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October 31, 2018
Mr. Brett J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Subject: *Request for Comment on the Processing Fees Charged by Intermediaries for Distributing Materials Other Than Proxy Materials to Fund Investors, File Number S7-13-18 (the "Release")*

Dear Mr. Fields:

Broadridge appreciates the opportunity to provide facts and information on the NYSE's regulated fees for the distribution of annual and semiannual shareholder reports.[1] The information we provide below pertains to the aspects of the system that we administer on behalf of our clients.[2] We also include findings of economic analyses conducted by Compass Lexecon, a leading economic consulting firm.[3] In addition, we offer several ideas that could be implemented in the near term to drive additional cost savings efficiencies for fund companies and to improve the effectiveness of disclosures to retail investors.

Executive Summary

The existing structure of regulatory communications, of which interim communications are a part, serves many participants and plays a critical role in protecting investors. The regulated fee framework must ensure that the system continues to provide a reliable, accurate, secure, and cost effective means of communication for all participants. Broadridge is aligned with these goals. By all objective measures, the current fee framework performs well. For investors holding funds beneficially in "street name," the total unit cost (paper, printing, postage, and fees) of processing and distributing a communication is at least 20% lower on average (under the regulated fee framework) than the same communication for a

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[1] The majority of "interim" communications consists of annual and semiannual shareholder reports. Our comments do not pertain to other types of interim communications such as prospectuses, letters from shareholder proponents, and other communications that do not include proxy voting forms.

[2] Broadridge provides services to assist over 1,000 custodian banks and broker-dealers in fulfilling their obligations to furnish communications under SEC and NYSE rules. We also provide services directly to many fund companies to assist them in communicating with their direct-held accounts.

[3] Compass Lexecon analyzed the business of providing shareholder communications services, the economics of regulated and unregulated fees, and the role Broadridge plays. See Attachment A for Compass Lexecon's report, "An Analysis of Interim Report Delivery Services for Beneficial Owners of Mutual Fund Shares," October, 2018. Compass Lexecon previously analyzed costs for proxy communications. (Refer separately to, "An Analysis of Beneficial Proxy Delivery Services," May 11, 2010.)

fund's direct-held investors. The unit cost has declined significantly over time. The regulated Preference Management Fee encourages digital delivery while reducing total costs; the technology and processing investments it supports will continue to drive significant additional annual cost savings for the foreseeable future.

New approaches such as SEC rule 30e-3, enhanced fund report notices, enhanced (and votable) proxy notices, and a summary report delivery option modeled on the SEC's successful summary prospectus delivery option could make disclosures more informative and engaging for the average investor, and further reduce costs of paper, printing, and postage. In the case of enhanced and votable proxy notices, fund companies (and equity operating companies) would realize additional cost savings on solicitation for shareholder meetings and attain quorum with greater efficiency. With empirical data on these new approaches, it may be appropriate to review the complete fee framework to ensure that it provides reimbursement of reasonable costs and encourages continued investments to improve the disclosure experience for retail investors. Reviews should be comprehensive, covering all regulatory communications and involving all participants, given the shared infrastructure and the interrelationships among each fee within the overall fee framework. Major participants include individual and institutional investors, large and small broker-dealers, large and small fund companies, large and small equity operating companies, custodian banks, and regulators.

The existing structure of regulatory communications plays a critical role in creating transparency and protecting investors, fund companies, broker-dealers and custodian banks. Mutual fund annual and semiannual reports are part of an overall system of regulatory disclosures including prospectuses, proxies, and other materials intended to create transparency and protect participants in U.S. markets. Approximately 75% of non-retirement mutual-fund accounts of individual investors (and 90% of non-retirement assets) are held through broker-dealers (beneficially, in "street name") with the balance held directly with fund companies. In addition to protecting investors, these communications protect fund companies, broker-dealers, and custodian banks by providing critical information. Each of the 140+ million investor accounts that are entitled to receive a regulatory disclosure is in fact receiving it (based on multiple independent reviews by Big Four firms), and communications are provided by methods that reflect each of these investor's specific delivery preferences.

Overview of Main Points

Our comments below are organized into the following six points. We provide an overview of these points immediately below and additional data in the discussion section that follows this overview.[4]

I. The total unit cost of a communication to investors holding funds in street name is at least 20% lower on average, under regulated fees, than the same communication to investors holding shares directly with fund companies where unregulated, market-based fees apply. Due to investments in technology, the unit cost for a communication to shares held in street name has declined by over 40% over the past 10 years.

Compass Lexecon conducted an economic analysis of the costs of communication. They looked at full service fund company clients of Broadridge, as a segment, to compare the costs for communications to investors holding funds directly with fund companies to the costs of communications to investors

[4] Certain data referred to below (including the Broadridge unit costs referred to in the Unit Cost Comparisons chart on page 8) have been subject to "agreed-upon procedures" performed by a Big 4 independent accounting firm.

holding funds beneficially in “street” name. Separately, Broadridge performed similar analyses for a larger sample of funds which included all fund company clients to whom Broadridge provides some or all services associated with processing direct-held accounts. Both analyses show that despite the greater complexity of processing communications for funds held in street name, the system is more efficient than direct ownership. The unit cost for each fund report position held in street name is 20% to 27% lower on average (depending on the segment) than it is for direct ownership. The unit cost includes paper, printing, postage, and fees.

A total of $147 million in regulated interim fees was invoiced (by Broadridge as an agent to its custodian bank and broker-dealer clients) to fund companies for shareholder reports in the 12 months ending April 30, 2018. Of this amount, $102 million was for Interim Report Fees and $45 million was for Preference Management Fees. Over those same 12 months, fund companies realized paper, printing and postage cost savings of $440 million, an amount that was 3 times greater than the total fees invoiced and nearly ten times greater than the Preference Management Fees invoiced. The greater efficiency on the street side is a result of network effects and technology investments.

Several thousand smaller funds (including smaller funds at large fund companies) pay regulated communications fees that are significantly lower than market-based fees. In the 12 months ending April 30, 2018, a total of 1,779 of these smaller “jobs” (19%) had fewer than 500 account positions. They paid $29, on average, in total regulated fees. For the same communications to their direct-held investors these smaller jobs would expect to pay minimum fees, set-up fees, and other costs. Under the regulated fee framework, they pay one low fee that includes ‘record search’ across 1,000+ custodian banks and broker-dealers served by Broadridge, processing of preferences for householding, e-delivery, and managed accounts, cyber security for security holder information, multiple methods of delivery (e.g., internet, mobile, mail, EBIPs), consolidated invoicing, and all other functions that make the system work so well for funds of all sizes. The largest fund “jobs” pay a large share of the total fees and, in turn, they realize a large share of the cost savings benefits.

Moreover, due to investments in technology that have driven higher rates of e-delivery, the unit cost of beneficial shareholder communications overall has declined over the past decade by over 40%, from $0.88 in 2008 to $0.52 in 2018. Both the Interim Report Fee and the Preference Management Fee have declined in real terms by over 36% on an inflation-adjusted basis since they were last changed over 20 years ago.

II. As documented by previous reviews, the regulated fee structure for interim communications is accomplishing its goals of reducing costs and providing communications based on each investor’s preference. The regulated Interim Report Fee at $0.15 is less than 1/6 of 1 basis point on a $10,000 investment, and has decreased by 36% on an inflation-adjusted basis since 1997.

The Interim Report Fee was reduced by 25% in 1997 (from $0.20 down to $0.15) in conjunction with the introduction of the Preference Management Fee ($0.10 for each instance where the need to send physical materials by mail is eliminated). Since then, both fees have declined by over 36% in real terms due to the effects of inflation. Currently, at $0.15 for each position processed, the Interim Report Fee is less than 1/6 of 1 basis point on a $10,000 investment. By comparison, the average cost of paper, printing, and postage of a mailed fund report is $0.94, before the cost savings resulting from the Preference Management Fee.

The NYSE fee framework for proxy and interim communications was reviewed by the NYSE’s Proxy Fee

Advisory Committee ("PFAC") and Mutual Fund Working Group ("MFWG") over a period of more than 3 years beginning with the formation of the PFAC in September, 2010 and ending with the MFWG's recommendations on January 23, 2014. The Mutual Fund Working Group considered whether the NYSE's one-size-fits-all fee should be tiered, with larger funds paying less and smaller funds paying more. For many reasons, including its recognition that funds would realize greater cost savings on paper, printing, and postage than on fees, the MFWG did not recommend a change in the Interim Report Fee. Instead, it recommended that the SEC develop rules for a notice and access distribution method which would give fund companies another option to save costs on fund reports (by mailing notices instead of complete reports). In this context, SEC rule 30e-3 is a logical next step. (Refer to point IV below.)

III. The NYSE Preference Management Fee has been effective in reducing costs for the industry by aligning fund companies, broker-dealers, and technology services providers on the goal of reducing the total costs of regulatory communications. At the same time, the fee ensures that every distribution is consistent with the specific delivery preferences of 140+ million retail accounts (based on independent reviews by Big Four firms). With continued investment, significant further savings are possible.

The Preference Management Fee is a "success fee;" it is paid only when the need to send an annual or a semiannual report by physical mail is eliminated. These preferences are maintained and applied at an account level to future mailings.

The facts demonstrate that the fee continues to prove its worth many times over to fund companies through growing annual savings on the costs of paper, printing, and postage. Over the past 10 years, cost savings have increased more than six fold, from $71 million in 2008 to $440 million in the twelve months ending April 30, 2018. The annual cost savings are nearly 10 times greater than the Preference Management Fees invoiced ($45 million) and 3 times greater than all regulated fees invoiced ($147 million).

Broadridge has invested over $1 billion in systems, technologies, processing, and intellectual capital together with and on behalf of our clients over the past 10 years. Investments continue to be made under the SEC's long-standing guidance for electronic delivery and NYSE Preference Management Fee. Currently, the need to send physical reports by mail is being eliminated for 68% of the account positions processed. Broadridge estimates that with continued investment made possible by the Preference Management Fee, it will be likely that we can eliminate the need to send mail to over 80% of accounts by 2020, leading to substantial savings exceeding $500 million annually.

IV. SEC rule 30e-3 is the logical next step in the evolution of the NYSE's fee framework. It provides a significant opportunity to reduce the total costs of distributing shareholder reports. It demonstrates that the current fee framework (including the new fee for mailed notices which goes into effect on January 1, 2021) is accomplishing the goals set out by the last fee review which concluded in 2014.

The SEC recently approved rules to implement the 2014 recommendations of the Mutual Fund Working Group. SEC rule 30e-3 is the logical next in the evolution of the regulatory communications structure and the NYSE's fee framework. The SEC estimates that its potential cost savings will exceed all fees invoiced for annual and semiannual reports to investors holding funds in street name (including the

Interim Report Fee, the Preference Management Fee, and the NYSE's new fee for rule 30e-3 notice and access).

The NYSE's new regulated fee for 30e-3 goes into effect January 1, 2021. Under the terms of rule 30e-3, fund companies who wish to rely on the notice delivery option must begin soon (i.e., on January 1, 2019) to pre-notify investors and to provide them with a means to indicate their future preference for complete reports. Broadridge and its broker-dealer clients are investing now, before the fee goes into effect, to develop the industry solutions to handle the rule's pre-notification and preference capture requirements on January 1, 2019. Broadridge's investments include educational efforts, investor studies, new systems development, service operations, and the intellectual capital necessary to support the rule's required pre-notification conditions and new preference option for fund investors.

Broadridge and its clients are realizing implementation costs now to build solutions for any and all fund companies that may decide to use the notice method two years from now. The technology solutions enable mutual funds to begin to realize rule 30e-3's additional savings on paper, printing, and postage on the rule's earlier effective date (i.e., on January 1, 2021), instead of waiting until January 1, 2022. Broadridge and its custodian bank and broker-dealer clients will also be performing the ongoing processing work for two years before the new fee to reimburse broker-dealers goes into effect.

V. Additional new approaches such as enhanced notices of fund reports and enhanced notices of proxies can further improve the overall system in the near term, further reducing costs and increasing investor engagement.

New approaches to the structure of regulatory communications can enhance the regulatory content of notices of shareholder reports and proxies -- in order to better inform and engage retail investors and to encourage more of them to convert from more costly paper mailings (including mailed notices) to a more user-friendly digital experience. Important ideas include, among others: enhancing emails and notices with key, interactive information from fund reports to drive better engagement and more e-delivery and building on the success of the SEC's successful summary prospectus delivery option by creating summary versions of interim communications. An enhanced and votable proxy notice would provide fund companies and equity operating companies with large savings on paper, printing, and postage (in comparison to sending full sets of proxy materials) and solicitation, and encourage greater and more informed voting participation among retail shareholders.

VI. With empirical data on these new approaches, it may be appropriate to review the complete fee framework to ensure that it provides reimbursement of reasonable costs and encourages continued investments to reduce fund company costs and to improve investor engagement. Reviews should be comprehensive, covering all regulatory communications and all participants, given the shared infrastructure and the interrelationships among each fee within the overall fee framework.

Past reviews of the NYSE fee framework have arrived at a good result for U.S. markets overall because their goal was to ensure that the system continues to provide a reliable, accurate, secure, and cost efficient means of distributing shareholder communications, and because they were based on empirical data.[5] They were sensitive to finding the right balance between the benefits of scale that the largest

[5] Refer to "Recommendations of the Proxy Fee Advisory Committee to the NYSE," (May 16, 2012), p.9, "After fact gathering and analysis, the Committee has focused on a set of recommendations intended to serve several basic goals: To support the current proxy distribution system, given that it provides a reliable, accurate and secure

funds and corporate issuers contribute to the system and the high costs of unregulated, market-based communications among smaller entities. The PFAC and MWFG, and other reviews before it, wrestled with the important goal of ensuring that the system overall functions well and that investments continue to be made to keep pace with changing regulations and technology, recognizing that some participants could perceive one fee or another as too high or, conversely, too low. See Attachments B and C for background information on prior fee reviews and the MFWG discussions, respectively. Also, see Attachment D for letter from Paul Washington, Chairman of PFAC, encouraging the Commission to approve the fee schedule proposed by the NYSE.

Should the SEC determine that a review of the fee framework is appropriate before rule 30e-3 goes into full effect, Broadridge welcomes the opportunity to provide additional facts and data to assist any new committee in understanding how the system functions.

Discussion of Main Points

The data we provide below supports the following observations:

I. The unit cost for each position processed is at least 20% lower for investors holding funds in street name than it is for investors holding funds directly with a fund company. Moreover, the unit cost has declined by over 40% in the past 10 years on the street side from $0.88 cents in 2008 to $0.52 cents in 2018.

Street ownership is both more complex and, at the same time, more cost efficient than direct ownership. The greater complexities are driven by cyber security requirements not found in direct ownership, multi-party data collection and database management, daily processing for shareholder preferences (including managed account consolidations), identifying and redirecting hard and soft e-fails, householding, and other characteristics of U.S. markets for clearance and settlement of shares held in street name. Cyber security costs are increasing and the complex cyber requirements of street ownership exceed what is found in direct-held account record keeping. For a description of the major processing activities, see the "Mutual Fund Report Processing: Description of the Major Processing Activities, August, 2018," in Attachment E.

Compass Lexecon conducted an economic analysis of the costs of communication. They looked at full service fund company clients of Broadridge, as a segment, in order to compare the costs of communications to investors holding funds directly with fund companies to the costs of communications to investors holding funds beneficially in street name. Separately, Broadridge performed similar analysis for a larger segment -- which included all fund company clients to whom Broadridge provides some or all services associated with processing direct-held accounts.

Both analyses show that despite the greater complexity of processing communications for funds held in street name, the system is more efficient than direct ownership. The unit cost for each fund report position held in street name is 20% to 27% lower on average (depending on the segment) than it is for

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process for distributing proxy materials to street name stockholders. It is also important that the fee structure continues to encourage cost savings through reducing printing, postage and physical handling of proxy materials…"

direct ownership. The unit cost includes paper, printing, postage, and fees. The greater efficiency on the street side is a result of network effects and technology investments.[6]

Compass Lexecon's Comparison (of unit costs where Broadridge provides full communications services to fund companies for their direct-held accounts)

Compass Lexecon reviewed 2,616 invoices (covering approximately 7,000 CUSIPs) across 36 fund companies that are "full service" fund clients of Broadridge. These fund companies choose Broadridge to provide physical and electronic delivery services to their direct-held accounts. The analysis considered a 12-month period ending April 30, 2018. Compass Lexecon computed the unit costs for processing and distribution for direct-held and street name investors. To calculate the unit cost for distributions to investors holding shares in street name, Compass Lexecon looked at the distributions of these funds' reports through the broker-dealers serviced by Broadridge.

Based on this analysis, Compass Lexecon concluded that, at $0.60, the unit cost per position for street shareholders (under the regulated fee) is 20% lower than the $0.75 unit cost per position for direct-held accounts (where the fee is not regulated):

> *"Despite the additional complexities associated with beneficial communication services, funds typically pay less for delivery to beneficial owners than to registered owners on a per-position-processed basis."*[7]

We believe this is the most comprehensive independent study available on the fees and costs of shareholder report processing and distribution.

Broadridge's Comparison (of unit costs where Broadridge provides all or just a portion of the communications services for funds' direct-held accounts)

Separately, Broadridge calculated unit costs for 109 fund companies to whom we provide all or just a portion of the communications services for their direct-held accounts. We also calculated unit costs for street positions for 470 fund companies, who distribute funds through the custodian banks broker-dealers that we service. Our review examined 12,540 invoices (covering approximately 30,000 CUSIPs across those 470 funds) for the same 12-month period that Compass Lexecon examined. Based on our analysis, the $0.52 unit cost per position for street shareholders (under the regulated fee) is 27% lower than the $0.71 unit cost per position for direct-held accounts (where the fee is not regulated).

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[6] The total unit cost includes paper, printing, postage, and fees. Postage reflects actual postage, as invoiced. Printing costs were estimated based on analysis of the size, page count, and "finish" of each fund report across thousands of fund jobs, with quotes obtained from a variety of financial document printers. The difference between the street cost and the direct-held cost reflects the greater savings on the street side resulting from the technology and processing investments Broadridge has made in conjunction with broker-dealers, fund companies, and corporate equity issuers.

[7] Compass Lexecon 2018 Report, p. 18

The total unit cost for each fund report position is 20% to 27% lower on average (depending on the segment) than it is for direct-held positions. (Includes paper, printing, postage, and fees)

Unit Cost Comparisons (Direct-Held vs. Street)

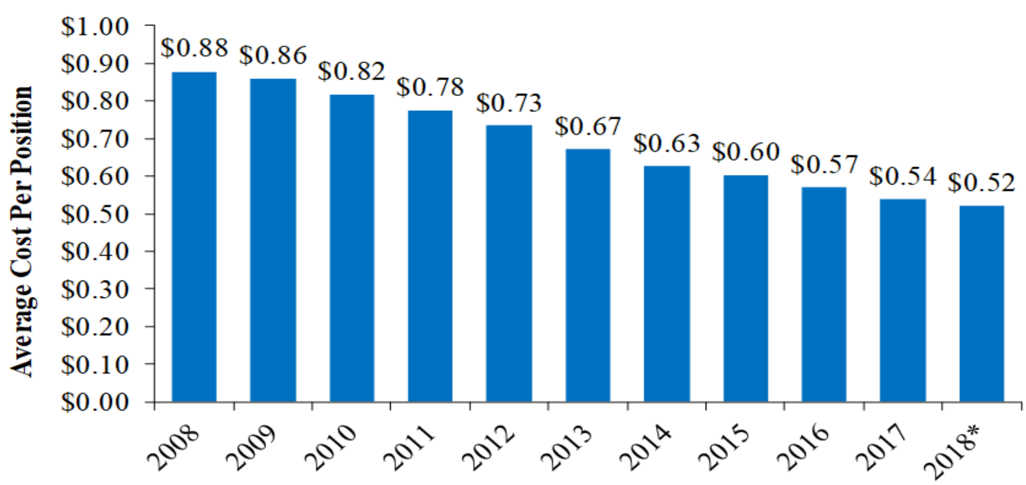
Compass Lexecon Comparison (Approximately 7,000 CUSIPs)		Broadridge Comparison (Approximately 30,000 CUSIPs)	
Direct-Held	**Street**	**Direct-Held (109 funds)**	**Street (470 funds)**
$0.75	$0.60	$0.71	$0.52

Both analyses demonstrate that funds pay a lower unit cost under a regulated fee than they do with unregulated, market-based fees.

