



CLIENT MEMO:
SUNSET OVER PROXY FIRMS?

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The embattled proxy advisory firms have been facing ongoing political, regulatory and legal pressures in Washington, D.C. and the Lone Star state, and now they may be facing a new threat by the House of Morgan.

Yesterday, The Wall Street Journal reported that JPMorgan is [ending its relationships](#) with third-party proxy advisory firms ISS and Glass Lewis. Many huzzahs were heard across corporate America.

Instead of relying on ISS and Glass Lewis analysis (and perhaps voting), JPM's Asset and Wealth Management professionals will use a new proprietary AI tool, Proxy IQ, to help guide normal course votes at more than 3,000 shareholder meetings this season. The tool, [The Deal reports](#), will only be used for voting on U.S. company proxies, and the rollout will be phased over the next two quarters.

This is the latest challenge that ISS and Glass Lewis have faced as their role in the proxy voting ecosystem remains under intense regulatory and reputational pressure. Glass Lewis itself announced in October that it would move away from its house policy and "shift to providing multiple perspectives" to reflect varied viewpoints.

A formal announcement is yet to come from JPM, and the advisory community will be closely watching for details. But given the ongoing pressure facing the proxy firms, this could be another step in defanging these once-feared players in proxy matters.

Now admittedly, Jamie Dimon has been among the most vociferous critics of proxy firms and has had some [choice words](#) for the acknowledged oligopoly. Regardless, this could be a significant step that alters the proxy voting landscape with implications for retail voting, shareholder activism and other current topics.

Below are some initial takeaways for IR and Communications professionals:

- **AN EVER-MORE SPLITERED VOTE.** This is one more sign that proxy votes at companies are going to become more fragmented and difficult to predict. JPM's move should be seen in conjunction with the growth of [pass-through voting programs](#), and the splits in stewardship functions at institutional investors, including Vanguard and BlackRock.
- **HOUSE OF MORGAN.** JPM is a major player in asset management, though smaller than the Big Three. How they approach votes of course matters, but the impact here is equally symbolic. The gravitas that JPM carries in the financial industry and in corporate America at large makes this an important move – one that gives others air cover to experiment with solutions to move further away from ISS and Glass Lewis.
- **REPLACED WITH WHAT, EXACTLY?** JPM has said that Proxy IQ will evaluate governance data and produce voting recommendations that will guide fund managers. What inputs and frameworks Proxy IQ uses to provide its recommendations, and how JPM ensures that managers use the tool appropriately, will be a matter of intense discussion and attention from the industry. Critics will say that JPM is simply replacing one set of external arbitrary guidelines with a set of internal ones. The devil will be in the details.

- **LESS POWER FOR ISS AND GLASS LEWIS, LESS POWER FOR ACTIVISTS?** The support of ISS and Glass Lewis has been an important element of activists' paths to victory in contested votes – a recommendation for a board nominee can positively impact their campaigns. Diminishing the influence of the proxy advisors may have the net effect of diluting the power of activists in a proxy contest.
- **RIPPLE EFFECTS.** Rising costs and decreased voting guidance quality could be consequences if other asset managers follow JPM's footsteps. That's one takeaway from Dorothy Lund, a corporate law professor and corporate governance expert at Columbia Law: "If ISS and Glass Lewis lose business from the large asset managers, that will raise costs or affect voting guidance quality for the smaller asset managers who rely on them more completely. And I don't know that these smaller asset managers would be willing to develop their own in-house quality programs," she says.

Key Actions for IR and Communications Professionals to Consider:

1. **INVEST IN BUILDING A ROBUST UNDERSTANDING OF YOUR SHAREHOLDER BASE.** Investor relations professionals and their advisors need to develop a nuanced understanding of shareholder bases. Specifically, they will be well advised to understand which investors have been following ISS and Glass Lewis closely and how they might alter their strategies going forward. Staying close to investors is always critical, as Okapi's Bruce Goldfarb put it: "Since JPM always allowed its portfolio managers and research analysts to have input into voting decisions, this announcement provides a reminder that staying close to investors is an important component of the IR role."
2. **UNDERSTAND THAT IT WON'T END WITH PROXY IQ.** It is safe to assume that tools like JPM's Proxy IQ will only grow in usage and popularity over the years. In addition to splintering shareholder registers, AI has entered the proxy voting space for good. Issuers should be increasingly mindful of the language – and specific keywords or changes to content – used in their communications materials.
3. **DO NOT WAIT TO ENGAGE WITH RETAIL UNTIL IT IS TOO LATE.** As voting monoliths come undone, every vote matters more. As such, the retail vote is becoming increasingly important. Issuers must invest in understanding their retail shareholding base (both direct and pass-through) and put together retail voting programs for the long-term. Our recommendation: Issuers should not wait until a close vote is on the horizon to put these in motion – a constant campaign mentality will be needed.

Further reading

The Wall Street Journal: [JPMorgan Cuts All Ties With Proxy Advisers in Industry First](#); by Jack Pitcher
The Deal: [JPM to Use AI Platform for U.S. Proxy Advice, Spurns Proxy Advisers](#); by Ron Orol
Bloomberg Opinion: [The AI Will Vote the Shares](#); by Matt Levine