THE STA SECURITIES TRANSFER ASSOCIATION, INC.

October 19, 2010

Elizabeth Murphy, Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

RE: Concept Release on the U.S. Proxy System, Release No. 34-62495, File Number S7-14-10

Dear Ms. Murphy:

The Securities Transfer Association ("STA") appreciates the opportunity to comment on the SEC's Concept Release on the U.S. Proxy System, issued on July 14, 2010. Founded in 1911, the STA is the professional association of transfer agents and represents more than 150 commercial stock transfer agents and related service providers within the United States and Canada.

STA membership consists of banks and independent transfer agents that perform record keeping services for publicly traded companies and mutual funds, corporate transfer agents that perform the same service for their own corporations, and companies that support organizations involved in the transfer of securities. Collectively, STA members serve as transfer agents for more than 12,000 publicly traded corporations, providing record keeping and other services to more than 100 million shareholders.

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

P.O. BOX 5220 • HAZLET, NEW JERSEY 07730-5220 • (732) 888-6040 • EMAIL: cgaffney@stai.org • WEB: http:\\www.stai.org

The STA applauds the SEC staff for its efforts over the past year to evaluate the proxy system in a comprehensive manner. The SEC has developed a very balanced and wide-ranging Concept Release, identifying many of the problems with the current system and presenting potential regulatory responses.

The following are the STA's specific comments on the Concept Release.

<u>Over-Voting and Under-Voting</u>

The STA has been concerned about the over-voting problem for many years. In 2005, the STA reviewed 341 votes in different shareholder meetings held during proxy season that year. This review uncovered an over-voting issue in each and every one of the 341 shareholder votes which were tabulated.[1]

The following year, the NYSE investigated at least four large broker-dealers for over-voting problems and encouraged each of these broker-dealers to reconcile their stock records in a manner that avoids sending out proxy materials (and requests for voting instructions) to beneficial owners who are not eligible to vote at a shareholder meeting.[2]

The securities industry responded to these problems by adopting written guidelines that permit broker-dealers to choose between: (1) a beneficial owner reconciliation process that occurs before a proxy mailing takes place, or (2) a reconciliation process that occurs after such a mailing takes place (<u>i.e.</u>, during the vote tabulation process).[3]

Additionally, the largest proxy service provider for beneficial owner positions, Broadridge Financial Solutions, Inc. ("Broadridge") has developed an over-voting prevention service, which simply caps the aggregate vote by each broker-dealer and bank at their record date position at the Depository Trust Company ("DTC"). This Broadridge service is no different than what transfer agents were already doing prior to the NYSE over-voting investigations referred to above, and, quite frankly, is not really a new approach in dealing with the problem at the aggregate vote level.

More importantly, these guidelines and measures are not adequately addressing the over-voting problem at the beneficial owner level. Share lending by broker-dealers and "failure to deliver" problems in the clearance and settlement process are still causing broker-dealers to send out proxy materials and requests for voting instructions to beneficial owners who are not eligible voters at shareholder meetings.

---

[1] <u>See</u> The Securities Transfer Association, "Street Proxy Tabulation Results," STA Newsletter, Issue 4, 2005, at 1.
[2] <u>See</u> Letter from Niels Holch, Executive Director, Shareholder Communications Coalition, to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, Oct. 20, 2010, at 4-5.
[3] Securities Industry Association, Suggested Practice Guidelines for Proxy Processing, Sept. 2006, <u>available at</u> http://www.shareholdercoalition.com/SIASuggestedPracticesforProxyProcessing906.pdf.

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

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

The SEC's Concept Release suggests that this problem can be addressed through more disclosure to investors by individual broker-dealers, regarding which reconciliation method—pre-mailing reconciliation or post-mailing reconciliation—they use to allocate votes among beneficial owners holding in street name. The STA strongly opposes this approach, as it sanctions a system in which the majority of broker dealers are transmitting voting instructions to, and tabulating vote preferences for, ineligible share positions.

Another reason that simple disclosure of reconciliation methods is an inadequate regulatory response is the fact that individual investors are not likely to understand the ramifications of this very complex issue. Instead, individual investors should be protected by a regulatory rule that ensures they are not disenfranchised in their right to vote in shareholder meetings, for those companies in which they invest.

Broadridge and other commentators note that, as a result of the lack of individual investor participation in proxy voting (i.e., under-voting), the current practice of sending out proxy materials to multiple beneficial owner positions for the same corporate shares generally results in a higher vote count than would otherwise be the case. This argument is a red herring, and the problem of under-voting should not be used to obfuscate broker-dealer share lending transactions—using fungible bulk shares—that need to become more transparent, if the proxy voting system is to function correctly.

Any type of SEC support for post-mailing reconciliation processes will only result in continuing a broker-dealer practice that permits votes to be counted from ineligible beneficial owner positions, with the corresponding risk of disenfranchising the rights of eligible beneficial owners who choose to participate in the proxy voting process.