A total of $147 million in regulated interim fees was invoiced (by Broadridge as agent to custodian banks and broker-dealers) to fund companies for fund report processing and distribution for the 12 months ending April 30, 2018. Of this amount, $102 million was for Interim Report Fees and $45 million was for Preference Management Fees. Over those same 12 months, fund companies realized paper, printing, and postage cost savings of $440 million, an amount that was 3 times greater than the total fees invoiced and nearly ten times greater than the Preference Management Fees invoiced. The greater efficiency on the street side is a result of network effects and technology investments.

Moreover, the unit cost of fund report communications for street name shareholders has declined by 40% overall over the past 10 years, from $0.88 in 2008 to $0.52 in 2018.

Unit cost of fund report communications to street shareholders



Source: Broadridge internal data.

* Figures for 2018 based on data for the period May 1, 2017 through April 30, 2018.

Note, this analysis assumes that the average cost of printing, postage, and envelopes is constant at the level observed in the data for the 12-month period ending April 30, 2018.

Both the Interim Report Fee and the Preference Management Fee have declined in real terms by over 36% on an inflation-adjusted basis since they was last changed.

The "one-size-fits-all" nature of the regulated fees for interims: The one-size-fits-all aspect of the current fee framework was examined by prior reviews. Each of the prior reviews considered how the fees could impact capital raising costs for smaller funds, issuers, and startups. They were sensitive to finding the right balance between recognizing the benefits of scale that the largest funds and issuers contribute to the system *and* the high costs of unregulated, market-based communications of smaller entities. They understood that under the one-size-fits-all nature of the NYSE regulated fees for Interim communications, the very largest funds arguably pay more than they would on the open market while thousands of the smallest funds pay less. They understood that the largest fund "jobs" pay a large share of the total fees and, in turn, realize a large share of the cost savings benefits. They also understood that across the board, considering all job sizes, the unit cost is lower on the street side and the savings are greater than they are for communications to direct-held accounts.

Several thousand smaller funds (including smaller funds at large fund companies) pay regulated fees that are significantly lower than market-based fees. In the 12 months ending April 30, 2018, a total of 1,779 of these smaller "jobs" (19%) had fewer than 500 account positions. They paid $29, on average, in total regulated fees. For their same communications to direct-held investors these smaller jobs would generally expect to pay minimum fees, set-up fees, and other costs. Under the regulated fee framework, they pay one low fee that includes 'record search' across 1,000+ custodian banks and broker-dealers served by Broadridge, processing of preferences for householding, e-delivery, and managed accounts, cyber security for security holder information, multiple methods of delivery (e.g., internet, mobile, mail, EBIPs), consolidated invoicing, and all other functions that make the system work so well for funds of all sizes. For the 2,361 shareholder report jobs with <1,000 positions, the average fee was $56.

Job size tiers for the 12 month period ended April 30, 2018

Positions	Jobs	%
<500	1,779	19%
500-1K	582	6%
1K-5K	1,779	19%
5K-10K	983	10%
10K-25K	1,337	14%
25K-50k	920	10%
50k-100k	751	8%
100k-250k	691	7%
250k-500k	331	3%
+500k	308	3%
Total	**9,461**	**100%**

The Mutual Fund Working Group considered scenarios to "tier" the regulated fees for interim communications. One result of these analyses showed that large fund companies have many smaller fund jobs and, therefore, while a change in the tiering could lower the fees for their largest jobs it would increase the fees they pay for their smallest jobs. The MFWG was cognizant of the overall goals to ensure the system is fair to all participants in U.S. markets, recognizing that some participants could perceive one fee or another as too high or, conversely, too low.

For example, the Mutual Fund Working Group understood that the system needs to provide sufficient capacity to handle large day-to-day changes in the volumes of interim communications. Currently, we process an average of40 jobs daily and 2.5 million accounts, and peak daily volumes can exceed 300 jobs and over 30 million accounts. Individuals' preferences must be captured and processed daily so that each job, no matter the size, accurately reflects current preferences and realizes savings on paper, printing, and postage.

II. As documented by previous reviews, the regulated fee structure for interim communications is accomplishing its goals of reducing costs and providing communications based on each investor's preference. The regulated Interim Report Fee at $0.15 is less than 1/6 of 1 basis point on a $10,000 investment, and has decreased by 36% on an inflation-adjusted basis then.

The Interim Report Fee was reduced by 25% in 1997 (from $0.20 down to $0.15) in conjunction with the introduction of the Preference Management Fee ($0.10 for each instance where the need to send physical materials by mail is eliminated). Currently, at $0.15 for each position processed, the Interim Report Fee is less than 1/6 of 1 basis point on a $10,000 investment. By comparison, the average cost of paper, printing, and postage for a mailed fund report is $0.94, before cost savings resulting from the Preference Management Fee.

The NYSE fee framework for proxy and interim communications was reviewed by the Proxy Fee Advisory Committee and Mutual Fund Working Group over a period of more than 3 years beginning with the formation of the PFAC in September, 2010 and ending with the MFWG's recommendations on January 23, 2014. PFAC and MFWG members took the time to understand how the system works and to consider cost reductions from a holistic point of view; that is, they recognized that the overall framework for fees functions as a whole:

- For example, the committee's recommendation to reduce some fees on managed accounts included a partial offset with increases in other fees.[8]

- In considering fees for interim reports, the MFWG was cognizant of the fact that mutual funds place large, unpredictable demands on the proxy system -- yet they pay the same low proxy fees as equity operating companies.

- The PFAC and MFWG observed that mutual fund companies would realize modest benefits from the changes made to the proxy fees.[9] This includes the interim communications cost savings benefits from the elimination of the Interim Report Fee and Preference Management Fee for all accounts with <1 share and for all managed account positions with ≤5 shares.

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[8] Refer to NYSE's Proposal to Amend NYSE Rules 451 and 465 and the Related Provisions of Section 402.10 of the NYSE Listed Company Manual, p. 11, "The increases to these processing fees are estimated to add approximately $9-10 million to overall proxy distribution fees, although that should be considered in connection with the estimated $15 million reduction in fees associated with the proposal to charge Preference Management Fees related to managed accounts at half the regular rate."

[9] PFAC Report, p. 24, "The PFAC's recommended changes should have a relatively modest impact on mutual funds…"

- The PFAC and MFWG understood that fund companies also derive benefits when equity operating companies pay Preference Management Fees and incentive fees for enhanced brokerage Internet platforms ("EBIPs"). That is, a dual distribution of fund company reports and prospectuses is provided to street account holders in their broker's Investor Mailbox without payment by fund companies of an additional Interim Report Fee or Preference Management Fee. As a group, these brokers have over 50% of all street accounts of retail investors.

For these and other reasons, the MFWG did not recommend changing the interim fees. Instead, it recommended that the SEC develop rules to provide a notice and access delivery option for fund reports. [10] The SEC estimates that the benefits of rule 30e-3 could exceed $230 million annually, an amount that exceeds all fees paid.[11] The cost savings begin to flow in January, 2021, the effective date of new rule 30e-3, but the investments to make the rule a success are being made now. The NYSE's new fee for fund report notice and access does not go into effect until January 1, 2021.

III. The NYSE Preference Management Fee has been effective in reducing costs for the industry by aligning fund companies, broker-dealers, and technology services providers on the goal of reducing the total costs of regulatory communications. At the same time, the fee ensures that every distribution is consistent with the specific delivery preferences of 140+ million retail accounts (based on independent reviews by Big Four firms). With continued investment, significant further savings are possible.

The Preference Management Fee encourages broker-dealers (and their technology and processing services agents) to make and maintain investments that align their interests with those of fund companies and fund investors. Broadridge has invested over $1 billion in systems, technologies, processing, and intellectual capital together with and on behalf of our clients over the past 10 years. Investments continue to be made under the SEC's long-standing guidance for electronic delivery and NYSE Preference Management Fees. Currently, the need to send physical reports by mail is being eliminated for 68% of the account positions processed.

The Preference Management Fee is a "success fee;" it is paid only when the need to send an annual or a semiannual report by physical mail is eliminated. These preferences are maintained and applied at an account level to future mailings.

The facts demonstrate that the investments and fees continue to prove their worth many times over to fund companies through growing annual savings on the costs of printing and postage. Over the past 10 years, cost savings have increased more than six fold, from $71 million in 2008 to $440 in the twelve months ending April 30, 2018. The annual cost savings are nearly 10 times greater than the Preference

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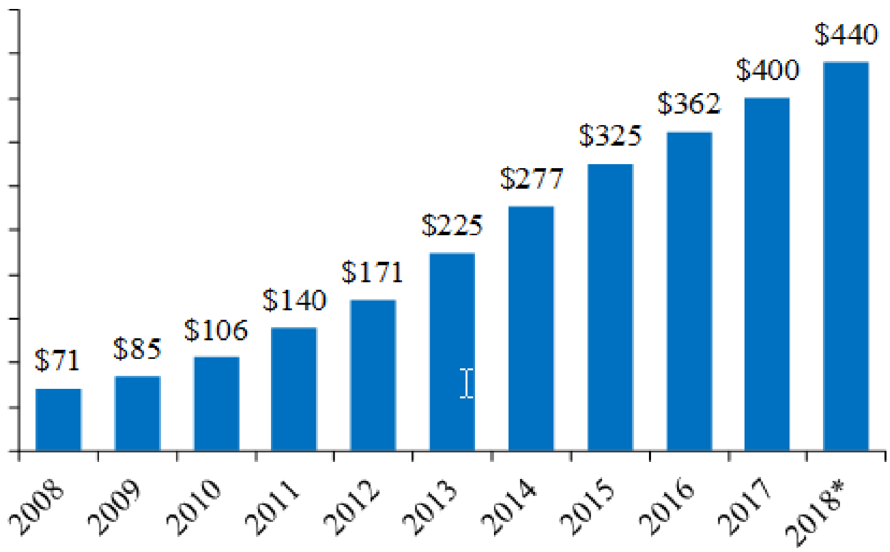
[10] Refer to letter from Scott Cutler, EVP NYSE, to ICI and SIFMA, cc. Vanguard, January 23, 2014. "The group did not develop any potential fee changes that were both acceptable to all constituents and that the group thought could have a significant impact on the distribution costs incurred by mutual funds and their investors. However, their discussions did prompt the group to consider a new approach to certain requirements found in SEC rules that would permit greater use of electronic methods for delivering fund reports, potentially leading to significant reductions in funds' associated printing and mailing costs…Permit investment companies to utilize for annual reports the same kind of "notice and access" regime that is currently permitted for proxy distributions."

[11] We estimate that implementation of 30e-3 will provide overall cost savings benefits to approximately 80% of fund companies.

Management Fees invoiced ($45 million) and 3 times greater than all regulated fees as invoiced ($147 million). Broadridge estimates that with continued investment made possible by the Preference Management Fee, it will be likely that we can eliminate the need to send mail to over 80% of street accounts by 2020, leading to substantial additional savings exceeding $500 million annually.

Annual cost savings on paper, printing, and postage for accounts held in street name ($ million)



*12 months ending April 30, 2018

The cost savings far exceed the savings funds realize in their processing of the same regulatory communications to the direct-held accounts they control. This disparity is due in part to the network effect for shares held in street name and to the greater technology application of investor preferences by Broadridge and broker-dealers, e.g., a preference for e-delivery for one position in a street account is tracked, processed, and applied to all positions in that investor's account. Fund companies also realize cost savings from our application of investor preferences collected in conjunction with proxy communications sent by corporate equity issuers.

Some commenters have asked for greater understanding of the work performed in connection with processing fund positions held in managed accounts. Managed account processing was examined in detail by the Proxy Fee Advisory Committee.[12] Processing managed accounts is more complex and technology-intensive than processing positions held outside of managed accounts. It requires daily processing and updates to ascertain position changes among millions of investors and thousands of advisers and to align delivery instructions with the instructions of each managed account. The work to process managed accounts supports proxy processing as well. By contrast, managed accounts are not provided to investors who hold accounts directly with a fund company. See Attachment F for additional details on managed accounts.

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[12] PFAC Report, pp. 14-18.

While the PFAC acknowledged the greater work involved in processing managed accounts for beneficial shareholders, it was concerned about the difficulties some issuers and funds may have in budgeting for unpredictable numbers of managed accounts. For this and other reasons, the PFAC and MFWG members recommended that the Interim Report Fee and Preference Management Fee be eliminated for all accounts with <1 share and for all managed account positions with ≤5 shares. [13]

As a group, Broadridge's applications that support managed accounts contain over 7 million lines of code. The database necessary to perform this processing contains over 195 million investor records and 4.5 million manager records. Managed account processing requires specialized software and hardware for Internet hosting, mainframe, and storage applications.

Compass Lexecon found that the fee incentives overall have resulted in reduced costs for shareholders. In addition, Compass Lexecon concluded that without such incentives, Broadridge and nominees would have a reduced incentive to develop and maintain services that create those savings:

> *"…because the incentive for Broadridge and nominees to continue making the investments required to increase or maintain the rate of suppressions (e.g., by continually updating databases) would be reduced or eliminated, the suppression rate could fall, so that the total costs of providing beneficial communication services, including printing and postage costs, could increase, which would harm shareholders in the long run."*[14]

IV. SEC rule 30e is the logical next step in the evolution of the NYSE's fee framework. It provides a significant opportunity to reduce the total costs of distributing shareholder reports. It demonstrates that the current fee framework (including the new fee for mailed notices which goes into effect on January 1, 2021) is accomplishing the goals set out by the last fee review which concluded in 2014.

The SEC recently approved rules to implement the 2014 recommendations of the Mutual Fund Working Group.[15] SEC rule 30e-3 is the logical next in the evolution of the regulatory communications structure and the NYSE's fee framework. The SEC estimates that, at over $230 million, the rule's potential cost savings will exceed all fees invoiced for annual and semiannual reports to investors holding funds in street name (including the Interim Report Fee, the Preference Management Fee, and the NYSE's new fee for fund report notice and access).

The NYSE's new regulated fee for 30e-3 goes into effect January 1, 2021. Under the terms of rule 30e-3, fund companies who wish to rely on the notice delivery option must begin soon (i.e., on January 1, 2019) to pre-notify investors and to provide them with a means to indicate their future preference for complete reports. Broadridge and its broker-dealer clients are investing now, before the fee goes into effect, to develop the industry solutions to handle the rule's pre-notification and preference capture requirements on January 1, 2019. Broadridge's investments include educational efforts, investor studies, new systems development, service operations, and the intellectual capital necessary to support

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[13] PFAC Report, p. 12, "The incentive (or preference management) fees generally appear to have been quite worthwhile for the issuers who pay the proxy distribution fees."

[14] Compass Lexecon 2018 Report, p. 31 and p. 32

[15] Refer to final rule release, SEC File No. S7-08-15, "Optional Internet Availability of Investment Company Shareholder Reports."

the rule's required pre-notification conditions and new preference option for fund investors. Refer to Attachment G for an overview of the Broadridge 30e-3 solution.

Broadridge and its clients are realizing implementation costs now to build solutions for any and all fund companies who may decide to use the notice method two years from now. The technology solutions enable mutual funds to begin to realize rule 30e-3's additional savings on paper, printing and postage on the rule's earlier effective date (i.e., on January 1, 2021), instead of waiting until January 1, 2022. Broadridge and its custodian bank and broker-dealer clients will be performing the ongoing processing work for two years before the new fee to reimburse banks and broker-dealers goes into effect.

Moreover, Broadridge and its clients expect that the fund report notice and access fee will diminish over time as a result of increasing levels of true electronic distribution through which the need to send even a notice by mail is eliminated, along with the NYSE's notice mailing fee.[16] When all accounts holding positions of investment companies that use 30e-3 convert to true electronic delivery, there will be substantial additional annual savings on paper, printing, postage, and notice fees.

V. Additional new approaches such as enhanced notices of fund reports and enhanced notices of proxies can further improve the overall system in the near term, further reducing costs and increasing investor engagement.

New approaches to the structure of regulatory communications can enhance the regulatory content of notices of shareholder reports and proxies -- in order to better inform and engage retail investors and to encourage more of them to convert from more-costly paper mailings (including mailed notices) to a more user-friendly digital experience. Important ideas include, among others: enhancing emails and notices with interactive information from fund reports to drive better engagement and more e-delivery, and building on the success of the SEC's successful summary prospectus delivery option by creating summary versions of interim communications. An enhanced and votable proxy notice would provide fund companies and equity operating companies with large savings on paper, printing, and postage (in comparison to sending full sets of proxy materials) and solicitation, and encourage greater and more informed voting participation among retail shareholders. At a high level, the following ideas offer potential to improve the regulatory framework in the near term:

1. **Enhancing emails and notices with key information from fund reports to drive better engagement and more e-delivery.**

   While it is technologically easier than it was just a few years ago to extract essential information to provide investors the summary information they most often look at, individual investors will not see the full benefits of these developments unless rules or guidance allay the compliance concerns fund companies and broker-dealers understandably have with mailing enhanced notices instead of notices with a link to annual and semiannual reports. An enhanced summary notice would also provide retail fund investors with the benefits of key information (with links or instructions on where to view more detailed information) and drive greater understanding and engagement.

[16] Under the terms of the NYSE's regulated fee for fund report notice and access, the fee cannot be assessed when a Preference Management Fee is also charged. This fee is charged only on the notices that are mailed. Broadridge is working with fund companies and broker-dealers to drive increasing levels of electronic distribution which will eliminate the need to mail a notice along with the notice mailing fee.

2. Enhancing proxy notices to make them more informative and to enable them to be votable.

Few open-end registered investment management companies utilize the proxy notice and access method for delivery of proxy materials because of its known, low-level of investor engagement.[17] The SEC wants retail investors' votes to be informed – yet, recipients of mailed notices are unlikely to take the steps to look at proxy materials online. By including key information from the proxy statement along with a notice of the meeting, many investors would be better informed about the matters to be voted on and more engaged. At the same time, an enhanced proxy notice would provide fund companies (and equity operating companies) with substantial paper, printing, and postage cost savings in comparison to mailing a complete proxy package. An enhanced and votable proxy notice would also provide funds (and equity operating companies) with substantial cost savings on solicitation and enable them to attain quorum with greater efficiency. Technology can be utilized to extract essential information to provide investors the proxy information they most often look at. Yet funds and many individual investors would not realize the potential benefits of this development without rules or guidance to permit notices to be enhanced with key information in order to make them sufficiently informative so as to be votable.

