proposed rulemaking, as currently written, could act as a deterrent to securities lending because of the potential negative implications of the required disclosures on Form N-PX, even in the many cases when engaging in securities lending has been determined by the investment adviser to be in the best interests of a fund and its shareholders.

We suggest that a more effective solution would be to require reporting persons to disclose their policy on securities lending and recall vis-à-vis proxy voting. This approach would allow for reporting persons to provide appropriate context around their approach to stock lending and recall as it relates to proxy voting, and would be similar to disclosure standards applicable in other developed markets such as the United Kingdom and the European Union.⁶

Identification of Proxy Voting Categories

Under the Proposal, reporting persons must organize their reporting of proxy votes according to a list of categories drafted by the SEC. The Commission has based this list upon its review of thematic issues upon which funds voted in 2020. The SEC believes that categorizing proxy votes in this way would “help investors understand how funds and managers are voting by helping them readily identify votes on matters that are important to them. It also would allow investors to compare how different managers or funds voted on specific types of matters.”⁷

We have multiple concerns about this aspect of the proposal. Firstly, we find the proposed categories to be too granular and specific, with potential for overlap. For example, as Commissioner Roisman highlights in his statement, it is unclear what the subcategory “environmental justice” is intended to capture, as this term could fit any number of shareholder proposals covering environmental or climate issues. Similarly, a category for “corporate governance” is listed, a broad term which could be understood to encompass many, if not all of the other proposed categories. We are concerned that this ambiguity will leave too much to subjective interpretation from reporting persons, who may reasonably reach different conclusions

6. Article 3i of the EU Shareholder Rights Directive (SRD II) requires that asset managers disclose “their policy on securities lending and how it is applied to fulfil its engagement activities if applicable, particularly at the time of the general meeting of the investee companies.” Principle 12 of the UK Stewardship Code for asset owners and asset managers requires that, for listed equity securities, signatories “state what approach they have taken to stock lending [and] recalling lent stock for voting.”

7. Proposing Release at 57487.

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as to how a given resolution should be categorized. This would undermine the Proposal's stated purpose of improving comparability.

We are also concerned that adopting the proposed categories by rule will not provide sufficient flexibility when regulating an area subject to both rapid and constant change. For example, based upon its review of proxy voting activity in 2020, the Commission has adopted specific categories for human rights and human capital/workforce, and for diversity, equity and inclusion. These are areas in which shareholder activism increased significantly in 2020, reflecting a broader societal focus on social and racial justice issues. This follows a similar uptick in climate-related activism over recent years. If the Commission had based its review on the 2019 or 2018 period, it may well have reached different conclusions regarding its proposed categories.

While these will likely remain key focus areas moving forward, it is not possible to predict what other issues may move to the forefront (or conversely, regress to the backdrop) of shareholder activism. We are concerned that having a stagnant category system amendable solely by Commission rulemaking will not keep pace with an evolving landscape of shareholder activism and may ultimately cause investor confusion.

Should the SEC go forward with this aspect of the Proposal, we suggest that the categories should be fewer and broader in scope, so that there is less room for interpretive differences in determining the appropriate classification of voting items. Such an approach would accomplish the Commission's main aim of allowing the users of Form N-PX to readily identify thematic issues – and particularly the voting approach to these issues within a fund or of multiple funds within a complex – while also reducing the guesswork involved by reporting persons in choosing categories. On this point, we would gladly offer further input to the Commission on the development of those categories if thought helpful.

Identification of Proxy Voting Matters

The Proposal would require reporting persons to link the description of voting matters on Form N-PX to the issuer's form of proxy and to report each item in the same order as that presented by the issuer. The SEC believes these measures "would facilitate identification of identical matters included on different Form N-PX filings by different reporting persons even though there is no interactive data tagging in issuer proxy materials...[and] facilitate the ability of investors to better understand fund and manager proxy disclosure and compare voting records."⁸

8. Proposing Release at 57486.

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Broadly, we believe this aspect of the Proposal to be workable where it concerns domestic issuers. We are concerned, however, about the potential challenges of applying this reporting framework to votes cast with respect to foreign issuers.

At the most basic level, there is the issue of translation, as not all foreign companies produce their meeting materials in English. It is unclear how the Proposal would deal with this impediment in a way that promotes the stated objective of improving comparability, given that intermediaries may not translate the materials in exactly the same manner. It is also unclear as to whether the Commission intends that reporting persons would be permitted to file any aspect of the Form N-PX in a language other than English.

Secondly, there is no universal standard in place as to the formatting of an issuer's proxy in foreign markets. This can result in variation across vendors within the voting chain as to the number and ordering of the resolutions to be voted on the proxy, including whether and how voting items are grouped. Additionally, in some foreign markets, a single voting item or resolution may span multiple lines of text, with intermediaries often presenting a truncated or summarized version which again, may vary across proxy vendors. It is unclear how reporting persons are expected to deal with this in their reporting in a manner which would achieve the stated aim of facilitating comparability.

Additional Comments

In addition to the foregoing, we offer the following thoughts about other aspects of the Proposal upon which the Commission has requested comment:

Structured Data Language: We are generally supportive of the requirement for reporting persons to submit Form N-PX in a custom eXtensible Markup Language (XML). This will modernize the form and make it more accessible and user-friendly. We note that the SEC proposes to bear the costs of developing electronic "style sheets" which would render the reported XML data in human-readable form.⁹

Time of Reporting: We believe that the current reporting cadence, requiring Form N-PX to be filed by August 31st for the most recent 12-month period ending on June 30th, is the right balancing of the benefits of prompt and transparent vote reporting versus the costs and burdens associated with that reporting. We believe that a more frequent reporting timeline would not offer any significant benefits, particularly in view of the highly seasonal and concentrated

9. Proposing release at 57496.

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workloads associated with proxy voting. More frequent submissions of vote reporting would result in periods of relatively fewer votes reported followed by a surge in vote data relating to the peak voting period which for most markets occurs during the spring (i.e., the second quarter of the calendar year). We do not believe this would be helpful for the users of the data on Form N-PX, particularly those who may not be familiar with this industry dynamic, and would undermine the Commission's objectives of improving standardization and comparability through this Proposal. Moreover, any filing deadlines which might fall during the peak voting season would be particularly onerous, as proxy voting personnel are typically fully devoted to proxy voting activities during this period. Finally, we highlight that a monthly or quarterly vote reporting interval, both of which are identified as possible alternatives in the Proposal, are not sufficient timeframes from which to draw meaningful conclusions about a fund's approach to proxy voting.


We also strongly support the Commission's intention to apply the same annual reporting cadence to institutional investment managers who are affected by the new reporting requirements around say-on-pay votes. This would promote the overarching objectives of consistency and comparability which underpin this proposed rulemaking.

Thank you for the opportunity to provide comments on the Proposal. Please do not hesitate to contact us if we can be of any further assistance.

Sincerely,



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EVP, Head of Responsible Investing Office
Federated Advisory Services Co.
Federated Hermes, Inc.



Jonathan Haymon
VP, Director of Proxy Voting
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