As noted above, pre-mailing reconciliation is described as one of two acceptable practices in the securities industry guidelines issued in 2006. The STA also understands that several large broker-dealers already use this method of reconciliation. This pre-mailing reconciliation method should be extended uniformly to all broker-dealers and should be required by the SEC through an amendment to its proxy regulations.

Vote Confirmation

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

The current proxy system cannot produce this end-to-end confirmation of an investor's vote. The system involves too many intermediaries in between issuers and their shareholders; and there are separate tabulators for beneficial owners (i.e., Broadridge) and registered owners (i.e., transfer agents and other service providers).

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

Second, beneficial owners should be provided with proxy voting authority (instead of voting instruction forms or VIFs), as discussed in more detail later in this comment letter, so that voting by beneficial owners is fully transparent, including the number of share positions eligible to vote.[4]

Third, issuers should be permitted to solicit proxies directly through the elimination of the NOBO/OBO classification system and through amended SEC rules that place responsibility for distributing proxy materials with the public companies themselves, using service providers of their own choosing.[5]

There is no reason a corporate election should function any differently than the operation of a state or federal election today. By implementing these recommendations, the SEC can ensure a transparent and accurate vote count, and permit investors to be able to track their actual votes from the beginning of the voting process to the final tabulation.

An additional benefit of this proposed system is that an issuer (or a shareholder) will be able to seek third-party verification of the final vote count when necessary, through an audit process that is not available to any proxy participant under the existing system.

Proxy Distribution Fees

---

[4] In making this recommendation, the STA is not proposing any change to the current ProxyEdge service used by many institutional investors.

[5] NOBOs are Non-Objecting Beneficial Owners, who hold their shares through broker-dealers and banks, but permit themselves to be identified to the companies in which they invest. OBOs are Objecting Beneficial Owners, who hold their shares through broker-dealers and banks, but object to identifying themselves to the companies in which they invest.

The STA believes that issuers are being charged inappropriate and unnecessary fees, as a result of certain practices being employed by Broadridge, which has a virtual monopoly on the compilation of beneficial owner lists and the distribution of proxy materials to beneficial owners. Broadridge also is not subject to regulatory oversight, unlike transfer agents that register directly with the SEC.

The latest Broadridge fee problem to be raised with the SEC involves what the STA believes are excessive fees being charged issuers for proxy processing functions involving managed accounts.[6] Managed accounts involve the delegation of investment discretion and voting decisions by beneficial owners to third-party investment advisers. One set of proxy materials should be sent to each investment adviser, instead of charging processing and suppression fees at the beneficial owner level. The STA believes that these Broadridge charges may have added more than $50 million a year in unnecessary fees that issuers have had to pay during the past several proxy seasons.[7]

The current regulatory structure overseen by the NYSE is clearly not working. The last formal review of the NYSE fee structure was in 2002, almost eight years ago. And certain fees—such as the pricing for obtaining a list of NOBO investors—have not been evaluated or changed since 1986, despite significant technological advances in the back office systems used by broker-dealers.[8]

An additional problem with the current system is that fees for using the notice and access method of proxy distribution are not currently subject to the NYSE fee schedule, with Broadridge free to establish its own fee structure for these services. Several STA members have reported that Broadridge fees for the notice and access method are actually increasing overall costs for some issuers, canceling out any anticipated savings through reduced proxy mailing costs.

As a solution to this problem, the STA continues to support a pricing structure for proxy distribution and communications services that relies on free market competition, instead of a NYSE fee schedule. Under the current system, broker-dealers and banks determine which service provider handles proxy processing activities for them. Issuers pay for the costs of operating this system, yet cannot use any service provider other than Broadridge. Issuers lack any ability to negotiate the fees charged by Broadridge and its clients and, instead, should be permitted to select service providers of their own choosing, with fees established through the marketplace.

---

[6] See Letter from Thomas L. Montrone, Chairman, Proxy Communications Committee, The Securities Transfer Association, to Mary L. Schapiro, Chairman, Securities and Exchange Commission, June 2, 2010, available at http://www.stai.org/pdfs/STA_Letter_to_SEC_re_Managed_Accounts_6-2-2010.pdf.
[7] Id. at 5.
[8] The charge for obtaining a list of Non-Objecting Beneficial Owners ("NOBO") has remained $0.065 per name since first approved by the NYSE in 1986. See Order Approving Proposed Rule Change, Exchange Act Release No. 34-22889, 51 Fed. Reg. 5,281 (Feb. 18, 1986). Over time, the data processing costs for providing these lists have been reduced significantly; however, as a result of the lack of free market competition in setting prices, the fees for obtaining this list have stayed the same for 24 years.

Market competition in this process would promote technological advances and efficiencies that would improve communications between issuers and their beneficial owners. A market-based system also will reduce costs, by eliminating unnecessary functions occurring in the proxy processing system.