3. Simplifying the processes by which investors provide affirmative consent to e-delivery.

Based on discussions by members of a Mutual Fund-Broker Industry Working Group, there are a number of process improvements as well as regulatory actions that could help improve the e-delivery consent process, especially with direct-held accounts where consents to e-delivery for many firms average below 20%.[18] For example, the group identified that although customers often start the process to consent to e-delivery the drop rate is high, due to the consent process taking multiple clicks and often involving having to log into password protected websites. The group identified process improvements and regulatory guidance that could help. For example, firms could design better consent capture websites that are more user-friendly and involve fewer clicks. And the SEC could work with firms to provide clarity on the guidance on telephonic consent and the use of password protected websites.

VI. With empirical data on these new approaches, it may be appropriate to review the complete fee framework to ensure that it provides reimbursement of reasonable costs and encourages continued investments to reduce fund company costs and to improve investor engagement. Reviews should be comprehensive, covering all regulatory communications and all participants, given the shared infrastructure and the interrelationships among each fee within the overall fee framework.

Past reviews of the NYSE fee framework have arrived at a good result for U.S. markets overall because their goal was to ensure that the system continues to provide a reliable, accurate, secure, and cost efficient means of distributing shareholder communications, and because they were based on empirical

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[17] In the instances where proxy notice and access is utilized by fund companies, the matters to be voted on are considered to "routine" under NYSE rules. For these proposals, broker-dealers are permitted to report votes for which they have not received specific instructions from retail investors. For fund companies, this includes elections of directors.

[18] The Mutual Fund-Broker Industry Working Group (started in 2016), hired GIBC Digital, a third-party consulting firm to survey fund members of the group to understand current e-delivery rates and practices for both direct-held and beneficially held fund shares and to draw insights from this information.

data.[19] They were sensitive to finding the right balance between recognizing the benefits of scale that the largest funds and corporate issuers contribute to the system and the high costs of unregulated, market-based communications for smaller entities. The PFAC and MWFG, and other reviews before it, took the time to understand the system and to strike a careful balance in the overall fee framework, recognizing that some participants could perceive one fee or another as too high or, conversely, too low.

The NYSE regulated fees are not Broadridge fees: Participants in past reviews have understood that the NYSE's regulated fees reimburse custodian banks and broker-dealer for the reasonable costs they incur in forwarding regulatory disclosures to client accounts holding funds in street name. The NYSE regulated fees are not Broadridge fees. Broadridge is a technology and processing services firm. We provide services to custodian banks and broker-dealers through contracts that are negotiated on an arms-length basis. Our services assist them in fulfilling their obligations, and provide network benefits to fund companies, equity operating companies, and investors.

The Release acknowledges that in the isolated cases where a fund manufacturer has concerns about reimbursement levels for a broker-dealer distribution partner, it has a channel to negotiate charges that are below the NYSE's maximum reimbursement rate. This channel is not available to corporate equity issuers because they do not have a direct relationship with broker-dealers whose clients hold their shares. Fund companies regularly enter into arms-length negotiations with their distribution partners. Without these agreements, distributors cannot offer a fund's products to their client account holders.

Margins: While Broadridge has a high share of communications processing for proxies and interims, Broadridge's margin for the Investor Communications Services business, at 13% in fiscal year 2018, was somewhat lower than the 17.4% average margin of its 16 peer group companies (margins of peer group companies ranged from 6.3% to 38.1%). By comparison, the five largest publicly-listed fund companies reported average pre-tax margins of 38.5% (margins ranged from 24.7% to 47.0) for their most recent fiscal year.

Past evaluations of the overall framework for NYSE fees have been informed by empirical data: In this regard, the NYSE's Proxy Working Group (2005 – 2006) and, subsequently, the PFAC reasoned that several years of empirical data on proxy notice and access were necessary to recommend that market-based fees be codified, with only minor modification, into NYSE rules.[20] In making its

[19] PFAC Report, p.9, "After fact gathering and analysis, the Committee has focused on a set of recommendations intended to serve several basic goals: To support the current proxy distribution system, given that it provides a reliable, accurate and secure process for distributing proxy materials to street name stockholders. It is also important that the fee structure continues to encourage cost savings through reducing printing, postage and physical handling of proxy materials…"

[20] PFAC Report, p. 4, "The proxy fees were also the subject of a partial review in the middle of this last decade, although no change was made at that time. A Proxy Working Group ("PWG") was created by the NYSE in 2005, composed of a diverse group of individuals from issuers, broker---dealers, the legal community and investors. It focused on several different aspects of the proxy process, particularly the NYSE rules on when brokers may vote shares for which no voting instructions were received from the beneficial owner. Relevant to our subject, however, the PWG also looked at whether the NYSE rules on proxy distribution fees should be made applicable to the SEC's then new "e-proxy" system (today referred to as "notice and access"), and concluded that as an initial matter, they should not. In part, the PWG believed it was appropriate to allow some time during which market forces might create a consensus regarding the appropriate kind and level of fees under the new e---proxy rules."

recommendations, the PFAC determined that the structure and level of fees for proxy notice and access were fair and reasonable in light of the work involved.[21]

The last two major reviews took place nearly a decade apart. The Proxy Voting Review Committee ("PVRC") met over the course of two-years (2001 - 2002) to understand the system and to consider data on the results of pilots of a fee framework that was proposed initially in 1997.[22] The SEC called an end to the pilot and adopted the PVRC's recommendations into final rules effective March, 2003. The Proxy Fee Advisory Committee and its subcommittee, the Mutual Fund Working Group, began their review following the SEC's Concept Release on the U.S. Proxy System (2010). The PFAC was formed in September, 2010. The MFWG provided final recommendations in January, 2014. Their recommended changes to the fee framework went into effect in January, 2014. Their recommended changes to the shareholder report delivery framework (rule 30e-3) will become effective in January, 2021.

It is notable that these in-depth reviews reflected several principles including, among others:

- **Participants understood the interrelationships between fees for proxies and fees for interim communications.** For example, the PFAC and MFWG acknowledged that mutual funds would benefit from changes in proxy fees, including the changes in fees associated with managed accounts that apply to interims as well as proxies.

- **They considered the important role of technology in continually lowering the costs of printing and postage and in facilitating informed investor participation.** The PFAC acknowledged that incentive fees, in the form of Preference Management Fees and EBIP fees, are a good deal for issuers and funds because the savings they result in are a multiple of all fees paid.[23]

- **They considered the level of fees as well as the role of incentives to encourage competition, innovation, and continuous investment to support evolving regulations.** U.S. markets continue to evolve and the requirements of participants increase along with it; their requirements do not diminish.[24] Past reviews understood that the fee framework must offer services, technology, and processing that extend far beyond the requirements specified in applicable regulations. Examples of new requirements include cyber security requirements that were never contemplated a decade ago,

[21] PFAC Report, pp. 19-20. Rules for Internet Availability of Proxy Materials went into effect on July 1, 2007.

[22] PFAC Report, p. 3, "The last, and most far--- reaching, revision was finalized in 2002. It was the culmination of a multi---year, multi---task force effort that began in 1995, and attempted to both recognize and encourage significant changes in computer technology that permitted more efficient, and increasingly paperless, distribution of proxy material."

[23] PFAC Report, p.12, "The incentive (or preference management) fees generally appear to have been quite worthwhile for the issuers who pay the proxy distribution fees."

[24] Refer to Proxy Voting Review Committee's "Report to the SEC, Executive Summary," March, 2002, pp. 1-3, "Institutional investors require that the highest level of services be maintained and that technological investments be made to ensure the accuracy and reliability of the proxy systems. Institutions had significant concerns around a proposed idea to allow issuers to control the beneficial process. The services required for street processing are very different, more comprehensive and much more complex than the services provided for registered processing."

along with migration to cloud computing and the enablement of communications based on mobile-first designs, social media, and digital delivery. Cyber security costs continue to increase, and the complex cyber requirements with street ownership exceed what is found with direct-held account record keeping.

- **They were informed by facts and empirical data.** When there was no existing empirical data, they used pilots to test new frameworks and to gather empirical data. The PVRC considered several years of empirical data in recommending that the SEC include Preference Management Fees in the final regulated fee framework. The PFAC considered several years of empirical data on proxy notice and access before recommending that market fees be incorporated into the regulated fee framework.

- **They included representatives of each participant group (including large and small investment companies, large and small equity operating companies, individual and institutional investors, broker-dealers, and custodian banks).** Participants took the time to understand the system, including the varying and often unpredictable demands that mutual funds place on the system.

- **Participants understood the interrelationships among the different types of fees, including processing fees, intermediary unit fees, nominee coordination fees, preference management fees, and new incentive fees (e.g., for EBIPs).** Their goal was to ensure that the system continue to provide a "reliable, accurate, and secure" means of processing and distributing shareholder communications.

- **They carefully balanced the benefits that larger entities bring through economies of scale with the capital raising cost burdens of smaller publicly-listed companies and startups.**

Should the SEC determine that a review of the fee framework is appropriate before rule 30e-3 goes into full effect, Broadridge welcomes the opportunity to provide additional facts and data to assist any new committee in understanding how the system functions.

Conclusion

The current regulated fee framework is providing a system that recent in-depth review found to be "reliable, accurate, and secure." Each of the 140+ million investor accounts that is entitled to receive a regulatory disclosure is in fact receiving it, and communications are provided by methods that reflect each of these investors' specific delivery preferences. Under the SEC's guidance for electronic delivery, and the NYSE's current regulated fee framework, the investments that Broadridge and its clients continue to make in the system create large and annually growing cost-savings efficiencies. In the 12 months ending April 30, 2018, fund companies realized paper, printing, and postage cost savings of $440 million for shareholder reports, an amount that is more than 3 times the total fees invoiced.

SEC rule 30e-3 is a result of the recommendations made by the NYSE Mutual Fund Working Group in 2014. It is a logical next step. Broadridge is making the investments now to make rule 30e-3 a success for any and all fund companies that may ultimately choose to use it. Because the NYSE's new fee for 30e-3 does not go into effect until 2021, Broadridge and its custodian bank and broker-dealer clients are assuming all of the implementation cost.

By every important measure objectively applied, the current fee framework works well for U.S. markets overall. Unit costs of processing and distributing a fund report for investors holding funds in street name are at least 20% lower on average than unit costs for the same report for direct-held investors where the processing fees are not regulated. Unit costs for communications to street name investors have declined by over 40% over the past 10 years. The Interim Report Fee and Preference Management Fee have declined over time due to the effects of inflation.

New approaches that enhance the regulatory content of notices of shareholder reports and of proxies can improve the participation of retail shareholders and encourage large numbers of them to choose to convert from more-costly paper mailings (including mailed notices) to a more user-friendly digital experience. An enhanced and votable proxy notice would provide fund companies with savings on paper, printing, and postage (in comparison to sending full sets of proxy materials), as well as solicitation, and encourage greater and more informed voting participation among retail shareholders. These new approaches, together with empirical data on the costs and benefits of rule 30e-3, may require that fees be revised to cover the investment required; given the shared infrastructure.

Should the SEC determine that a fee review is appropriate before rule 30e-3 goes into effect (or before data on its actual usage by fund companies becomes available), Broadridge would welcome the opportunity to provide additional facts and information. Past reviews have had a good result for U.S. markets overall when participants in them have considered the facts in carefully balancing the needs of all participants in the system.

Sincerely,

Charles V. Callan

Charles V. Callan

Cc: The Honorable Jay Clayton, Chair, U.S. Securities and Exchange Commission
The Honorable Robert J. Jackson, Jr., Commissioner
The Honorable Hester M. Peirce, Commissioner
The Honorable Elad L. Roisman, Commissioner
The Honorable Kara Stein, Commissioner
Dalia Blass, Director, Division of Investment Management
Paul Cellupica, Deputy Director – Chief Counsel, Division of Investment Management
Michael C. Pawluk, Senior Special Counsel, Division of Investment Management
J.Matthew DeLesDernier, Senior Counsel, Division of Investment Management
John Lee, Senior Counsel, Division of Investment Management
Brett Redfearn, Director, Division of Trading and Markets
Sharon Lawson, Senior Special Counsel, Division of Trading and Markets
David Shillman, Associate Director, Division of Trading and Markets

Attachments

Attachment A - Compass Lexecon Report
Attachment B - Background on Prior Fee Reviews
Attachment C - Background on Mutual Fund Working Group
Attachment D - Letter from Paul Washington
Attachment E - Mutual Fund Report Processing: Description of the Major Processing Activities, August, 2018
Attachment F - SEC Overview of Managed Accounts
Attachment G - Broadridge Rule 30e-3 Solution

ATTACHMENT A

Compass Lexecon Report

“An Analysis of Interim Report Delivery Services for Beneficial Owners of Mutual Fund Shares

October 31, 2018”

An Analysis of Interim Report Delivery Services for Beneficial Owners of Mutual Fund Shares

October 31, 2018

COMPASS LEXECON

I. Introduction and Summary of Conclusions

Compass Lexecon has been asked by Broadridge Financial Solutions, Inc. ("Broadridge") to conduct an economic analysis of the business of providing shareholder communication services to beneficial owners of funds ("beneficial communication services") involving the required distribution of annual and semi-annual reports ("interim reports") to shareholders, and of Broadridge's role in that business.[1] We also have been asked to review and comment on certain issues raised in the "Request for Comments on the Processing Fees Charged by Intermediaries for Distributing Materials Other than Proxy Materials to Fund Investors" published by the United States Securities and Exchange Commission ("SEC") on June 5, 2018.[2]

In the United States, shares in investment companies, including open-ended mutual funds and Exchange Traded Funds ("funds") are often held on behalf of their owners by a variety of intermediary firms – such as broker-dealers and banks – known as "nominees."

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1. Compass Lexecon is an economic consulting firm that specializes in the application of economics to competition and other economic policy issues. This report was authored by Gustavo E. Bamberger and David B. Gross. For more information, *see* www.compasslexecon.com, http://www.compasslexecon.com/professionals/bio?id=3, and http://www.compasslexecon.com/professionals/bio?id=9.
2. *See* SEC release Nos. 33-10505; 34-83379 (June 5, 2018). In particular, we have been asked to comment on: (1) The framework associated with regulated fees for delivery of interim reports to fund shareholders and how those fees and the competitive structure of the industry affect shareholders, funds, broker-dealers, and Broadridge, the leading third-party provider of distribution services (which we discuss in Section VI of this report); (2) Whether the current framework encourages intermediaries to reduce costs for issuers (including funds) for all beneficial distributions (*see* Section VII); (3) How fees charged for beneficial communication services compare to fees for distributions of similar materials to investors holding shares directly with the fund (*see* Section IV); and (4) To what extent do nominees receive cost recovery from third-party providers of beneficial communication services (*see* Section V).

Shareholders that own shares in funds through nominees are known as “beneficial owners.” Shareholders that own shares directly with funds are referred to as “registered” owners. Over time, beneficial ownership of fund shares has increased; currently, approximately 75 percent of accounts in funds are held through nominees.[3] Because nominees maintain the relationship and records of beneficial ownership, nominees are generally responsible for forwarding mandated communication (such as interim reports) from funds to beneficial owners. Regulations as set forward in New York Stock Exchange (“NYSE”) fee schedules approved by the SEC specify the maximum amounts that funds must reimburse nominees for forwarding materials to shareholders.[4] Nominees generally contract with Broadridge or another vendor to perform this service on the nominees’ behalf.

Based on our review and analysis of the business of providing beneficial communication services, including information maintained by Broadridge, we have reached the following principal conclusions:

1. **Broadridge is a central and efficient third-party provider of high-quality beneficial communication services. Nominees and Broadridge provide beneficial communication services at a lower average cost per position than the average cost per position for communication services provided to registered owners, despite the fact that providing communication services to beneficial owners is more complicated than providing communication services to registered owners.**

   Nominees are required to distribute shareholder communications to beneficial owners. Nominees can forward information to beneficial owners directly or can outsource that function to a third party. Having a centralized provider of beneficial communication services creates efficiencies by reducing the cost to funds of

3. *See* SEC release Nos. 33-10505; 34-83379 (June 5, 2018), n. 12.
4. *See* NYSE, “Listed Company Manual,” Rules 451 and 465.

coordinating with hundreds of different nominees and by reducing the total costs of communicating with beneficial owners, which include printing, envelope and postage costs. As we discuss in this report, the evidence shows that most nominees contract with Broadridge to perform some or all of the tasks involved in providing communications to the nominees' beneficial owners, which demonstrates that nominees reduce their costs by contracting with Broadridge. Furthermore, the evidence shows that by contracting with Broadridge, nominees provide beneficial communication services at an average lower cost per position than the average cost per position for communication services provided to registered owners, despite the additional complexity and expense associated with beneficial communication services.[5] In particular, we find that for a comparable set of funds, the average cost per position of providing communications for beneficial owners was $0.60, while for registered owners, the average cost per position was $0.75, or 25 percent higher. Costs are lower for beneficial owners than for registered owners because physical mailings are "suppressed" at substantially higher rates for beneficial owners than for registered owners. In addition, client surveys conducted by Broadridge indicate that Broadridge's beneficial services are viewed as high quality.

2. Under NYSE and other exchanges' rules, nominees are allowed to receive reasonable reimbursement up to a maximum regulated amount from funds for costs incurred from distributing interim reports to beneficial shareholders.

5. We understand that processing reports for beneficial shareholders is significantly more complex than for registered shareholders, in part because of cybersecurity requirements; multi-party data collection and database management requirements; daily shareholder preference management; identifying and handling e-failures; house-holding; and managed account processing.

Nominees may contract with and pay third-party providers such as Broadridge to provide beneficial communication services. Broadridge's fees to its nominee clients are constrained by competition, regardless of the regulated level of fees paid by funds to nominees.

No nominee is required to contract with Broadridge. Nominees can distribute shareholder communications by themselves or contract with Broadridge or other third-party providers of beneficial communication services. The ability of nominees to distribute those materials without contracting with Broadridge constrains the price that Broadridge can charge for its services. The threat of entry by third-parties into the beneficial communication services business also constrains the prices that Broadridge can charge nominees. The evidence demonstrates that the prices that Broadridge charges nominees are not determined by regulation, but instead are constrained by market forces such as the threat of a nominee to perform those services itself, or competition from rival providers, or the threat of entry by a rival provider. In particular, Broadridge charges nominees a price that is less than the regulated rate for a large majority of its beneficial communication services. During the 12-month period ended April 30, 2018, 103 out of 919 (11.2 percent) of Broadridge's nominee clients paid less than the regulated amount for beneficial communication services, and these nominees accounted for 96.2 percent of the beneficial pieces processed during that period. Hence, Broadridge received less than the regulated rate for the overwhelming majority of pieces that it processed during a recent period.

3. In the long run, all of the costs of delivering mandated shareholder communications are borne by shareholders, irrespective of the level of regulated fees. Reducing the level of regulated fees does not reduce those shareholder-borne costs.

Funds incur a variety of costs, including the costs of providing beneficial communication services. In a competitive industry, all of a firm's costs will be recovered from its customers in the long run (or the firm will be forced to exit the industry). That is, in the long run, all of a fund's costs are borne by the fund's shareholders. Reducing the level of regulated fees does not change the fraction of total costs borne by shareholders, funds, and nominees because in the long run shareholders bear the entire cost of delivering shareholder communications while funds and nominees pass on costs they incur net of fees they collect or pay to their customers. Because funds and nominees currently have direct relationships (a distribution or services agreement is required before a fund is distributed through a nominee) and also negotiate over a variety of terms reflecting the entirety of their relationships beyond delivery of mandated shareholder communications, funds and nominees can privately negotiate to "undo" the effect of any change in mandated fees. This ability to negotiate exists today.

