

# THE STA

## SECURITIES TRANSFER ASSOCIATION, INC.

Established 1911

September 25, 2018

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Brent J. Fields, Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

### **RE: FILE NUMBER 4-725**

Dear Secretary Fields;

The Securities Transfer Association (“STA”) appreciates the opportunity to submit this letter in anticipation of the SEC’s upcoming Roundtable on the Proxy Process. Founded in 1911, the STA is the professional association of transfer agents and represents more than 130 commercial stock transfer agents, bond agents, mutual fund agents, and related service providers within the United States and Canada.

STA membership consists of banks and independent transfer agents that perform record keeping services for publicly traded companies and mutual funds, corporate transfer agents that perform the same service for their own corporations, and companies that support organizations involved in the transfer of securities. Collectively, STA members serve as transfer agents for more than 15,000 publicly traded corporations, providing record keeping and other services to more than 100 million shareholders.

STA members play a large role in the proxy voting and shareholder communications system on behalf of their clients. Transfer agents distribute proxy materials, host websites for annual meeting materials and proxy voting, tabulate votes, and serve as inspectors of election for shareholder meetings. The STA has been actively involved with the SEC, the New York Stock Exchange (“NYSE”), and other interested organizations on proxy reform issues for many years.

The STA applauds the SEC staff for its efforts to again evaluate the proxy process in some detail, and feels that, in consideration of the many factors pointed out as a result of the 2010 Concept Release, a certain measure of reform is long overdue.

The following are the STA's specific comments on the proxy process:

### **Issuer Communication with Shareholders**

The STA continues to strongly support removal of the current barriers preventing issuers from communicating directly with their shareholders as detailed in its comment letter dated October 19, 2010. (<http://www.stai.org/pdfs/2010-10-19-sta-comment-letter-on-sec-concept-release.pdf>)

Allowing issuers direct access to their shareholders would:

- increase individual participation in shareholder meetings
- facilitate the passage of actual voting authority to beneficial shareholders rather than simply providing them with a voting instruction form.
- improve the transparency and integrity of the voting process
- potentially reduce issuers' expenses for solicitation
- encourage more frequent communication between issuers and their shareholders.

Another significant improvement would come in the resultant shifting of control of the actual solicitation process to the issuer. Under the current system, issuers are required to bear the cost of solicitation, but have literally no control over the provision of that service to beneficial owners. The financial intermediaries servicing beneficial owners are free to choose their own service providers, charging quasi-regulated prices, which issuers are obligated to reimburse.

This closed environment has all but eliminated competition and free trade. Financial intermediaries, being assured of reimbursement, are agnostic as to the prices of their service providers. Service providers, while perhaps competing among each other for the business of the financial intermediaries, are under no direct obligation to the issuers who are ultimately paying their bills.

Evidence, such as that provided in the Attachment to the STA's letter of October 19, 2010 suggests that a free trade environment might result in significant cost savings to issuers.

Recent advances in technology, particularly in the field of distributed ledgers with their promise of integrity, immutability, transparency, and cost efficiency, strongly indicate that now is an opportune time to allow issuers to control the entire solicitation process more directly.

### **Pre-mailing Reconciliation**

Although the over-voting problems reported in years past have significantly diminished, the STA feels this is likely due to service providers capping the aggregate votes of their

clients at the record date position reported to the tabulator by DTCC and not necessarily because a solution was found to ensure the rightful owner has voted. This over-vote prevention service may be masking a larger problem which might otherwise still be evident. This, combined with the fact that unresolved over votes are still occurring, suggests the need for more stringent reconciliation of the files used for proxy solicitation.

In order for vote counts at shareholder meetings to have the integrity expected by all participants in the proxy voting process, proxy materials and a request for voting instructions should only be sent to eligible voters. Each broker-dealer should be required to reconcile its customer positions and develop a list of its beneficial owners eligible to vote before a proxy mailing occurs. Issuers should not have to pay to send out proxy statements to ineligible beneficial owner positions; and voting instructions should not be tabulated from any position that is not eligible to vote as of a record date.

Pre-mailing reconciliation is not difficult to implement operationally. An eligible voter list can easily be developed by requiring all broker-dealers to reconcile their long positions with their share lending positions before a list is provided to a central intermediary and before a proxy mailing occurs. This is the only way to ensure an accurate vote count among beneficial owner positions in the proxy tabulation process.

The STA also understands that several large broker-dealers already use this method of reconciliation. This pre-mailing reconciliation method should be extended uniformly to all broker-dealers and should be required by the SEC through an amendment to its proxy regulations.

### **Vote Confirmation**

Investors are concerned about certain aspects of the vote tabulation process and the ability to verify that their votes were cast properly in the final tabulation. They are seeking a process by which votes can be verified or confirmed electronically, from the beginning of the voting process until the final tabulation.

The current proxy system cannot produce this end-to-end confirmation of an investor's vote. The system involves too many intermediaries in between issuers and their shareholders, and there are separate tabulators for beneficial owners and registered owners.

The STA believes that the proxy voting process needs to become more transparent before this goal of vote confirmation can be achieved. As a first step, the SEC should require that each broker-dealer develop a list of eligible beneficial owner positions as of a record date, through the pre-mailing reconciliation method discussed earlier.

Second, beneficial owners should be provided with proxy voting authority (instead of voting instruction forms or VIFs), so that voting by beneficial owners is fully transparent, including the number of share positions eligible to vote.

Third, issuers should be permitted to solicit proxies directly from their shareholders through the elimination of the present barriers which prevent this, and through amended SEC rules that place responsibility for distributing proxy materials with the issuers themselves, using service providers of their own choosing. As mentioned earlier in this letter, recent advances in technology, particularly in the field of distributed ledgers with their promise of integrity, immutability, transparency, and cost efficiency, strongly indicate that now is an opportune time to allow issuers to directly control the entire solicitation process.

### **Conclusion**

After nearly 35 years since the current regulatory framework was established, the time has come to fundamentally reform the U.S. proxy voting and shareholder communications system, with the twin goals of: (1) permitting direct and open communications between issuers and all of their shareholders, both registered and beneficial, and (2) improving the integrity of the proxy voting process, by ensuring that individual votes and the overall vote count are transparent, verifiable, and auditable.

Thank you again for providing the STA with the opportunity to provide these comments in connection with the SEC's proposed Roundtable on the Proxy Process.

Very truly yours,

A handwritten signature in black ink that reads "Todd J. May". The signature is fluid and cursive, with the first name "Todd" and last name "May" clearly legible.

Todd, J. May  
President  
The Securities Transfer Association, Inc.