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Proxy Advisors Under Renewed Scrutiny: Familiar Critiques, One Significant Investor Shift, and What It Means for 2026

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Recent developments suggest another wave of recalibration of how proxy advisory firm output is produced, used, and regulated may be underway. Proxy advisors have been under scrutiny for over a decade, with the Securities and Exchange Commission (SEC) publicly raising concerns about their role as early as 2013, with unsuccessful attempts to regulate them from 2020 to 2022. In 2023, we also saw unsuccessful litigation to reinstate the regulation, followed by a Texas state law attempting to regulate the advisors that is still being litigated.

More recently, a December 2025 Executive Order directing federal agencies to increase oversight of proxy advisors has triggered a resurgence of activity. The SEC is informally re-engaging on the topic, with a director publicly noting that proxy voting is a fiduciary function that should not default to third party recommendations. In the meantime, both Institutional Shareholder Services (ISS) and Glass Lewis (GL) are repositioning offerings toward research and customizable analysis rather than a single, standardized voting recommendation. Perhaps most significantly, in early January 2026 J.P. Morgan Asset Management eliminated use of ISS/GL, and will start using an internal AI-supported platform.

December 11, 2025 Executive Order

The Executive Order titled "Protecting American Investors from Foreign-Owned and Politically-Motivated Proxy Advisors" directs a multi-agency review and potential action framework aimed at addressing proxy advisors' market power, conflicts of interest, and perceived politicization. The Order instructs the SEC Chairman to review existing proxy advisor-related guidance and consider revisions or rescissions that are inconsistent with the Order's objectives, and to enforce the federal securities laws' anti-fraud provisions with respect to material misstatements or omissions in proxy advisors' recommendations.

The Order also:

- Calls for an assessment of whether proxy advisors should be required to register as investment advisers under the Investment Advisers Act;
- Questions whether additional requirements are warranted to enhance transparency around proxy advisors' recommendations, methodologies, and conflicts of interest, including those related to diversity, equity, and inclusion (DEI) and environmental, social, and governance (ESG) considerations;
- Directs analysis of whether the widespread, common use of proxy advisors by

investment advisers could, in certain circumstances, facilitate coordination such that a "group" could be deemed to exist under Sections 13(d)(3) or 13(g)(3) of the Exchange Act;

- Directs the Federal Trade Commission (FTC), with Department of Justice (DOJ) consultation, to review state antitrust investigations and investigate unfair, deceptive, or anticompetitive practices by proxy advisors; and
- Instructs the Department of Labor (DOL) to review and potentially revise ERISA-related fiduciary guidance concerning proxy voting and engagement, including whether proxy advisors advising ERISA plans should be treated as investment advice fiduciaries.

Although no action has yet been taken pursuant to this Order, it could theoretically result in penalties on proxy advisors for including misstatements or omissions in their reports, with proxy advisors pressured to release reports to issuers prior to publishing. It could also result in pressure for increased transparency in methodology, elimination of ESG/DEI-based recommendations, and overall weakening of ISS and GL through antitrust litigation.

SEC Speech: (Re)Empowering Fiduciaries in Proxy Voting

In remarks delivered on January 8, 2026 to the New York City Bar Association, SEC Division of Investment Management Director Brian Daly emphasized that proxy voting is itself a fiduciary function and urged investment advisers to re-examine longstanding "vote everything" practices and routine reliance on proxy advisory firms.

Although the remarks were not part of a rulemaking, Daly underscored that investment advisers should reassess their proxy voting policies and processes, including whether voting every item is appropriate or consistent with a fund's strategy or mandate. He also reiterated longstanding SEC views that refraining from voting can be a permissible alternative where the costs of voting outweigh the expected benefits and does not, by itself, violate fiduciary obligations. Daly stressed that investment advisers must vote in clients' best interests on an informed basis, noting that while the use of proxy advisors may be appropriate in certain circumstances, investment advisers cannot outsource their fiduciary judgment and should address the scope of such reliance through client arrangements and ongoing oversight.

Daly also observed that artificial intelligence tools could serve as a useful aid in managing the scale and complexity of proxy voting, provided that investment advisers retain accountability and make clear, accurate disclosures regarding their use. Finally, he flagged concerns (echoed in the Order noted above) that habitual or mechanical adherence to a proxy consultant's recommendations could, in some circumstances, raise issues under Section 13(d) "group" concepts by suggesting that multiple investors are acting in concert.

ISS and GL Repositioning: From "Recommendations" to "Research"

Recent announcements indicate both firms are adapting their offerings to reflect investor demand for customization and to reduce reliance on a single standardized benchmark recommendation. Importantly, GL announced that beginning in 2027 it will move away from singular benchmark/house-policy-based vote recommendations and instead provide multiple perspectives aligned to different stewardship philosophies (e.g., management-aligned, governance fundamentals, sustainability, active owner), allowing clients to select the lens that aligns with their own policies.

Similarly, while ISS continues to publish benchmark voting policies and recommendations for many clients, their product direction reflects growing demand for customizable, policy-driven research rather than a single default recommendation.

[J.P. Morgan Asset Management stops using proxy advisors for U.S. votes]

J.P. Morgan Asset Management has cut ties with proxy advisory firms for U.S. proxy voting and will rely on an internal AI supported platform (Proxy IQ). The change applies to U.S. company votes. Proxy IQ is described as an internal, AI powered platform that manages votes and analyzes data from thousands of annual meetings, producing internal guidance for portfolio managers.

The move is an industry-first among large global asset managers and adds pressure on ISS/GL in a period of political scrutiny. Based on this move, it is likely that more issuers could expect differentiated, firm specific stewardship decisions (including where proxy advisor policy frameworks previously acted as a common baseline).

Potential Implications

The power of proxy advisors has been under scrutiny for many years, with attempted regulation ebbing and flowing with different administrations. It's too soon to determine whether J.P. Morgan's shift signals a trend for companies that have the capacity to conduct the analysis in-house. If the proxy advisor landscape moves toward research-first and investor-specific application, executive compensation vote dynamics could shift in several ways:

- **Predictability of say-on-pay:** Where some investors historically tracked ISS/GL benchmark outcomes, internalized or customized approaches may produce more dispersion in voting results and rationales.
- **Greater weight on disclosure and context:** Compensation discussion and analysis (CD&A) clarity, rigor around goal setting, and explanation of discretion/special adjustments are likely to matter more when investors are not anchored to a single proxy advisor recommendation.
- **Pay-for-performance assessments may become more "methodology plural":** Proxy advisor quantitative screens will still be influential, but investors may apply different peer sets, time horizons, and qualitative overlays, making early identification of "story gaps" more important.
- **Committee accountability remains, but triggers may vary:** Negative votes on compensation committee members could be driven more by each investor's stewardship framework than by standardized proxy advisor escalation policies.
- **Engagement strategy may change:** Companies may benefit from earlier outreach to explain pay design decisions (including one-time awards, retention actions, performance metric changes, and relative total shareholder return (TSR) or other modifiers) because fewer investors may rely on proxy advisor shorthand.

We will continue to monitor whether J.P. Morgan's decision signals broader change, and will keep clients informed if AI-related developments translate into tangible shifts in investor behavior or proxy voting outcomes.

About the Author

Deborah Lifshey is a managing director at Pearl Meyer, where she specializes in advising clients on compensation matters from a legal perspective including securities disclosure, taxation and corporate governance issues, negotiation contracts, and reasonableness opinion letters.

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