4. The structure of regulated fees creates incentives for Broadridge and nominees to make investments that have reduced the costs of beneficial communication services by hundreds of millions of dollars per year.

The current structure of regulated fees explicitly provides an incentive for Broadridge and nominees to "suppress" mailings. In response, in part, to this incentive, Broadridge has made major investments in its shareholder communication business over the last 10 years, including investments that allow Broadridge to act as a centralized repository and processor of continually updated information for most funds and nominees. Investments continue to be made. For example, we understand that the newly enacted SEC rule 30e-3 will require Broadridge to make significant investments to allow its clients to be in compliance with and allow funds to take advantage of the rule. Broadridge's investments have allowed it to automate and substantially reduce physical mailings and thereby reduce the costs of providing beneficial communication services by hundreds of millions of dollars, in part because Broadridge's investments allow it to suppress mailings. As we discuss later in this report, Broadridge estimates that each suppression of a mailing reduces printing, envelope and postage costs by $0.94, leading to aggregate savings from suppressions for Broadridge customers that have increased from $71 million in 2008 to $440 million for the 12 months ended April 30, 2018. If suppression fees had not been introduced (or set at substantially lower levels), it is likely that a substantially smaller share of mailings would have been suppressed, resulting in substantially higher communications costs borne by shareholders. A reduction in fees can thus increase the total costs of beneficial communications if the fee reduction reduces the incentive to invest in the ability to suppress mailings.

5. In the short run, changes to the level and/or structure of regulated fees may impose costs on funds, shareholders, nominees and Broadridge, which suggests that any changes to the level and/or structure of regulated fees should be implemented slowly and should be focused on providing incentives to further reduce the cost of providing beneficial communication services.

Changes to the level and/or structure of regulated fees for mandated beneficial communication services could have substantial economic effects in the short run. Changes to the level and/or structure of regulated fees would be expected to lead to renegotiations between Broadridge and its nominee customers and/or between funds and nominees. Such negotiations would take time (and may not be possible until contracts between Broadridge and a nominee, or between a fund and a nominee, expire) and both parties to the negotiation likely would incur negotiation costs. In the short run, some portion of those cost changes could affect shareholders (*e.g.*, through higher or lower administrative fees). The possibility of imposing such additional cost changes on funds, shareholders, nominees and Broadridge suggests that any changes to the level and/or structure of regulated fees should be implemented slowly. Furthermore, any changes to regulated fees should be focused on providing incentives to further reduce the cost of providing beneficial communication services.

The remainder of this report is organized as follows. In Section II, we describe beneficial or "street ownership" of funds. In Section III, we provide an overview of shareholder communications in the United States. In Section IV, we show that Broadridge is an efficient provider of high-quality beneficial communication services. In Section V, we show that Broadridge's fees are constrained by competition, regardless of the regulated level of regulated fees paid by funds to nominees. In Section VI, we show that in the long run, the costs of mandated beneficial communication services are borne by shareholders. In Section VII, we show that the structure of regulated fees creates incentives to make investments that have reduced the costs of beneficial communication services by hundreds of millions of dollars per year. In Section VIII, we show that in the short run, changes to the regulated fees may impose costs on nominees, funds, shareholders and Broadridge.

II. Beneficial Ownership in Shares of Funds

A fund is an investment company that pools money from many investors and invests that money in stocks, bonds, and other investments. Ownership shares of a fund are typically acquired from, and sold back to (or redeemed from), the funds themselves. Investors in funds purchase shares from the fund directly or through investment professionals, such as brokers. Each fund share represents an investor's proportionate ownership of the fund's portfolio and income that the portfolio generates.

In the United States, investors can hold shares of a fund in two ways: (1) a shareholder can hold shares directly; or (2) an intermediary, such as a broker or bank, known as a "nominee," can hold shares in its accounts in the investor's name. In that case, the intermediary is listed as the owner, and the share is said to be held in "street" name.[6] Shareholders that own shares directly are referred to as "registered" owners (*i.e.*, the name of the shareholder is listed on the fund's share register). Shareholders that hold shares of a fund in street name are referred to as "beneficial" owners.[7]

The practice of registering shares in street name provides many benefits to securities markets, such as facilitating the clearing and settlement of transactions.[8] Currently,

6. *See*, for example, "Final Report of the Securities and Exchange Commission on the Practice of Recording the Ownership of Securities in the Records of the Issuer in Other than the Name of the Beneficial Owner of Such Securities," December 3, 1976, p. 1.
7. We understand that due to changes in the industry, National Securities Clearing Corporation ("NSCC") "Level 1" processing, in which shareholders were disclosed to the fund, has been largely replaced by NSCC "Level 3" processing, in which shareholders are not disclosed to the fund; under Level 3 processing, nominees are responsible for customer-level record keeping instead of funds, which creates operational efficiencies between brokers and funds. *See*, for example, "History of the National Securities Clearing Corporation's Networking Service," January 2, 2013 available at: http://investorscoalition.com/sites/default/files/History%20of%20NSCC%20Networking%20Revised%201-2-13.pdf, at 12 ("The NSCC Networking service provides significant operational efficiencies between brokers and funds, through the creation of a standardized, centralized, and automated system to share investor-level account information.").
8. *See*, for example, "Final Report of the Securities and Exchange Commission on the Practice of Recording the Ownership of Securities in the Records of the Issuer in Other than the Name of the Beneficial Owner of Such Securities," December 3, 1976, p. 3 ("The Commission has concluded that the practice of registering securities in the records of the issuer in other than the name of the beneficial owner of such securities...benefits

approximately 75 percent of accounts in funds are held by nominees.[9] Upon request, nominees must provide the identity of shareholders to the funds of those shares unless the shareholder objects to having his or her identity revealed. Such shareholders are referred to as "objecting beneficial owners," or "OBOs." Shareholders who do not object are known as "non-objecting beneficial owners," or "NOBOs."

Although the widespread use of street ownership facilitates securities trading, street ownership generally complicates the process of communicating with shareholders. Because most shares are held in street name and a sizeable percentage of those shares belong to OBOs, communication between a fund and its shareholders is complicated and involves both nominees and shareholders. In many cases, even more parties are involved because bank nominees sometimes hold shares on behalf of other banks; similarly, broker nominees can hold shares on behalf of other brokers.[10]

Funds that are registered with the SEC are subject to the requirements set forth in the Investment Company Act of 1940, as well as other federal securities laws and SEC regulations.[11] For example, a fund must send interim reports to its shareholders on a

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investors and the securities industry by facilitating the transfer of record ownership and the clearance and settlement of securities transactions. In addition, it is integral to the operations of securities depositories.").

9. *See* SEC release Nos. 33-10505; 34-83379 (June 5, 2018), n. 12.
10. A "respondent" bank keeps track of its account holders; the "correspondent" bank it contracts with knows the total number of shares it holds for the respondent bank, but not the owners of those shares.
11. The Investment Company Act of 1940 is referenced in Title 17, Part 270 of the Code of Federal Regulations.

semiannual basis.[12] These reports must contain financial information, a list of the fund's portfolio securities, and other information, current as of the date of the report (*i.e.*, the last day of the fund's fiscal year or mid-year).[13] In addition to the form and timing of such communication, regulations specify the maximum amounts that funds must reimburse nominees for delivering materials to shareholders.[14]

Although nominees can fulfill their shareholder communication responsibilities internally – and major nominees have done so in the past – we understand that almost all nominees currently contract with Broadridge or other third-party providers to assist them with those responsibilities. That is, Broadridge and other third-party providers contract directly with almost all nominees to serve as their agent for the delivery of interim reports.

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12. The semiannual report covering the first six months of the fund's fiscal year is due 60 days after the fund's fiscal mid-year, while the annual report covering the fund's entire fiscal year is due within 60 days after the end of the fund's fiscal year. *See*, for example, SEC Investor Bulletin, "How to Read a Mutual Fund Shareholder Report," April 3, 2013 available at: https://www.investor.gov/additional-resources/news-alerts/alerts-bulletins/investor-bulletin-how-read-mutual-fund-shareholder.
13. *Id*.
14. The Listed Company Manual is the handbook of policies, practices, and procedures for companies listed on the NYSE. Section 4 of the Manual contains rules and regulations related to shareholder communications. The fees issuers are required to pay nominees to compensate the nominees for the provision of shareholder communications are contained in Rules 451 and 465. We understand that NASDAQ and other exchanges have generally followed the nominee reimbursement fee schedules adopted by the NYSE.

III. Overview of the Provision of Beneficial Communication Services in the United States

A. Historical view of the provision of shareholder communication services in the United States

In 1927, the NYSE first adopted rules requiring nominees to distribute shareholder materials to beneficial owners on behalf of issuers.[15] At that point in time, nominees were undertaking the work of distributing shareholder materials themselves and were coordinating with many issuers to complete the shareholder communication process. In 1937, the NYSE first set rates for nominees to charge issuers for the distribution of shareholder materials.[16] The NYSE has continued to set rates that nominees can charge issuers for beneficial communication services since that time.[17]

In the 1970s, many nominees considered outsourcing beneficial communication services and the Independent Election Corporation of America ("IECA") was founded in 1977 to provide those services.[18] Broadridge, then part of Automatic Data Processing ("ADP"), entered the shareholder communication service business in 1989 and in 1992 purchased IECA.[19] Broadridge has become the central intermediary between issuers and nominees, providing beneficial communication services for most nominees and issuers. Broadridge is hired by nominees interested in outsourcing some or all of their responsibility for the provision of shareholder communications. Nominees provide information on

15. *See*, for example, "Report and Recommendations of the Proxy Working Group to the New York Stock Exchange," June 5, 2006, at 7.
16. *See* SEC release No. 33-10505 (June 5, 2018), n. 21.
17. *Id*.
18. *See* "Background of Rules Relating to Proxy Distribution and Reimbursement," Presentation given by Steve Norman, Chair of the Proxy Voting Review Committee to the Proxy Voting Review Committee, Washington DC, May 15, 2001.
19. *Id*.

beneficial owners to Broadridge, which then contacts issuers (including funds) to coordinate the provision of required shareholder materials (*e.g.,* interim reports) to beneficial owners.

Nominees hire Broadridge, in part, to reduce the costs of fulfilling their shareholder communication responsibilities. A practice that Broadridge uses to reduce the costs of providing shareholder communications is "suppressing" the physical distribution of materials to a shareholder as a result of applying the shareholder's preferences. Examples of situations that create a "suppression" of the physical delivery of interim reports include: consent for electronic delivery ("e-delivery"); consent to "household" identical sets of material being sent to multiple members of the same household; and consolidating managed accounts.[20]

The process of generating suppressions has two primary components. The first is the creation and maintenance of a database to capture preferences in a manner consistent with regulations. The shareholder must also have the ability to change any preference at any time and alter other relevant information, for example changing an e-mail address for e-delivery (so that the database must be continually updated). The second component of generating suppressions is to determine, for every position passed to Broadridge for processing – which

20. Beginning in 2021, the "Notice and Access" program will become an additional form of regulatory communication available to funds. This program is analogous to a program for the dissemination of proxy materials, which became voluntary for operating company issuers in July 2007. The Notice and Access program provides issuers with an internet-based option for the delivery of shareholder materials (Broadridge has implemented "Notice and Access" for certain issuers). *See* SEC Press Release 2018-103, "SEC Modernizes the Delivery of Fund Reports and Seeks Public Feedback on Improving Fund Disclosure," June 5, 2018. This program allows funds to post shareholder materials on a website and mail notices to shareholders informing them how to access the materials. The notice must also inform shareholders that they may request a full set of printed materials if they would prefer not to access the material online. Funds are able to send a notice in lieu of sending a full set of materials by mail to all shareholders, thereby reducing printing and mailing costs.

we understand at its peak can exceed fifty million positions per day – whether or not that specific position has a preference in the database, and if so, then to apply that preference to that position for a specific shareholder distribution.

B. Regulation and rate setting for beneficial communication services

The NYSE specifies maximum fees that funds must pay nominees as reimbursement for the cost of providing required beneficial communication services. Nominees (as well as firms hired by nominees) incur costs to provide services such as preference management, data exchange, record keeping and investor servicing. That is, nominees and their agents (such as Broadridge) incur costs to provide communication services to beneficial shareholders.

"Transfer" and other agents incur costs to provide similar services with respect to communications with funds' registered shareholders. Certain funds pay transfer and other agents (including Broadridge) for providing communication services to registered shareholders.

Prior to 1997, the regulated rate for beneficial communication services was 20 cents per interim report, whether the report was delivered physically or electronically.[21] As such, the NYSE fee schedules did not provide an incentive to providers of beneficial communication services to make investments that would result in the suppression of physical mailings (*e.g.*, the creation and maintenance of a database to capture shareholder preferences).

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21. *See* "Recommendations of the Proxy Fee Advisory Committee to the New York Stock Exchange," May 16, 2012, at Addendum 1.

In March 1997, the NYSE established a new pilot program for processing fees that included a new "nominee coordination" fee and "suppression incentives." Under this program, issuers were required to pay a "processing unit fee" of up to 15 cents per position (a reduction of five cents from the previous structure) and an "incentive fee" (later renamed a "preference management fee") of up to 10 cents per suppression; we refer to this fee as a "suppression fee."[22] The suppression fee is in addition to the processing unit fee, so the aggregate fee is 25 cents per piece for a suppressed account.[23] Nominees also are reimbursed for actual postage costs and the actual costs of envelopes (unless they are provided by the fund).[24]

A suppression fee provides a nominee or third-party provider (such as Broadridge) with the incentive to take costly steps to reduce the number of mailings, including investing in infrastructure and technology, thereby helping to align the third-party's interests with the interests of funds and shareholders. We understand that Broadridge made more than $1 billion in investments over the last ten years in the shareholder communication business. These investments allowed Broadridge to automate and substantially reduce physical mailings and thereby reduce funds' costs of providing communications. As we discuss in more detail below, a centralized provider of beneficial communication services benefits shareholders by reducing the costs of coordinating with hundreds of different nominees and by reducing printing and postage costs due to suppressions.

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22. *Id*.
23. *See* SEC release No. 33-10505 (June 5, 2018), at 10.
24. *Id*., at 11.

Since 1997, the regulated rate that funds pay for interim report delivery services has not changed in "nominal" terms. Thus, in inflation-adjusted terms, the current regulated rate is substantially lower than in 1997. For example, between March 1997 and September 2018, inflation-adjusted fees fell by about 36.6 percent.[25] These fees account for only a small share of fund expenses. For example, the average expense ratio for U.S. funds was 0.59 percent in 2017.[26] On a fund investment of $10,000, the average expense would thus equal $59. Fees for two beneficial communications in a year (*i.e.*, for an annual and semi-annual report) would be at most $0.50, or less than one percent of average expenses.

IV. Broadridge is a Central and Efficient Provider of High-Quality Beneficial Communication Services

The ability of nominees themselves and other third parties to freely enter into the provision of beneficial communication services has important implications. The fact that most nominees outsource beneficial communication services to Broadridge shows that Broadridge is an efficient provider of beneficial communication services, allowing nominees to reduce their costs by contracting with Broadridge. Indeed, we show below that by contracting with Broadridge, nominees provide beneficial communication services at an average lower cost per position than the average cost per position for communication services provided to registered owners, despite the additional complexity and expense associated with beneficial communication services.

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25. Based on the All Items Consumer Price Index, which increased from 160.0 in March 1997 to 252.439 in September 2018. *See* https://data.bls.gov/pdq/SurveyOutputServlet.
26. *See* Investment Company Institute, "2018 Investment Company Fact Book: A Review of Trends and Activities in the Investment Company Industry," 58th edition, at 118.

Historically, many nominee firms provided beneficial communication services themselves. Over time, however, more and more nominee firms contracted with Broadridge to provide these services. Since 1992 (when ADP acquired IECA), several large nominees – including Wells Fargo Investments; E*Trade Securities; Charles Schwab & Company; A.G. Edwards & Sons; Goldman Sachs; UBS Financial Services; and Merrill Lynch – have chosen to outsource beneficial delivery services to Broadridge. Each of these large companies could have chosen to handle beneficial delivery services itself or with a third party other than Broadridge but instead chose to contract with Broadridge. Given that the great majority of nominees voluntarily choose to contract with Broadridge instead of providing the beneficial communication services directly or contracting with other third parties implies that nominees believe that no other provider is currently more efficient than Broadridge.[27]

One way of evaluating the efficiency of the services Broadridge provides is to compare the costs to funds of beneficial communication services to the costs of providing communication services to registered shareholders ("registered communication services"). As we have discussed, some fund investors own funds directly. A fund also is required to communicate with its registered owners. Because the fund has contact information for the fund investor, the process of sending information to the fund investors is relatively straightforward and is controlled by the fund directly.

Registered delivery for a single fund requires obtaining a list of registered investors from the fund and delivering materials (through the mail or electronically). Beneficial

27. We understand that Broadridge's contracts with nominees average three years in length. Thus, each year, on average, about a third of Broadridge's business is up for renewal and available to potential rivals.

communication services fundamentally involve more steps than registered communication services. In the case of beneficial communication services, but not registered communication services, Broadridge and nominees must coordinate across a variety of types of clients, including clearing firms and "correspondent" banks and brokers, all of which may have different processes and systems. In particular, beneficial communication services for a single fund requires obtaining shareholder information from potentially hundreds of separate nominees that must be combined and made consistent across all of those nominees. This additional layer between beneficial owners and funds adds steps to the process of delivering fund materials. No such coordination is necessary in registered processing.

Registered communication services are offered by firms such as transfer and other agents, which contract directly with funds to provide fund material deliveries to registered shareholders. While providing registered communication services involves fewer steps and thus is less complicated than providing beneficial communication services, the costs to a client of registered communication services can provide insight into the efficiency of Broadridge's beneficial communication services. Moreover, the prices charged for registered communication services are not regulated and are therefore entirely determined by market forces.

We do not have systematic information on prices charged by transfer and other agents for registered communication services. However, Broadridge competes in the registered communication services segment, so Broadridge's prices for those services can be expected to be representative of prices charged by transfer agent rivals.[28] If Broadridge attempted to

28. Broadridge contracts with funds (instead of nominees) for registered communication services.

charge substantially more for such services, it likely would not be able to remain in the registered communication services business. For this reason, we analyze beneficial and registered communication service prices by comparing costs incurred by funds for the two types of service.

Despite the additional complexities associated with beneficial communication services, funds typically pay less for delivery to beneficial owners than to registered owners on a per-position-processed basis. We compare fund costs for beneficial and registered communication services for the 12 months ended April 30, 2018 for 36 funds that are Broadridge "full-service" fund clients (*i.e.*, Broadridge provides all communication services for the fund's registered owners).[29] Broadridge also provides beneficial communication services for nominees who hold these funds on behalf of the fund's beneficial owners.

For these 36 funds, we find that Broadridge on behalf of nominees suppressed 61.8 percent of positions processed for beneficial owners, and that the average cost per position accounting for suppressions was $0.60. For registered owners, Broadridge on behalf of funds suppressed a substantially lower share of positions – 29.6 percent – and the average cost per position accounting for suppressions was $0.75.[30] Thus, investments by Broadridge that

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29. Some funds that contract with Broadridge to provide communication services to registered owners undertake some types of suppression themselves. We thus limit our analysis to full-service funds, allowing for an "apples-to-apples" comparison.
30. For these 36 funds, we find that average postage, envelope and printing costs for mailed positions are higher for beneficial communications ($1.03) than for registered communications ($0.89). We understand that this difference is explained by the fact that for these particular funds' mailings, the beneficial mailings had a higher percentage of more expensive jobs (*e.g.*, because beneficial mailings were, on average, larger than registered mailings). Thus, our estimate of the difference between the average cost per position accounting for suppressions for beneficial and registered owners (*i.e.*, $0.15 = $0.75 - $0.60) is understated.

allow Broadridge and nominees to increase suppressions has reduced the cost of providing beneficial communication services below that of registered communication services.[31]

Furthermore, survey evidence is consistent with the economic evidence that Broadridge is an efficient, high-quality provider of beneficial communication services. In particular, we understand that in annual surveys conducted by Broadridge of its nominee clients, 95.50 percent reported that they were "very satisfied" or "satisfied" with Broadridge's service level during the last 10 years; for the past five years, 97.50 percent reported that they were "very satisfied" or "satisfied." Similarly, we understand that in surveys conducted by Broadridge of its fund clients, 96.14 percent reported that they were "very satisfied" or "satisfied" with Broadridge's service level during the last 10 years; for the past five years, 97.14 percent reported that they were "very satisfied" or "satisfied."

V. Broadridge's Fees are Constrained by Competition

Each nominee can fulfill its beneficial shareholder communications obligations by providing those services itself or by contracting with a third-party provider, such as Broadridge. As we have discussed, the amount that a fund pays a nominee to compensate it for distributing materials to beneficial shareholders is regulated by the NYSE and the SEC. However, the amount that Broadridge charges nominees is not regulated or mandated by the NYSE or SEC, and no nominee is required to contract with Broadridge.

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31. Our finding that Broadridge's suppression rate for beneficial communication services was about double the rate for registered communication services (*i.e.*, 61.8 percent vs. 29.6 percent) is consistent with an industry survey that found that the "Industry Average E-Enrollment Rate" for beneficial owners was "more than twice the rate" for direct (*i.e.*, registered) owners. *See* "Mutual Fund Working Group: e-delivery adoption," GIBC Digital, September, 2018, at 14.

Indeed, as we have discussed, nominees can, and in the past, often did, provide beneficial communication services themselves. The ability of nominees to self-supply these services means that the price Broadridge can charge a nominee is constrained to be no more than the cost of self-supply. Furthermore, a nominee can negotiate and contract with a current rival third-party provider of beneficial communication services, or an entrant into the industry. Competition from current providers, and the threat of competition from potential entrants, also constrain the prices that Broadridge can charge nominees for beneficial communication services. Today, there are two firms that compete with Broadridge for nominee clients (Mediant and ProxyTrust) and a new firm has recently announced its plans to enter the business.[32]

The economic evidence demonstrates that Broadridge's prices are constrained by competition. In particular, in many cases, Broadridge charges nominees a price that is less than the regulated rate that the nominees receive from funds. Nominees incur costs related to distributing materials (*e.g.*, data aggregation, clients services, etc.) and, therefore, may negotiate to retain part of the regulated fee as reimbursement for those costs. The portion of the regulated fee retained by nominees is referred to as "cost recovery." The regulated fees are invoiced by Broadridge to funds on behalf of nominees. Based on contractual agreements between Broadridge and certain funds, Broadridge keeps a portion of the regulated fee and remits the remaining cost recovery amount to the nominee.

In general, larger nominees retain a greater percentage of the regulated fee, both because they are less costly for Broadridge to serve (for example, larger nominees typically

32. *See* https://www.businesswire.com/news/home/20180410005615/en/New-Technology-Shareholder-Louder-Voice.

have larger job sizes, which means that "set-up costs" account for a relatively low percentage of the total costs of a job) and because they are better able to negotiate lower prices with Broadridge.

During the 12-month period ended April 30, 2018, 103 out of 919 (11.2 percent) of Broadridge's nominee clients received cost recovery – that is, paid Broadridge less than the regulated amount for communication services. However, these nominees accounted for 96.2 percent of the beneficial pieces processed during that period. Hence, Broadridge received less than the regulated rate for the overwhelming majority of pieces that it processed during a recent period. This evidence shows that the prices that Broadridge charges nominees are not determined by regulation, but instead are constrained by market forces such as the threat of a nominee to perform those services itself, or competition from rival providers, or the threat of entry by a rival provider.

VI. In the Long Run, the Costs of Delivering Mandated Beneficial Communications are Borne by Shareholders Irrespective of the Level of Regulated Fees

As we have discussed, regulations require funds to pay certain fees to nominees to defray the costs of communicating with beneficial owners of those funds. In the long run, however, the costs of beneficial communication services, such as paper costs, printing costs and postage, are ultimately borne by the fund's shareholders, and not by the funds making the regulated payments, or the nominees bearing the direct costs of communicating with beneficial owners.[33] As a result, changes in the level of regulated fees have no effect in the

33. An extensive economic literature demonstrates that the "incidence" of a fee or tax – that is, who bears the cost of the fee or tax – is not necessarily the same as who is billed for that fee or tax. For example, the incidence of a tax is typically different than who is billed for the tax:

long run on the share of costs borne by funds or nominees, since in the long run shareholders bear the entire cost of shareholder communications while funds and nominees pass on costs they incur net of fees they collect or pay to their customers. That is, the level of the regulated *fee* does not affect which party bears the *cost* of providing beneficial communication services. However, as we discuss in the next section of this report, the structure of regulated fees can affect the total cost of providing beneficial communication services by creating incentives to increase suppressions, which reduce the printing and postage costs of providing those services.

Changes in the terms between funds and nominees, funds and shareholders, and nominees and shareholders can each operate to ensure that in the long run shareholders bear the cost of beneficial communication services. For example, because funds and nominees currently negotiate over a variety of terms reflecting the entirety of their relationships, if the regulated fees are “too high” or “too low” relative to the cost of providing beneficial communication services, funds and nominees can privately negotiate to “undo” the effect of any change in regulated fees. Both funds and nominees already consider the total economic impact of their relationship, including the reimbursement of costs for beneficial communication services, when entering into or amending a distribution or services agreement (a distribution or services agreement is required before a fund is distributed through a

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> Tax incidence is the analysis of which individuals bear the ultimate burden of taxes, that is, the burden after the economy has adjusted to any changes caused by the taxes. **Incidence** is usually defined as the change in private real incomes and wealth because of an adoption or change of a tax. Because individuals and firms may change their behavior due to taxes, the taxpayers who bear the ultimate burden of a tax – that is, the economic incidence – may be different than the taxpayers who initially pay the tax, the statutory incidence of a tax. (Ronald C. Fisher, *State and Local Public Finance*, 4th ed., at 279-80 (emphasis in original).)

nominee). Such negotiations would lead to a change in the terms between a fund and a nominee in response to a change in the level of the regulated fee for beneficial communication services. This ability to negotiate exists today.

Alternatively, even if the funds and nominees do not renegotiate to "undo" the effect of any change in regulated fees on their direct relationships with each other, funds and nominees can change the fees they charge their customers to offset changes in regulated fees. However these negotiations between funds and nominees work out, in the long run shareholders will bear the costs of beneficial communications.

To illustrate, suppose that the competitive cost of communicating with a beneficial shareholder is \$5.[34]

- If the regulated rate for beneficial shareholder communications is \$5, the fund incurs a cost of \$5 (*i.e.*, it pays a nominee \$5). In the long run, the fund must cover its costs, including the cost of beneficial communication services.[35]
- The nominee receives \$5 from the fund, and incurs a cost of \$5 (*i.e.*, the assumed cost of communicating with a beneficial shareholder, which it likely outsources to Broadridge).

34. The dollar values in this example are for illustrative purposes only.
35. *See*, for example, Investment Company Institute, "2018 Investment Company Fact Book: A Review of Trends and Activities in the Investment Company Industry," 58th edition, at 118 ("Ongoing expenses cover portfolio management, fund administration, daily fund accounting and pricing, shareholder services (such as call centers and websites), distribution charges (known as 12b-1 fees), and other operating costs. These expenses are included in a fund's expense ratio—the fund's annual expenses expressed as a percentage of its assets. Because expenses are paid from fund assets, investors pay these expenses indirectly.").

- The shareholder pays the $5 cost of beneficial communication services, which are reflected in the fund's expense ratio.

Notice that in this example, both the fund and the nominee receive revenues that cover their costs ($5), and the shareholder pays $5 for the communication services.

Now suppose that the regulated rate is increased to $10, although the cost remains $5.

- The fund's costs increase to $10 (because it must pay nominees $10). In the long run, the fund will recover $10 (instead of $5) from its shareholders.
- The nominee will receive $10, but only incur $5 in costs. Thus, the nominee receives a windfall of $5 (*i.e.*, $10 it receives from the fund minus $5 it incurs in costs). In the long run, however, that additional $5 is likely to be competed away through competition among nominees. For example, a nominee would have an incentive to reduce its fees to its customers. Thus, all else equal, shareholders in the fund are likely to pay $5 less to nominees as a result of the increase in the regulated rate for beneficial communication services.
- Shareholders pay more to funds ($10 instead of $5) in the form of higher expenses, but pay nominees less (because the nominees reduce their fees by $5 in response to competition).

In this example, the fund again receives revenues that cover its costs ($10); the nominee also cover its costs ($10 in revenue, $5 in costs, and a $5 reduction in revenue from its clients that reflects the $5 windfall being competed away). Finally, the shareholder incurs the same net price ($5) for beneficial communication services (the shareholder pays the fund $10, but in effect receives a $5 rebate from the nominee). Thus, in the long run, the costs borne by funds, nominees and shareholders are not affected by a change in the level of the regulated fee in this example.[36]

Although the costs of mandated beneficial communication services are borne by shareholders in the long run irrespective of the level of regulated fees, the structure of fees can affect the total costs of those communications. In particular, as we discuss in the next section, the structure of regulated fees can – and has – created incentives to suppress mailings that resulted in a large reduction in the total cost of mandated beneficial communication services. That is, the structure of regulated fees can – and has – benefited shareholders by reducing the total costs of mandated beneficial communication services. In addition, there can be short-run impacts from changes in regulated fees on shareholders, nominees, and funds, which we discuss below.

VII. The Structure of Regulated Fees Creates Incentives to Make Investments that Have Reduced the Costs of Beneficial Communication Services by Hundreds of Millions of Dollars Per Year

The current structure of regulated fees explicitly provides an incentive for Broadridge (and other providers of beneficial communication services) and nominees to "suppress" mailings. In response, in part, to this incentive, Broadridge has made major investments in its shareholder communication business over the last 10 years, including investments that allow Broadridge to act as a centralized repository and processor of continually updated

36. The same economic logic applies if the mandated level of fees is below the cost of beneficial communication services (*e.g.*, the cost remains $5 but the fee is reduced to $3). In this case, the fund charges its shareholders lower fees in the long run (*i.e.*, because the funds' costs are reduced), and the nominee receives a payment that is less than its costs. In the long run, the nominee recovers the additional cost from its customers (*i.e.*, the beneficial owners of the fund). Again, the ultimate costs of communication services are borne by the shareholder, and the change in the level of the regulated fee does not change the costs borne by the shareholder.

information for most funds and intermediaries. Broadridge's investments have allowed it to automate and substantially reduce physical mailings and thereby reduce the costs of providing beneficial shareholder communications by hundreds of millions of dollars per year through the reduction of printing and postage costs, in part because Broadridge's investments allow it to suppress mailings at the individual account level, which can reflect holdings in multiple funds. For example, an investor that chooses e-delivery results in the suppression of mailings from every fund held by the investor at a nominee that contracts with Broadridge. The cost reductions from the suppression of physical mailings benefit shareholders who ultimately bear the costs of beneficial communication services. We understand that nominees also have also made substantial investments in technology, which have contributed to these cost savings. We understand that in addition to reducing shareholder costs, the elimination of physical mailings also may increase the accessibility of information to fund shareholders.[37]

As we have discussed, the U.S. system of fund ownership necessarily makes communications with fund investors a multi-step process that requires the coordination of information collected from a large number of shareholders, funds and nominees. Because of its investments in its business, Broadridge serves as a centralized repository and processor of this type of information between a large number of shareholders, funds and nominees. The

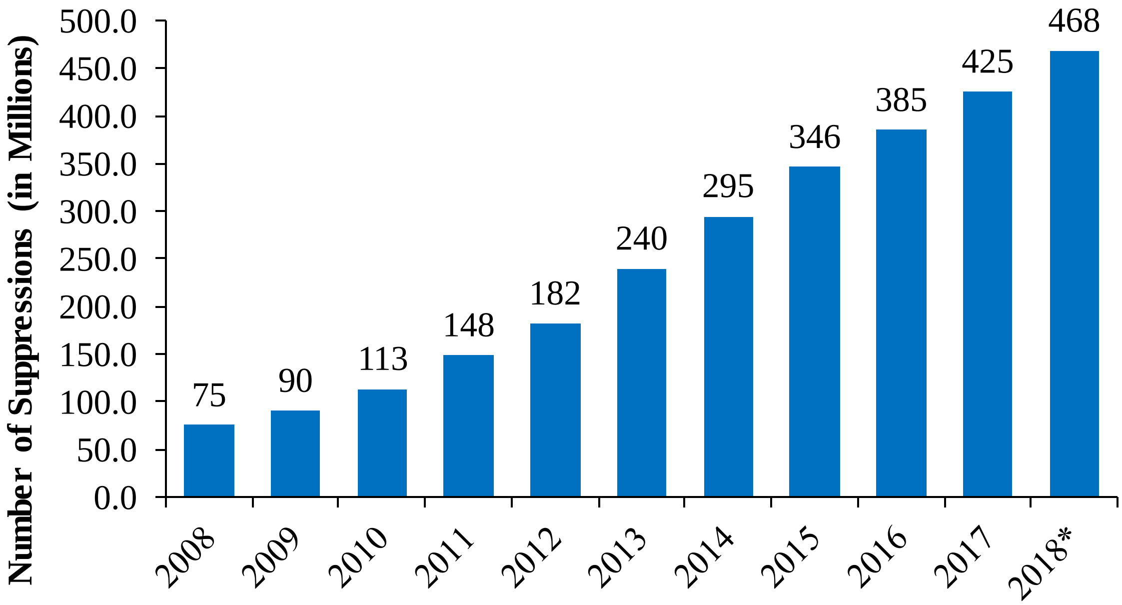
37. *See* SEC release Nos. 33-10506; 34-83380; IC-33115 (June 5, 2018), at 109 ("Rule 30e-3, to the extent that it is relied upon by funds, will likely provide benefits to both current and prospective investors. First, the rule is expected to benefit funds and their investors by reducing aggregate expenses related to the delivery of paper shareholder reports. Second, we believe that the rule may facilitate investor review of periodic information by increasing its overall accessibility.").

creation and continual updating of this central repository of information reduces the overall costs of beneficial communication services (which are ultimately borne by shareholders).

The total cost savings arising from Broadridge's creation and maintenance of technology that allows for the centralized processing of information is difficult to quantify completely but we find that the savings far exceed the cost in fees paid by funds to nominees. One large benefit arises from nominee coordination. Without a firm like Broadridge, each fund would need to interact with hundreds of nominees in a variety of ways (*e.g.*, each fund would need to deliver printed material to hundreds of nominees). To illustrate, for the 12 months ended April 30, 2018, Broadridge contracted with about 1,100 nominees to provide communications from 856 funds. Thus, if Broadridge did not serve as an intermediary, the total number of interactions between those funds and nominees could be as high as 941,600 (*i.e.*, 1,100 times 856). Instead, Broadridge has a total of 1,956 interactions (*i.e.*, 1,100 plus 856) with funds and nominees.

Similarly, Broadridge and nominees provide benefits to funds (which are passed on to its shareholders) by lowering printing and mailing costs through the suppression of physical mailings. Because funds pay for printing and postage costs, reductions of physical mailings reduce funds' costs. Over the last ten years, the percentage of mailings eliminated through suppression has increased from about 75 million in 2008 to about 468 million for the 12 months ended April 30, 2018. *See* Figure 1.

Figure 1: Number of Interim Report Mailings Eliminated (in Millions)



Source: Broadridge internal data.

* Figures for 2018 based on data for the period May 1, 2017 through April 30, 2018.

During the 12 months ended April 30, 2018, Broadridge eliminated 67.5 percent of total mailings (468 million suppressions out of 693 million total positions). Broadridge achieved these suppressions through several mechanisms including obtaining consent for e-delivery (273 million suppressions); consolidating managed accounts (134 million); householding (51 million); and delivery through Broadridge's ProxyEdge platform (a form of e-delivery, 10 million). *See* Table 1.

Table 1: Number of Interim Report Mailings Eliminated (in Millions)

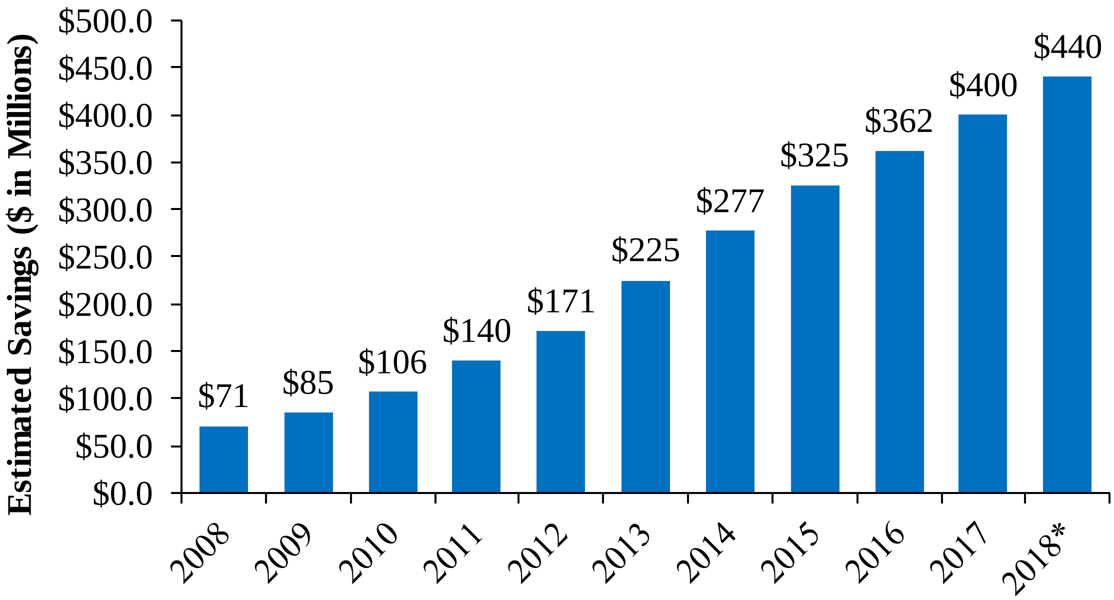
	# of Positions	% of Total
Total Positions Processed	**693.1**	
Total Suppressions by Category:		
Electronic Consent	273.1	39.4%
Managed Accounts	133.6	19.3%
Householding / Consolidation	51.2	7.4%
ProxyEdge	10.0	1.4%
Total Suppressions	**468.1**	**67.5%**

Source: Broadridge internal data for the period May 1, 2017 through April 30, 2018.

Broadridge estimates that each suppression saved funds approximately $0.94 in printing, envelope and postage costs for the 12 months ended April 30, 2018. Savings of $0.94 per position far exceed the $0.10 per-position suppression fee. Total fund savings due to suppressions increased from about $70 million in 2008 to about $440 million for the 12 months ended April 30, 2018.[38] *See* Figure 2.[39] Thus, the provision of services by Broadridge and nominees that increase suppressions substantially reduces the cost of beneficial communication services.

38. Because suppression fees are $0.10 per piece, funds incurred suppression fees of about $7.5 million in 2008 and about $47 million for the 12 months ended April 30, 2018 (i.e., about 11 percent of the $440 million in cost savings achieved from suppressions).
39. Each of the estimates reported in Figure 2 is based on an average savings of $0.94 per position. Broadridge estimates average printing costs of $0.33 per mailing; envelope costs of $0.04 per mailing; and postage costs of $0.57 per mailing, based on 225 million beneficial account positions mailed for the 12 months ended April 30, 2018.

Figure 2: Estimated Cost Savings Achieved Through Suppressions ($ in Millions)

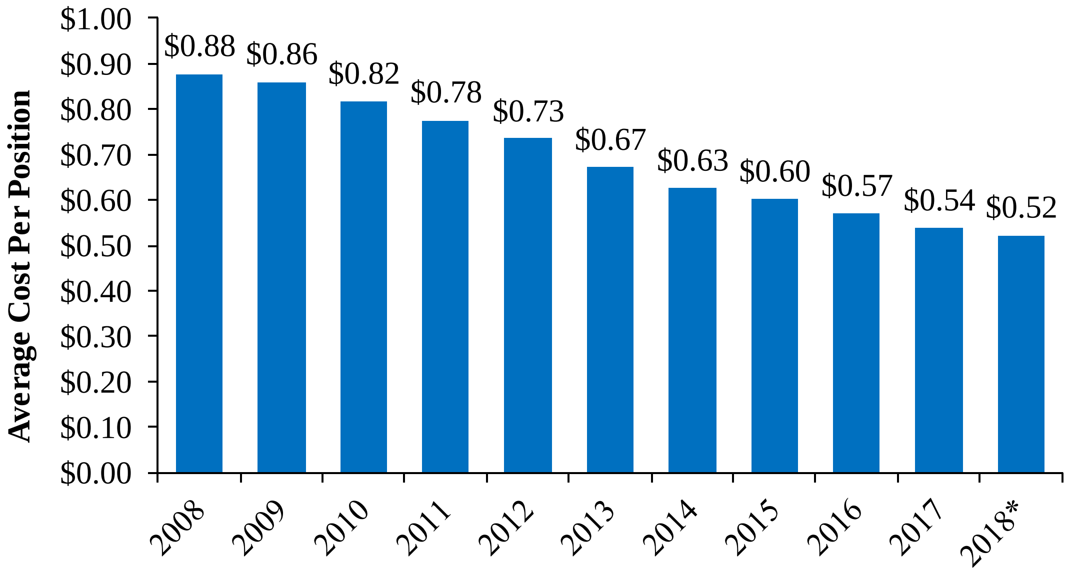


Source: Broadridge internal data.

* Figures for 2018 based on data for the period May 1, 2017 through April 30, 2018.

These efforts by Broadridge and nominees to increase suppression rates have also reduced the average cost per position of beneficial shareholder communications. Since 2008, the average cost per position has declined from about $0.88 in 2008 to $0.52 for the 12 months ended April 30, 2018, or more than 40 percent in nominal terms. *See* Figure 3.

Figure 3: Average Cost per Position of Beneficial Shareholder Communications



Source: Broadridge internal data.

* Figures for 2018 based on data for the period May 1, 2017 through April 30, 2018.

Note, this analysis assumes that the average cost of printing, postage, and envelopes is constant at the level observed in the data for the 12-month period ending April 30, 2018.

Because the costs of beneficial communication services are ultimately borne by shareholders, the ability of Broadridge and nominees to suppress a large share of fund mailings benefits shareholders. That is, if suppression fees had not been introduced (or set at substantially lower levels), it is likely that a substantially smaller share of mailings would have been suppressed, resulting in substantially higher communications costs. Those higher costs would be borne by fund shareholders and thus shareholders likely would, in the long run, be harmed by the elimination or reduction of suppression fees. For example, suppose that the processing unit fee was reduced from up to 15 cents per position to up to 10 cents per position, and that the suppression fee was eliminated. Total fees paid by funds would necessarily fall, but because the incentive for Broadridge and nominees to continue making the investments required to increase or maintain the rate of suppressions (*e.g.*, by continually updating databases) would be reduced or eliminated, the suppression rate could fall, so that the total costs of providing beneficial communication services, including printing and postage costs, could increase, which would harm shareholders in the long run.

VIII. In the Short Run, Changes to Regulated Fees Could Affect Nominees, Funds, Shareholders and Broadridge

In the short run, changes in regulated rates could have substantial economic effects. For example, if regulated fees were changed, Broadridge and nominees that receive cost recovery may renegotiate the level of cost recovery. Such negotiations could take time (and may not be possible until contracts between Broadridge and a nominee expire) and both parties likely would incur negotiation costs. Similarly, to the extent that nominees and funds privately negotiate to "undo" the effect of any change in regulated rates, nominees and funds would incur negotiation costs. Before such negotiations are completed, Broadridge, the nominees, or the funds could receive a windfall (depending on whether regulated rates were increased or reduced). In the short run, some portion of those additional costs could be borne by shareholders (*e.g.*, through higher administrative fees). The possibility of imposing such additional costs on nominees, funds, shareholders and Broadridge suggests that any changes to the level and/or structure of regulated fees should be implemented slowly.

The available evidence suggests that the current regulated rates may be "too low" (*i.e.*, below the competitive cost of providing the mandated communication services) rather than "too high" for small nominees. As we have discussed, only a relatively few large nominees receive cost recovery. Smaller nominees typically receive no cost recovery, but pay Broadridge the regulated fee, which suggests that at least some smaller nominees receive, in effect, a subsidy from Broadridge (*e.g.*, Broadridge may choose to avoid incurring the costs of negotiating with smaller nominees for additional payments).

Similarly, funds with primarily small jobs likely pay less in regulated fees than the cost of providing beneficial communication services because small jobs produce fees that are likely substantially less than the costs of providing beneficial communication services to a small number of shareholders.

Broadridge processes many small jobs, and some funds have primarily or only small jobs. For example, for the 12 months ended April 30, 2018, Broadridge processed 1,082 jobs that involved 150 or fewer positions (approximately 11.4 percent of 9,461 total beneficial jobs during that period). Moreover, for that period, Broadridge processed fewer than 1,000 total positions for 52 funds. For these 52 funds, Broadridge processed a total of 97 jobs, and 46 of those jobs had 150 or fewer positions.

We understand that the price of mailing services for a single small job can be substantially more than the regulated fees paid by a fund for that job.[40] For example, we received three separate price quotes from vendors for a job with 150 positions. These quotes ranged from \$286.75 to \$390.00 with an average of \$335.92.[41] The average of these quotes is nearly 15 times the maximum regulated fee of \$22.50 if all 150 positions are mailed (*i.e.*, 150 times \$0.15 equals \$22.50). The mail-service prices do not include indirect costs

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40. We understand that the quotes reflect the following services: (i) programming a list of beneficial owners' names and addresses into a printer; (ii) printing a cover sheet with the name and address to be displayed inside the envelope; (iii) inserting an interim report into the envelope; and (iv) sealing and preparing the package for mail delivery.
41. The quotes were provided by Moonlight BPO (2491 NE Twin Knolls Drive, Bend, OR, 97701); NextPage (8300 NE Underground Drive, Kansas City, MO 64161); and Richardson Communications Group (1490 Southern Road, Kansas City, MO, 64120).

incurred by nominees and Broadridge that are not passed on to funds, including the costs of coordinating information from funds, nominees, and shareholders. As a result, many funds likely receive a subsidy on all or most of their jobs. For this reason, reducing regulated fees likely would increase the size of subsidies to these funds in the short run.[42]

Because there may be short-run impacts from frictions associated with renegotiating existing relationships, any changes to the structure and/or level of fees should be implemented slowly. This is especially true given the upcoming changes and uncertainty that the industry will experience as “notice and access” provisions associated with the recently passed rule 30e-3 are phased in beginning in 2021.

42. Furthermore, as we have discussed, reducing fees could also increase the total costs of beneficial communication services in the long run if the structure of fees is changed in a way that reduces the incentive to make investments that maintain or increase the suppression rate of physical mailings.

ATTACHMENT B

Background on Prior Fee Reviews

ATTACHMENT B

Background on Prior Fee Reviews

Prior fee reviews understood the need to advance constructive recommendations, avoid significant disruption, and balance the needs of all participants in the process including large and small issuers, large and small funds, broker-dealers, custodian banks, institutional investors and individual investors.

None of the recommendations was made in isolation -- each was made in the context of the overall structure. The PFAC understood that Broadridge would continue to provide the processing systems and essential services that all participants rely on -- under a reasonable rate of return -- while losing money on many smaller jobs for companies and funds and making money on other jobs.

The PFAC recommended that future reviews of the fees be made to remain in step with new regulations and/or process innovations. Notice & Access for mutual fund reports was seen as the most significant opportunity to reduce funds' expenditures on printing & postage.

Context

Street name proxy fees were first adopted by the NYSE in 1937. The SEC conducted a comprehensive study of the street name ownership system in the 1970's, culminating in the "Street name Study ", finalized on December 3, 1976. That Study set a precedent of involving all the multiple stakeholders in the proxy processing system – issuers, brokers, banks, investors, service providers and regulators – to reach a balanced consensus of how the street name proxy system should operate.

In 1981, the SEC created the Advisory Committee on Shareholder Communications, made up of issuers, brokers, banks and stock exchanges, which conducted 12 days of public hearings and solicited public comments on the subject of investor privacy and related matters. The SEC adopted rules reflecting the Advisory Committee's recommendations in 1983. These rules, known as the "objecting-non-objecting (OBO-NOBO) rules", became effective in January 1, 1986. The NYSE formed its own Advisory Committee of issuers and brokers to facilitate implementation of the new SEC rules.

During the next 30 years, street name proxy fees were continually reviewed and amended by stakeholder committees organized by the NYSE. The NYSE filed multiple rule proposals with the SEC --

which published them for public comment -- and subsequently approved or amended them, based on its evaluation of all comments and its own analysis. In its Concept Release on the U.S. Proxy System (July 14, 2010), the SEC noted that "because SRO's represent both issuers and broker-dealers, we believed that SRO's would be best positioned to "make a fair evaluation and allocation" of the costs associated with the distribution of shareholder materials. Accordingly, SRO-adopted rules, approved by the Commission, establish the maximum amount that an SRO member may receive for soliciting proxies from and distributing other issuer materials to beneficial owners on behalf of issuers." (SEC Concept Release, pages 50-51).

The SEC noted in its Concept Release that "in approving a rule filing, we must find that such filing is consistent with the Exchange Act. For example, Section 6(b)(4) of the Exchange Act requires that the rules of the exchange "provide for the equitable allocation of reasonable dues, fees, and other charges among its members and issuers and other persons using its facilities."

Background on the Five Reviews Conducted Since 1995

Since 1995, the NYSE has conducted five reviews of fees for beneficial shareholder communications processing (including proxy and Interim fees):

1996 - 2000: The NYSE Proxy Working Group

2001 - 2003: The Proxy Voting Review Committee (PVRC) and SEC Pilot

2005 - 2009: The Proxy Working Group (broker vote, notice & access)

2010 - 2014: The Proxy Fee Advisory Committee (PFAC)

2013 - 2014: The Mutual Fund Working Group of the PFAC

Over these time periods, a number of NYSE amendments to the fees were approved by the SEC. In addition, The SEC approved the Proxy Notice and Access Rule ("e-Proxy") in 2007, conducted a Proxy Roundtable in 2007, and issued a Concept Release on the U.S. Proxy System in 2010. The SEC proposed its Notice and Access Rule for Investment Company Shareholder Reports (30e-3) in May, 2015 and held a roundtable on it in July, 2016. The proposal was subject to extended periods of public comment before the SEC approved the NYSE's proposal to add a fee for Notice & Access for fund report Interim communications (November, 2016). The fee is contingent upon approval by the SEC of proposed rule 30e-3, the notice & access method for fund reports.

These reviews involved a process that:

- Engaged each of the multiple stakeholders: large and small issuers; large and small brokers and banks; institutional and individual investors; service providers; exchanges; and regulators.
- Provided opportunity for all interested parties to present views to the stakeholder committees.
- Evaluated fee proposals using industry surveys, impact models, and financial analysis models.
- Resulted in NYSE rule filings, responses to SEC questions, and comment letters.
- Resulted in SEC approval.

Overview of the Proxy Fee Advisory Committee ("PFAC") Review

The process spanned a period of more than four years (2010 – 2014). During that time, fees were reviewed in-depth by committees of respected experts from each of the major participant groups, they were subject to extended periods of public comment, and the NYSE responded to many follow-up questions from the SEC.

The PFAC reviewed the proxy fees for operating companies and funds. A subcommittee of the PFAC, the Mutual Fund Working Group ("MFWG") reviewed the Interim fees paid by fund companies.

- Members included large and small issuers, mutual funds, broker-dealers, and custodian banks.
- The review reflected the time and diligence that committee members took to understand the details of the process.
- The PFAC was chaired by Paul Washington, SVP, Deputy General Counsel & Corporate Secretary, Time Warner, Inc.
- The MFWG was chaired by Glenn Booraem (who was also a member of the PFAC), Principal, Fund Treasurer & Head of Corporate Governance, Vanguard.

Committee recommendations were forward-thinking about the role that technology plays in encouraging greater retail participation and in providing growing total cost savings to issuers and fund companies. Highlights of the recommendations included the following:

- A holistic approach that considered all fees as package, not one fee in isolation.
- A more understandable fee structure that better reflects economies of scale.

- Overall reduction in fees of 4% - 6% with continued levels of world-class service.
- Incentives for investments in technologies to provide further cost savings and enhance participation.
- One-time, five-year incentive fee for “EBIPs” (enhanced brokerage Internet platforms).
- Recognition of the “evergreen” nature and ongoing benefits of managing investor preferences.
- A reduction by half in the preference management fee for managed accounts; and the elimination of fees for managed account positions with fewer than five shares.
- Codification of fees for proxy notice & access.

Proxy Fee Advisory Committee, May 16, 2012, pages 7-9

“Analysis and Recommendations

As noted above, the obligation of brokers and banks to distribute proxy material to beneficial owners is conditioned on their being assured of reimbursement of their reasonable expenses, and the SEC relies on exchange rules to specify those reimbursement rates. NYSE Rule 451 states that “The Exchange has approved the following as fair and reasonable rates of reimbursement of member organizations for all out---of---pocket expenses, including reasonable clerical expenses, incurred in connection with proxy solicitations pursuant to Rule 451 and in mailing interim reports or other material pursuant to Rule 465.” For at least the last 30 years, the NYSE has dealt with this issue by convening advisory panels of industry participants – brokers, issuers and investors – to advise on what should be considered “fair and reasonable rates of reimbursement,” and then subjecting the proposals to review and approval by the SEC. [11]

Although the NYSE rules speak in terms of reimbursing brokers for their reasonable expenses, it appears self---evident that this was never feasible on an individual brokerage firm basis given that the rules provided one price to be used by a multiplicity of firms providing services, each with presumably different costs. That issue continued even after services were almost all centralized in one outsourced service provider, Broadridge. This is so because each firm continued to have some workload of its own, and each firm negotiated its own, arms---length agreement with Broadridge, and so had outsourcing costs that differed from firm to firm. In addition, the introduction of incentive fees in the late 1990’s established that “fair and reasonable rates of reimbursement” encompassed rates that were not associated with a specified level of costs, but rather were considered adequate to encourage the development of systems that would lead to the elimination of physical delivery.

Given this state of facts, the Committee took the view that the NYSE proxy fee rules do not lend themselves to "utility rate---making," where the specific costs of a process are analyzed and rates revised periodically to permit a specified "rate of return."

However, the Committee did what it could to engage in a review that would in certain ways approximate such a process. It looked first at publicly available financial information on Broadridge, which is a public SEC---reporting company. Unfortunately for this analytical purpose, Broadridge has several business lines other than street name proxy distribution, and it does not isolate costs and revenues from the street name proxy distribution business in any of its publicly reported numbers. There were several analyst reports available that examined this business, and which discussed the segment in which Broadridge includes this activity, which Broadridge refers to as its Investor Communications Solutions segment, or ICS. [12] Broadridge has reported flat to declining margin in this segment over the last four years, from 16% in fiscal 2008 to 14% for fiscal 2011.

The Committee also took note of the fact that since the fees were last changed in 2002, there has been an effective decline in the fees of approximately 20%, given the impact of inflation. Indeed, the nominee coordination fee dates from 1997, and so has been eroded approximately 29% by inflation since that time. [13] Broadridge maintains that, in contrast, a number of other related costs have increased over approximately the same period – bulk rate postage by an estimated 38%, printing costs 12%, electricity 60%, and overall IT expenditures by financial services entities, 59%. [14]

After fact gathering and analysis, the Committee has focused on a set of recommendations intended to serve several basic goals:

- To support the current proxy distribution system, given that it provides a reliable, accurate and secure process for distributing proxy materials to street name stockholders. It is also important that the fee structure continues to encourage cost savings through reducing printing, postage and physical handling of proxy materials.
- To encourage and facilitate active voting participation by retail street name shareholders.
- To improve the transparency of the fee structure, so that it is not only clearer to issuers what services they are paying for, but also that fees are consistent with the type and amount of work involved. Updating the terminology used in the rule will be a part of this effort. For example, "incentive fees" will be called "preference management fees," to better describe the work involved. It is also important for transparency that the rules be structured to avoid undue complexity.
- To ensure the fees are as fair as possible, reflecting to the extent possible both economies of scale in processing, and sensitivity to who (issuer or broker) benefits from the processing being paid for. In the course of its review the Committee will address several of the issues that were

singled out in the SEC's Proxy Plumbing Concept Release, notably the fees charged in connection with managed accounts, and the fees charged for utilizing notice and access.

The Committee will also suggest that going forward there be a more consistent and coordinated process of reviewing both services and fees, to ensure that the fee structure is kept up to date with future regulatory changes and ongoing technical innovation."

Footnotes:

[11] See, for example, SEC Release No. 34-45644, March 25, 2002 (SR-NYSE-2001-53); SEC Release No. 34-38406, March 24, 1997 (SR-NYSE-96-36); and SEC Release No. 34-21900, March 28, 1985 (SR-NYSE-85-2).

[12] Broadridge's ICS revenues combine the street name and registered proxy businesses. This also includes both U.S. and non-U.S. public companies, but we assume that the non-U.S. company income is a relatively small part of the whole. Broadridge separately reports its fee revenue from mutual fund proxy statement and report distribution.

[13] Based on the Bureau of Labor Statistics Consumer Price Index All Urban Consumers (CPI-U), U.S. city average, all items, 1982-84=100, annual average figures for 2011 (224.939), 2002 (179.9) and 1997 (160.5). Available at ftp://ftp.bls.gov/pub/special.requests/cpi/cpiai.txt

[14] Data cited by Broadridge in support of these figures are: For postage – Effective 6/30/02: standard A "bulk" flat @$0.552; first class letter @$0.37. Effective 4/17/11: standard A "bulk" flat @$0.761 and first class letter $0.44. For printing – NIRI biennial surveys; median cost @$4.32 (2004) and $4.82 (2010). For electricity – Bureau of Labor Statistics, Consumer Price Index – Average Price Data, New York-Northern New Jersey-Long Island, NY- NJ-CT-PA, Electricity per KWH, 2002 to 2011. For overall IT expenditures – Gartner Group, "Financial Services Market Regains Momentum: Forecast Through 2006", February 2003. Gartner Group, "Forecast: Enterprise IT Spending for the Banking and Securities Market, Worldwide, 2009-2015, 3Q11 Update, October 2011.

PFAC's Review: None of the recommendations was made in isolation.
Each of the fees was examined in the context of the overall structure and level.

For example, the committee's recommendation to reduce some fees on managed accounts included a partial offset which increased other processing fees. (Refer to NYSE's Proposal to Amend NYSE Rules 451 and 465 and the Related Provisions of Section 402.10 of the NYSE Listed Company Manual)

- Page 14: "The changes proposed herein reduce some fees and increase others…,"

- Page 11: "The increases to these processing fees are estimated to add approximately $9-10 million to overall proxy distribution fees, although that should be considered in connection with the estimated $15 million reduction in fees associated with the proposal to charge preference management fees related to managed accounts at half the regular rate."

Interim fees were examined in the context of proxy fees where mutual funds place large and unpredictable demands on the proxy system. The PFAC and MFWG acknowledged that fund companies benefit from the reduction in the proxy fees and from the incentive fees that equity operating companies pay, including for EBIPs where fund reports are posted at no additional fee:

The PFAC's recommended changes should have a relatively modest impact on mutual funds, and the PFAC did not recommend changes to the rules for Interim report fees, which are most applicable to mutual funds.

Participants in the review process collectively agreed to the fee structure recommendations as a package. In other words, the fees taken as a whole create real savings opportunities for small and large issuers and fund companies while ensuring that brokers recover their costs.

Given that each fee component was examined in the context of the overall structure, it seemed inappropriate to examine only one fee on a stand-alone basis and conclude that it should be changed. For example, it was understood by the committee that under the proposed fee structure, Broadridge would lose money on many smaller jobs for companies and funds while making money on other jobs and that, in aggregate, Broadridge would to continue to provide the processing systems and essential services that all participants rely on under a reasonable rate of return.

Recommendations of the Proxy Fee Advisory Committee
A relatively modest impact on funds; no changes to the Interim Report fees

PFAC's Review of Regulated Fees Paid by Mutual Funds: May 16, 2012, p. 24

"Mutual Funds: Proxy fees tend to be discussed with respect to business corporations – those that have annual meetings and thus deal with proxy solicitations at least once each year. The PFAC was formed with this kind of issuer in mind, and that is reflected in the backgrounds of the members who served on the Committee.

However, the NYSE proxy fees are used in the context of distributions to street name holders of mutual fund shares as well. But the fee picture for mutual funds is somewhat different. Mutual funds typically do not have to elect directors every year, and for this reason tend not to have shareholder meetings every year. While mutual funds can be found in managed accounts, their inclusion is not necessarily as widespread as with operating companies. While some mutual funds may utilize notice and access for the meetings they do have, it is less common among mutual funds than operating companies. But every mutual fund is required to distribute each year both an annual and a semi-annual report to its shareholders, and so mutual funds pay the Interim report fee (15 cents basic processing; 10 cents incentive fee) much more frequently than operating companies do."

Representatives of the Committee spoke to representatives of selected mutual funds for their views on the current proxy fees, and these informal conversations suggested that there are fee issues that mutual funds would like to discuss. "The PFAC's recommended changes should have a relatively modest impact on mutual funds," and the PFAC did not recommend changes to the Interim report fees, "which are the ones most applicable to mutual funds".

As recommended by the Committee, the Exchange, with industry participation, is reviewing the fees provided in the NYSE rules as they impact mutual funds, to determine whether additional changes are appropriate. Any recommendations for rule changes that emerge from this examination would be the subject of a separate rule filing by the Exchange.

PFAC's Review: The extensive record is indicative of the thorough and open process that was conducted in determining the fees.

- **SEC concept release on the U.S. proxy system (July, 2010).** The concept release included discussion of NYSE regulated fees (pages 50-63) and requested comment on over 40 questions related to fees. A 90-day public comment period followed.

- **Notice of Filing (34-68936) on the NYSE's proposal, February 15, 2013.** The NYSE's proposed rule was published for comment in the Federal Register on February 22, 2013. The SEC initially received 24 comment letters on the proposal.

- **A Notice of Designation of a Longer Period for Commission Action (34-69286) was issued on April 3, 2013.** The SEC extended the time period to May 23, 2013. The SEC received four more comment letters.

- **An Order Initiating Proceedings to Determine whether to Disapprove the NYSE Proposal (34-69222) was issued on May 23, 2013**. In response, the SEC received 14 additional comment letters on the proposal.

- **A Notice of Designation of a Longer Period for Commission Action (34-70217) was issued on August 15, 2013.**

- **At the SEC's request, the NYSE filed four additional letters to respond to specific questions raised during the course of the review and comment period.**

- **NYSE publication of proposed fee for fund report Notice & Access, August 16, 2016.**

- **21-day comment period on NYSE proposed fee for Notice & Access, beginning August 22, 2016.**

- **SEC extended the time period for Commission action on October 5, 2016.**

- **SEC notification of adoption of final rule for Notice & Access fee, November 18, 2016. Fourteen comment letters had been received.**

PFAC's Recommendation on Future Reviews of Fees
For Purposes of Remaining in Step with New Regulations and/or Process Innovations

Recommendations of the Proxy Fee Advisory Committee to the NYSE, May 16, 2012, p. 25. Revised fees went into effect on January 1, 2014.

"While the NYSE rules do not prescribe how frequently the fees should be reviewed, the Committee has come to believe that a change in the historical approach would be wise. It appears that there is a relatively constant evolution in both regulation and process in the proxy arena, typically advancing the effectiveness and efficiency of the system, often to the benefit of all parties – issuers, brokers and investors. Examples in recent years include the above-discussed notice and access regime, advances in electronic processing of votes, and changes to processing necessary to accommodate say-on-pay and say-when--on-pay votes. Developments under current consideration include not only the "investor mailbox" arrangement discussed above, but also end-to-end vote confirmation.38 These advances typically involve both implementation costs and ongoing operational costs, but in the past they have in many cases been adopted without specific consideration being given to who will ultimately pay for them. The Committee believes it would be wise for the NYSE to suggest an approach that will involve a participant group similar to this Committee in an essentially ongoing vetting of process developments and associated costs. For example, a group of a workable size – approximately twelve participants, involving issuers of various sizes, together with representative brokerage firms and interested investors, could be kept appraised of and consulted on issues likely to involve significant system or processing changes. This group could also undertake a more comprehensive review periodically, perhaps every three years, thereby ensuring that fees are evaluated in step with new regulations and/or process innovations in the proxy area."

Footnote:

[38] See Report of Roundtable on Proxy Governance: Recommendations for Providing End-to-End Vote Confirmation, available at http://www.sec.gov/comments/s7-14-10/s71410-300.pdf

ATTACHMENT C

Background on Mutual Fund Working Group

ATTACHMENT C

Background on Mutual Fund Working Group

The Mutual Fund Working Group established by the PFAC had broad representation. It was chaired by PFAC member Glenn Booraem, Vanguard, and included representatives of:

- The Capital Group (Tom Stefun)
- Charles Schwab (Ray DiSanza)
- Delaware Investments (Mark Frymiare)
- Edward Jones (Dave Long)
- ICI (Frances Stadler)
- Merrill Lynch (Ronnie O'Neill)
- National Financial Services (Larry Conover)
- Putnam Investments (Mike Woodall)
- The group was staffed by the NYSE's Scott Cutler, Jim Duffy and Judy McLevey.

The MFWG was organized by the PFAC to review the proxy fees provided in the NYSE rules as they impact mutual funds to determine whether additional changes are appropriate.

The robustness of the MFWG process is evidenced by the following meeting chronology. This represents a partial list from Broadridge since Broadridge was not in attendance at every meeting.

Kick-off Meeting: The group's kick-off meeting was held on December 3, 2012 to address the Interim Report processing fee (15 cents) and suppression Incentive fee (10 cents). Broadridge was not present at this meeting but received the following feedback:

- Fund companies thought that Broadridge's service was "excellent."
- Fund companies are frustrated by the inability to negotiate fees.
- The scope of the discussion included OBO-NOBO, broker cost recovery, distribution agreements between funds and brokers, and postage charges.
- The group was interested in modeling the impact of a tiered Interim Unit Processing fee.

- The group felt that Broadridge should be invited to the next meeting.

Second meeting: Was held on December 18, 2012 with Broadridge present. Topics covered included the following:

- Broadridge initiatives to create postage savings for issuers, increases in USPS rates, and the Broadridge policy on sharing savings with issuers.
- Background on the development of the Interim fees.
- Processing work effort and fees: differences between proxies and Interim reports.
- The group requested that Broadridge model a tiered Interim fee structure.

Third meeting: Was held on January 17, 2013, with Broadridge present. Topics covered included the following:

- The ways in which the processing for Interim reports is different from the processing for proxies, e.g., no voting, no accounting for shares, different timing throughout the year.
- Fund sales agreements with brokers are separate from recordkeeping agreements. They are in different silos, one is contractual and the other is mandated.
- Fees:
    - Interim fee has not changed in 20 years and on a real basis it has declined with inflation.
    - Preference fee is only charged when there is a savings on printing and postage.
    - A unit fee structure means there are winners and losers (e.g., large volume jobs subsidize small volume jobs).
    - Registered (direct sold) shareholder fees are higher than street name fees, although the work is far more complex on the street side.
    - Fees for funds are paid by the funds – not the fund management companies. This means that fees are included in expense ratios and penalize large funds – which supports the argument for a tiered rate structure rather than one-size fits all.
    - Fees cover broker/Broadridge investments in data security (which mail houses do not do).
    - Funds have choices regarding mail class and alternatives.
    - Funds and brokers need to work together to drive e-adoption to save more on printing and postage.

Fourth meeting: Was held on February 28, 2013, with Broadridge present. Topics covered included the following:

- Broadridge presentation on the results of the analysis requested on a tiered fee structure.
- Work effort for processing Interim reports has increased due to regulatory requirements, reliability, and data security requirements, but fees have decreased by 45% due to inflation.
- Interim fees do not include nominee/intermediary fees (as with proxy) although logic suggests they should.
- The proposed tiering model indicates that the various impacts among fund families are not significant because fund families have many jobs of varying sizes. The model also tested a fee schedule with and without a minimum fee. A minimum fee shifts costs from larger to smaller jobs.
- Each of the Mutual Fund Working Group member funds was modeled to determine the impact on that complex.

Fifth meeting: Was held on March 15, 2013, with Broadridge present. Topics covered included the following:

- Conclusions from tiered fee schedule model: tiered schedule results in more losers than winners (although it was revenue neutral, it would be perceived as a price increase); impact of Interim fees on fund expense ratios is de minimis; tier-ing would require significant work without benefit.
- Postage: whereas Interim fees have been flat for 20 years, USPS rates have increased significantly and are expected to increase further. Broadridge is investing in technology to earn discounts (bar coding, 3- and 5-digit cusip sorting). Savings are shared with issuers in accordance with a tiered schedule introduced in 2010. Broadridge invoices are transparent in reconciling discounts vs. USPS rates.
- Funds and brokers need to drive e-adoption to reduce printing and postage. The PFAC's recommendations on the Enhanced Brokerage Internet Platform ("EPIB") is designed to increase e-adoption and savings. EBIP is funded by proxy. Fund Interim report distribution will benefit from EBIP.

Sixth meeting: Was held without Broadridge.

- According to feedback from the NYSE, the group decided to recommend that fees for Interim processing and Preference management remain at 15 cents and 10 cents, respectively. The group would shift its attention to greater use of electronic methods for delivering shareholder reports.

ATTACHMENT D

Letter from Paul Washington to SEC (Paul Washington was the Chairman of the Proxy Fee Advisory Committee and the SVP, Deputy General Counsel, and Corporate Secretary of Time Warner, Inc.)

ATTACHMENT D

Letter from Paul Washington to SEC (Paul Washington was the Chairman of the Proxy Fee Advisory Committee and the SVP, Deputy General Counsel, and Corporate Secretary of Time Warner, Inc.)

October 15, 2013

Subject: File No. SR-NYSE-2013-07
From: Paul F. Washington

To: Elizabeth M. Murphy, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20509-1090

Dear Ms. Murphy:

As the Chairman of the New York Stock Exchange's Proxy Fee Advisory Committee, I am writing to encourage the Commission to approve the proxy fee proposal submitted by the NYSE.

The Committee engaged in a thorough, disciplined, and fact-based process to develop a proposal that served as the basis for the NYSE's submission to the SEC. We began with the premise that the prior fee schedule, which was approved by the SEC, satisfied the regulatory requirements at the time in providing for reimbursement for reasonable expenses incurred in connection with the distribution of proxy materials. We then conducted an independent evaluation of how the underlying work and expenses have evolved (including a detailed analysis of the categories of work currently performed by Broadridge, the costs incurred by Broadridge and by bankers and brokers, and independent investment analyst reports regarding Broadridge's margins). We then developed a fee proposal that, despite inflation, reduced overall fee levels, better matched the fee structure to the work performed, eliminated anomalies arising from the prior fee structure, increased transparency by renaming certain fees, and supported retail voting participation. We also "reality tested" the fee structure to assess whether there would be unintended consequences of significantly changing fees for categories of users.

The net result of this process was a fee structure that the Committee believes not only provides for reasonable reimbursement of expenses, but also is more transparent and fair than the one currently in place. It is also a proposal that has received widespread support from those who actually pay the fees. Failing to approve the proposed fee structure would result in keeping in place a fee structure that is less connected to the current work and costs associated with processing proxy materials, less fair, less transparent – and more expensive. It would also represent a rejection of a process that has been used previously in developing such fee structures, with no discernible path forward.

Accordingly, I urge the SEC to adopt the NYSE's proposal as submitted.

Sincerely, Paul F. Washington

ATTACHMENT E

Mutual Fund Report Processing: Description of the Major Processing Activities, August, 2018

BROADRIDGE FINANCIAL SOLUTIONS, INC.

MUTUAL FUND REPORT PROCESSING

Description of the Major Processing Activities

August 2018

A comprehensive description of the major activities performed by Broadridge and by Financial Intermediaries (hereafter, "Nominees") for U.S. Mutual Fund Report processing.
(Please note that nominee processing models may vary and responsibilities documented could be performed by difference parties and/or include additional processes)

Work Flow	Physical Distribution	Electronic Distribution	Mail Suppressions
Event Identification	Yes	Yes	Yes
Data Aggregation	Yes	Yes	Yes
Preference Management	Yes	Yes	Yes
Material Distribution - Hardcopy - Email - Suppressed Processing	 Yes No No	 No Yes No	 No No Yes
Client Service	Yes	Yes	Yes
Audit	Yes	Yes	Yes
Information Security	Yes	Yes	Yes

1. Event Identification

A. Event identification / job set up / reporting / billing – <u>Broadridge</u>

1. Interface with every issuer and/or agent to process event notifications: electronic feed, ICS Online (www.myservice.broadridge.com), email, fax, telephone
2. Collect all necessary information and enter data for job set up
   a. Type of distribution, e.g., annual report, semiannual report
   b. Search and record dates
   c. CUSIPs and classes
3. Maintain Master Securities Database
4. Validate all CUSIPs
5. Create mail media, e.g., buckslip
   a. Investor name and address
   b. Nominee return address
   c. Householding opt-out language, as appropriate
   d. Solicit for electronic delivery enrollment
   e. Issuer identifier
   f. Account identifier
6. Collect and enter variable instructions from issuer into database: issuer and agent contacts, postage class, URLs/PDFs for electronic materials, other special requirements
7. Provide job flow data and reporting for issuer/nominee: ICS Online, email, telephone
8. Maintain records for seven years
9. Create invoicing, consolidated across all nominees
   a. All fees
   b. All postage
   c. Sales tax breakdown by state
   d. Preference Management breakdown
   e. Nominee position itemization

    f. Invoice allocation by fund/CUSIP
    g. Typically Broadridge funds postage monies for issuer, incurring potential collection risk
10. Ensure capacity for peak processing – 500+ jobs/day
11. Maintain, test and validate disaster recovery and business continuity plans for personnel, mainframe and open systems

B. Infrastructure set-up responsibilities (record transmissions, processing, and vendor interface) – <u>Nominees</u>

1. Establish network interfaces with Broadridge for secure, daily transmission of CUSIP positions and shareholder distribution
2. Develop and maintain mainframe programs that interact with, but are independent of, the nominee's books and records
3. Establish supervisory and compliance monitoring systems, record retention and regulatory inquiry capability
4. Establish outsourcing contract administration and management
5. Invest in technology to accurately reconcile and communicate with clients and integrate material into client portals
6. Hire, train and maintain knowledgeable staff

2. Data Aggregation

A. Data Aggregation – <u>Broadridge</u>

1. Aggregate nominee position data at record date
    a. Create daily file of all upcoming issuer events including CUSIPs, record dates, type of communication, and make this information available – in different formats – to all nominee clients
    b. Monitor the pick-up of daily file by all clients
    c. Monitor response by all clients: every nominee client is required to respond within three business days, even when the response file indicates that the nominee holds no positions in a given CUSIP. Follow up with non-responders
    d. Manage inflow of record data by nominee, CUSIP, and class, including: name, address, and share amount data
    e. Aggregate all responses on record date, process against preference databases and preference logic, and create summarized material requirements for issuer, including impact of all investor preferences
    f. Create all required nominee and issuer reports, e.g., confirmation of records received by nominee for every CUSIP, and make available online and in hardcopy form where required, maintain for seven years
    g. Monitor and test that data processing peak capacity exceeds projected maximum volumes
2. Aggregate nominee position data for Money Market funds/CUSIPs

(Nominees often have different record keeping systems for money market positions and therefore different processes are utilized.

a. Receive and process manual files
b. Provide control totals and registration sampling to nominee for review/validation
c. Apply appropriate nominee and investor preferences
d. Validate successful load of data
e. Aggregate and/or incorporate all data and create summarized material requirements for issuer, including impact of all investor preferences
f. Create all required nominee and issuer reports, e.g., confirmation of records received by nominee for every CUSIP, and make available online and in hardcopy form where required, maintain for seven years

3. Maintain, test and validate that data security measures protect all client data

B. Data Aggregation – <u>Nominee</u>

1. Record Date files
   a. Inquire against stock record on record date
   b. Respond to Broadridge by CUSIP and class
2. Money Market files
   a. Identify appropriate records (non-stock record system) based on CUSIP and record date
   b. Provide file to Broadridge by CUSIP and class
   c. Receive report of detailed file load, e.g., total positions processed, registration sampling, and validate record were correctly received/processed
   d. Authorize systems loading of record files

3. Preference Management

(Complex set of business rules and databases whose output enables investors to be notified in a manner of their choosing consistent with NYSE and SEC rules. The systems and processing for preference management minimize the amount of physical material distribution through a combination of consolidation of positions, householding, and the use of electronic distribution consistent with investor consents.)

A. Preference Management – <u>Broadridge</u>

1. Build, maintain, manage investor preferences processing systems and platforms
   a. Electronic Delivery
      1. Provide a means on physical deliveries, when possible, and on each electronic platform for account holders to enroll in electronic delivery or revise their preferences
      2. Enrolled accounts are added to the e-delivery preference database. They will subsequently receive emails with links pointing to the issuer's information (PDFs are typically converted into URL links for distribution).
      3. Emails that cannot be delivered to the email address on file are divided into 'hard' fails and 'soft' fails.

    a. E-deliveries on the soft fails are attempted repeatedly and if unsuccessful over multiple attempts, they become hard fails
    b. Hard fails may inactivate the enrollment; the information that was to be sent electronically is instead sent in physical form to the address on file and the accompanying text requests that the enrollee provide an updated email address
  4. Any subsequent deliveries to the failed email address are routed for hardcopy mail processing and the enrollment is considered suspended until an updated email address is provided
  5. Identify new enrollments for all nominees utilizing an Enhanced Broker Internet Platform

b. Householding
  1. For every new street-held investor/account combination encountered in the load process, a householding request is generated when a buckslip is utilized for the mailing.
  2. If investor/account fails to notify BR within 60 days of the request that they do not want their account househeld with other accounts with the same last name and address, mark the investor/account combination as active for householding in the householding database
  3. If investor/account opts out of householding, account is updated and maintained in the preference database.

c. Managed Accounts
  1. Develop, update and maintain databases, by nominee - to identify all accounts within the nominee that have consented to have shareholder communications redirected to the advisor. There can be thousands of changes daily. (Note: this process is independent of the particular positions held by the account holders.)
    a. Update the databases on a daily basis
    b. Receive and process manual instructions
    c. Receive and process daily and weekly update files by nominee
    d. Receive and process delivery preferences and locations for each advisor (physical addresses, email addresses)
    e. Maintain nominee-specific rules for redirecting materials by account and by advisor, based on type of event, i.e., proxy, Interim, corporate action.
  2. Upon receiving daily position files by nominee for specific CUSIPs/events:
    a. Compare nominee position files, on a position-by-position basis, to the nominee databases in item “1.” above.
    b. Identify each position requiring a redirect for that communication
    c. Apply any special processing required by the nominee at the advisor level
    d. Build new files of account/position matches

        e. Substitute advisor delivery location (physical address, email address) for beneficial owner delivery location.
    3. Identify any and all records in the files in item "2." above, that have the same advisor delivery address:
        a. Send one set of material to the advisor and suppress material deliveries for all additional positions in accounts with that specific delivery location
        b. This process is similar to householding but it is more complex because it is performed at the advisor level based on nominee instructions and affirmative consents to redirect materials from beneficial owners who own the same security, with the same advisor, on the same record date.
    4. Distribute materials to each advisor consistent with delivery preferences and locations for the advisors.
    5. Maintain records of above information for up to seven years for compliance purposes.
    6. Billing: receive, update, and assess share amounts to determine if fees should be invoiced or waived, i.e., under NYSE rules, there are no reimbursements for managed account positions with 5 or fewer shares.

d. Investor Mailbox
    1. Many nominees have integrated shareholder communication into their electronic client service sites showing items such as proxy and non-proxy communications as items for attention to pertinent account holders.
    2. Provide files of pertinent information or format data to be ingested into nominee's system. Includes the up-to-date material for each of the portfolio positions held in each brokerage account.
    3. Provide file of active email addresses
    4. Provide daily file of hard and soft e-fails

e. Notice and Access ("N&A") for Annual Report (AR) and Semi-Annual Report (SAR) distributions – full paper report shareholder election capture for transition period commencing 1/1/2019
    1. Create unique identifier by hardcopy distribution for election capture.
    2. Establish website and toll free telephone number to capture elections.
        a. Provide the ability for account holder to manage preferences for one or many accounts associated to the delivery.
    3. Develop, capture, update and maintain database, by account and nominee - to identify all accounts within the nominee that have elected to receive full reports (as opposed to a Notice).
        a. Update database on a daily basis
        b. Receive and process manual instructions
    4. Provide a means on physical AR, SAR, and prospectus (summary and statutory) deliveries, when possible, for account holders to elect to enroll in electronic delivery, receive full reports, or revise their preferences.

5. Develop and maintain a database to identify funds and/or nominees preferences for election capture to determine when a unique identifier and/or disclosure language should be generated/printed.
6. Elections for accounts requesting to receive full reports in the future will be added to the database and maintained until 1/1/2021. Subsequent to 1/1/2021, preferences will be applied and accounts will receive a full report from any funds opting to utilize N&A.
7. Maintain records of above information for up to seven years.

2. Update and process preference management databases daily via:
3. Electronic feed
4. Email, fax instructions
5. Various online enrollment processes
6. Enable un-enrollment processes: opt out of householding, e-delivery, elect full paper AR and SAR report.
7. Manage e-fail process – flag account as inactive and send hard copy notifications with instructions to access the material.
8. Every record sent by each nominee in its Record Date response file must be compared to the entire preference database
9. Sub-streams are created within each job which consolidate similar preferences prior to actual distribution
10. Process business rules to determine 'effective' preference when an account has several preferences on file, e.g., e-delivery and householding
11. Maintain and update complex sets of business rules to maximize eliminations of mailed materials consistent with specific instructions, consents, and regulations. The default for every position is mailed distribution.

B. Preference Management – <u>Nominees</u>

1. Provide and maintain account and account range specific distribution processing via daily transmissions
2. Open firewall to permit Broadridge to provide account instructions it has collected from shareholders
3. Provide share amount, inclusive of fractional shares
4. Maintain and process daily email files to reflect e-fails.
5. Maintain Non Objecting Beneficial Owner (NOBO)/ Objecting Beneficial Owner (OBO) status
6. Maintain investment manager overrides

4. Material Distribution

A. Material Distribution – <u>Broadridge</u>

1. Procure and maintain an assortment of specialized equipment to effectively manage documents with varied dimensions and mailing requirements, in accordance with established service level agreements (SLAs)
2. Manage, inventory, and warehouse all required forms and envelopes
3. Manage resources to effectively handle the influx of material deliveries with varied and unknown timing

4. Receive, inspect, weigh, inventory and warehouse all material
5. Calibrate material to determine appropriate mail media, equipment, and most cost effective method to ship (absent specific instructions from fund or nominee)
6. Create unique distribution streams for each job: physical mail, e-delivery, consolidation, taking into account investor preferences, including householding and managed accounts
7. Commence mailings based on specific issuer instructions, e.g., release emails, mail 'n' pieces of material
8. Householding process requires programs to identify same last name/address across different formats used by each nominee
9. Within physical mail, convert 5-digit zip codes to 9-digit zip codes, utilize U.S. Postal Service (USPS) software/database to identify records that may not be in synch with the USPS at time of mailing, and sort/manifest mailings to maximize postal discounts, then mail
10. Process management and control, e.g., mark each piece with the number of the piece in the print run and the number of the envelope in the print run to which it belongs and the number of the piece within the envelope using barcodes for automated insertion control
11. Match material to mail media and insert or inkjet addressing information
    a. Run processes for job-level piece reconciliation
    b. Manage all postal receipts
12. Manage process for material shortages. Contact nomineeand/or fund. Print on demand where instructed. Maintain records
13. Create and manage custom email templates for nominees and/or issuers
14. Receive document URL or PDF from the issuer to facilitate electronic delivery to all investors that have consented to e-delivery
    a. If PDF file is received, upload PDF to create document URL
    b. Verify URL is active and successfully opens to a webpage or document
    c. Validate that the document aligns to the funds contained within the mailing
    d. Confirm the type of distribution, e.g., the URL and mailing are both for an annual report
    e. Check that the document is current
15. Monitor all e-delivery for delivery through Internet Service Providers (ISPs)
    a. Create one 'bookend' message for each 2,000 outbound e-mails to aid in verifying delivery through major ISPs
    b. Monitor the email distribution process to ensure that all emails created by the mainframe are distributed into a wide variety of devices
    c. Monitor the e-fail process and report hard fails back to the clients who maintain their own email addresses
    d. Manage 'white label' listing with ISPs to ensure delivery through ISP spam filters, follow up on any issues identified in the steps above
16. Manage material surplus

17. Partner with the USPS and presort vendors to ensure maximum postal discounts, identify rate changes, and stay abreast of guidelines, rules, and laws
18. Create reports for issuers and nominees on status, maintain for seven years
19. In order to insure that material distribution can continue without interruption, Broadridge has a business continuity plan that requires two redundant highly secure data centers separated by approximately 500 miles, each of which can deliver print output to any of five remote print locations via IP print protocol

B. Material Distribution requirements – <u>Nominees</u>

1. Monitor distribution dates and respond to inquiries

5. Client Service

A. Client Services: Issuers / Nominees / Institutions – <u>Broadridge</u>

1. Respond to telephone and email inquiries, from Issuers and Nominees with large spikes during particular mailing campaigns
2. Provide full functionality on ICS Online for nominees, issuers and agents
3. Guide issuers through process. Provide processing education related to regulatory changes
4. Implement and maintain online tools
5. Maintain records for seven years

B. Client Services: shareholders, branches, issuer – <u>Nominees</u>

1. Respond to inquiries from account holders with spikes during particular mailing campaigns
2. Maintain website and other educational media for branches and clients re: distribution dates, NOBO/OBO choice, client preference options such as householding and e-consents

6. Internal and External Audits

A. Internal Audits – <u>Broadridge</u>

1. Conduct annual, or as needed, internal audits based on the inherent risk of each process
2. Maintain an internal Corporate Audit team, not involved in day-to-day control procedures, in order to maintain independence and objectivity
    a. Assess the reliability and security of financial and management information, client information maintained by Broadridge, and the systems and operations (in house or outsourced) that produce this information
3. Maintain an internal team of trained associates responsible for ISO 9001:2008 certification
    a. Quality Management System includes ISO Management Representative responsible for effectively identifying, planning, and tracking all internal audits

b. Plan and execute audit program, taking into consideration the status and importance of the processes and the areas to be audited, as well as the results of the audits
c. Audits are scheduled and conducted by trained associates across the scope of the ISO certification to ensure ongoing compliance to The American National Standard Q9001-2008

4. Properly and timely document, review and distribute detailed audit reports internally to leadership team
5. Partner with leadership team to ensure that any non-conformance is identified, inclusive of corrective actions (where applicable), and that they are addressed in a timely manner
6. Conduct follow up audits for any corrective actions implemented
7. Monitor and follow up on recommendations to ensure that effective remediation actions are taken

B. External Audits – Broadridge

1. Contract with a “Big Four” accounting firm which issues annual reporting on compliance with applicable NYSE/SEC regulations
2. Numerous SSAE 16s have been conducted with an unqualified opinion related to the design, implementation, suitability and operating effectiveness of controls for businesses and processes.
3. Maintain the ISO 9001 internationally recognized quality management system standard which requires a company to document, review, and improve its quality management system processes. Schedule and pass rigorous certification audits, as well as interim observation audits, by third parties
4. Conduct annual audits for all key business processes

C. Audits – Nominees

1. Conduct audits and business reviews to ensure that Broadridge is meeting expectations, as outlined in contractual agreements
2. Request and/or review audit results
3. Make onsite visits to Broadridge facilities

7. Information Security

A. Information Security – Broadridge

1. Maintain a comprehensive program outlining safeguards that are reasonably designed to ensure the confidentiality and security of data received, transmitted, and/or stored
2. Maintain formalized Information Security Policies, Standards & Procedures
3. Anticipate and protect , react and contain potential security breaches
4. Maintain industry standard data security certifications, including ISO27001:2013, PCI, HIPAA and FISMA, with an accredited cybersecurity staff

5. Conduct annual proprietary information security testing and certification for every associate
6. Perform specialized annual proprietary testing and certification for every application developer
7. Execute “phishing” tests quarterly and publish results by individual
8. Leverage relationships with the FBI, FS-ISAC, InfraGard and IBM X-Force
9. Align with the U.S. Government's National Institute of Standards in Technology (NIST) CyberSecurity Framework with vigilant recurring testing, social media monitoring and ethical hacks
10. Documented Security Incident Response Plan linked to our Corporate Technology Incident Response Plan as well as our Corporate Crisis Management Plan
11. Leverage industry standard security protection technologies, including Data Loss Prevention, Firewalls, and Anti-malware

B. Information Security – Nominees

1. Ensure all data sent to Broadridge, containing Personally Identifiable Information, is securely transmitted, encrypted, and/or password protected

ATTACHMENT F

SEC Overview of Managed Accounts

ATTACHMENT F

SEC Overview of Managed Accounts

SEC Order Granting Approval to Proposed Rule Change Amending NYSE Rules 451 and 465, and the Related Provisions of Section 402.10 of the NYSE Listed Company Manual, which Provide a Schedule for the Reimbursement of Expenses by Issuers to NYSE Member Organizations for the Processing of Proxy Materials and Other Issuer Communications Provided to Investors Holding Securities in Street Name, and to Establish a Five-Year Fee for the Development of an Enhanced Brokers Internet Platform (Release No. 34-70720; File No. SR-NYSE-2013-07) October 18, 2013, pages 18-22

1. Managed Accounts

For purposes of proposed Rule 451.90, the Exchange has proposed to define the term "Managed Account" as:

[A]n account at a nominee which is invested in a portfolio of securities selected by a professional advisor, and for which the account holder is charged a separate asset-based fee for a range of services which may include ongoing advice, custody and execution services. The advisor can be either employed by or affiliated with the nominee, or a separate investment advisor contracted for the purpose of selecting investment portfolios for the managed account. Requiring that investments or changes to the account be approved by the client would not preclude an account from being a "managed account" for this purpose, nor would the fact that commissions or transaction-based charges are imposed in addition to the asset-based fee.[81]

As noted above, the Exchange has proposed that the Preference Management Fee applied to Managed Accounts be half that applied to non-managed accounts.[82] In the proposal, the Exchange notes that, with Managed Accounts, the investor has elected to delegate the voting of its shares to a broker or investment manager who chooses to manage this process electronically rather than by receiving multiple paper copies of proxy statements and voting instructions.[83] According to the Exchange, however, tracking the beneficial owner's voting and distribution election is as necessary with Managed Accounts as it is with any other proxy distribution election eliminating the need for paper mailing, such as consent to e-delivery.[84] But the Exchange states that the PFAC concluded that making some distinctions between Managed Accounts and non-managed accounts for fee purposes was appropriate.[85] Among other things, the Exchange states that the popularity of Managed Accounts demonstrates that they offer advantages to investors and brokerage firms.[86] The Exchange states that issuers also reap

81 See Proposed Rule 451.90(6); see also Notice, 78 FR at 12388.

82 See Proposed Rule 451.90(4)(a). The Exchange represents that its proposal that the Preference Management Fee applied to Managed Accounts be half that applied to non-managed accounts would result in an estimated $15 million reduction in fees. See Notice, 78 FR at 12385.

benefits from inclusion in Managed Account portfolios, including the added investment in the company's stock and a higher rate of voting due to the fact that almost all Managed Account investors delegate voting to the investment manager.[87] Since both issuers and brokers benefit from Managed Accounts, the Exchange represents that the PFAC determined that issuers and brokers should share the cost of tracking the voting and distribution elections of beneficial owners of the stock positions in Managed Accounts, and therefore recommended that the Exchange propose a Preference Management Fee for Managed Accounts at a rate that is half that for other accounts.[88]

Additionally, in recognition of what the Exchange notes is a proliferation of Managed Accounts containing a very small number of an issuer's shares, the Exchange, as noted above, has proposed not to impose any proxy processing fees, including the Preference Management Fee, on an issuer for a Managed Account holding five or fewer shares or units of the issuer's securities.[89] The Exchange states that in certain situations in which Managed Accounts hold very small numbers of shares of an issuer, the benefits of increased stock ownership and increased voting participation were practically nonexistent for the issuer, while the added expense on a relative basis was extraordinary.[90] According to the Exchange, because one of the PFAC's goals was to avoid severe impacts on proxy distribution in the United States, the PFAC drew the line at five shares based on certain information supplied by Broadridge, including information from the 2011 proxy season depicting what the financial impact on proxy revenue would have been of setting the fee proscription for Managed Accounts at different levels.[91] According to the Exchange, setting the proscription at five shares or less in the 2011 proxy season would have created an overall decrease in proxy revenue of approximately $4.2 million.[92]

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83 See Notice, 78 FR at 12387.

84 Id. In support of this the Exchange states that Commission rules require each beneficial owner holding shares in a Managed Account to be treated as the individual owner of those shares for purposes of having the ability to elect to vote those shares and receive proxy materials. Id.

85 Id.

86 Id.

87 Id.

88 Id.

89 See proposed Rule 451.90(6); see also Notice, 78 FR at 12388.

90 See Notice, 78 FR at 12388.

91 Id. The Exchange represents that, based on the Broadridge-supplied information, the overall impact varied from approximately $2.6 million at the fractional (less than one) share level, up to approximately $16 million if the proscription applied to accounts holding 25 shares or less. Id.

92 Id. The Commission understands that this figure does not account for the inclusion of wrap accounts in the proposed fee structure for Managed Accounts.

The Exchange states that the PFAC determined that five shares or less was the appropriate level to draw the line and that the PFAC "was comfortable that, given the relative benefit/burden on issuers and brokerage firms, it is not reasonable to make issuers reimburse the cost of proxy distribution to managed accounts holding five shares or less."[93]

Lastly, the Exchange states that no fee distinction would be based on whether or not a Managed Account is referred to as a "wrap account."[94] As described by the Exchange, a wrap account is a managed account product with a relatively low minimum investment that tends to have many very small, even fractional, share positions, which led Broadridge to process such wrap accounts without any charge – either for basic processing or incentive fees.[95] Broadridge relied on its client firms to specify whether or not an account should be treated as a wrap account for this purpose, and positions in small minimum investment managed accounts which were not marketed with that appellation were subjected to ordinary fees, including incentive fees.96 Under the Exchange's proposal, accounts identified as wrap accounts would no longer be treated as distinct from Managed Accounts not identified as such, and would therefore be subject to the same proxy fees as Managed Accounts.

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93 Id.

94 Id. The Commission understands a wrap account to be a certain type of account that is managed by an outside investment adviser. See Proxy Concept Release, 75 FR at 42998 n.140.

95 See Notice, 78 FR at 12387.

96 Id. at 12387-88.

ATTACHMENT G

Broadridge Rule 30e-3 Solution

ATTACHMENT G

Broadridge Rule 30e-3 Solution

The Broadridge solution for both funds and financial intermediaries will be available by January 1, 2019, so that during the two-year transition period, shareholders will be able to elect full shareholders.

The Broadridge solution for 30e-3 implementation includes the following components:

- Unique ID. Shareholders will receive a unique enrollment ID number to identify and authenticate themselves when electing full reports on FundsReports.com and using a toll free number. This ID number will be included in all distributions required to include the transition disclosure that is mailed by Broadridge on behalf of nominees and funds, and with notices starting on January 1, 2021.

- Website. Broadridge is creating a central preference capture website that direct and street shareholders can use to elect their delivery preferences for full reports or e-delivery (FundReports.com).

- Toll free number. A toll free number that direct and street shareholders can use an IVR to elect their delivery preferences for full reports or notice.

- e-delivery sign-up. The central capture website includes a prominent link that direct and street shareholders can use to go to their fund or intermediary website to consent to e-delivery.

- Direct preference capture. Existing processes exist that allow for funds and nominees to transfer preferences captured by the nominee/fund to Broadridge. These processes will be expanded over the next two years to integrate with preferences captured by Broadridge.