As noted by the Shareholder Communications Coalition in its comment letter on the Concept Release, the SEC has consistently expressed an interest in replacing the current structure with one in which market forces determine the rates for proxy distribution services, rather than the use of a NYSE fee schedule.[9] However, nothing has occurred since the SEC first expressed these views in 1997, regarding market competition as a long-term solution to the rate structure for beneficial owner proxy services.[10]

The STA strongly supports the reform proposal on proxy distribution fees developed by the Shareholder Communications Coalition in its Discussion Draft of August 4, 2009.[11] Under this proposal, proxy distribution and communications functions would become the responsibility of issuers and their agents, instead of remaining under the control of broker-dealers and other financial intermediaries. Issuers would be free to choose their own service providers for these functions; and fees for such services would be established through competition in the marketplace.

Since broker-dealers and banks will still need a central intermediary to compile lists of beneficial owners who are eligible to vote as of the record date for shareholder meetings, the proposal by the Shareholder Communications Coalition recommends that a special NYSE committee be established for the purpose of conducting a competitive bidding process to select an entity—called a data aggregator—to compile and provide these beneficial owner lists to issuers and their agents.

This proposed process would mirror the approach followed by a special NYSE committee in 1984-1985, when it selected the Independent Election Corporation of America ("IECA") to serve as the central intermediary to compile and supply beneficial owner

---

[9] See Letter from Niels Holch, Executive Director, Shareholder Communications Coalition to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, at 8-11, Oct. 20, 2010, available at http://www.sec.gov/comments/s7-14-10/s71410.shtml.

[10] See Order Granting Approval to Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval to Amendment No. 1 to Proposed Rule Change Relating to a One-Year Pilot Program for Transmission of Proxy and Other Shareholder Communications, Exchange Act Release No. 34-38406, 62 Fed. Reg. 13922, at 13,930 (Mar. 24, 1997) ("The Commission believes that ultimately market competition should determine 'reasonable expenses' and recommends that issuers, broker-dealers and the NYSE develop an approach that may foster competition in this area.").

[11] Shareholder Communications Coalition, Public Company Proxy Voting: Empowering Individual Investors and Encouraging Open Shareholder Communications, Aug. 4, 2009, available at http://www.shareholdercoalition.com/CoalitionDiscussionDraftAug2009.pdf (hereinafter "SCC Discussion Draft").

lists for proxy processing purposes.[12] IECA was subsequently acquired in 1992 by the division of ADP that later became Broadridge.

Before the SEC considers implementing these proposed reforms to the proxy distribution process, a careful study of the costs of this type of market-based system should be conducted.

Cost Savings to Issuers in a Market-Based Proxy System

In order to ensure that issuers are able to obtain lists of eligible beneficial owners at a reasonable cost for shareholder meetings (and for other shareholder communications), the proposal developed by the Shareholder Communications Coalition recommends that these lists be provided to issuers and their agents on an "at cost" basis.[13]

As the Shareholder Communications Coalition points out in its comment letter on the Concept Release, these lists can be provided to issuers in a very cost-effective manner by following a structure similar to that used by the National Securities Clearing Corporation ("NSCC"), an "at cost" organization owned and managed by the securities industry.[14] As the comment letter notes, the NSCC currently provides a centralized, standardized, and automated service to broker-dealers and mutual funds—called NSCC Networking—which permits the exchange of beneficial owner account information between financial intermediaries in a very efficient and cost–effective manner.

When the NSCC Networking service was established in 1989, the initial pricing was between $0.04 and $0.06 for each beneficial owner position. This price included a number of other functions that are more complex than the need to compile data that consists primarily of beneficial owner names, contact information, and share positions as of a record date, for proxy processing purposes.

Over the years, NSCC Networking has expanded to offer this service to other financial intermediaries, such as banks and defined contribution retirement plans. And the costs of providing this beneficial owner account information have been reduced by more than 50-fold, to just 10 cents for 100 records, or $0.001 for each position.[15]

---

[12] See Facilitating Shareholder Communications, Exchange Act Release No. 34-21901, 1985 SEC LEXIS 1854, at 4 (Mar. 28, 1985).
[13] SCC Discussion Draft at 6 ("The compilation of the beneficial owner lists for shareholder meetings should become a non-profit function, and a fee schedule should be established for access to the beneficial owner lists by the NYSE.").
[14] See Letter from Niels Holch, Executive Director, Shareholder Communications Coalition to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, at 17-20, Oct. 20, 2010, available at http://www.sec.gov/comments/s7-14-10/s71410.shtml.
[15] See Id. at 20.

This type of "at cost' structure would serve issuers well and should be the focus of the NYSE special committee selecting a central data aggregator, if the proposal by the Shareholder Communications Coalition referred to above is adopted by the SEC.

To evaluate the costs to issuers of this central data aggregator and competitive market model, the STA surveyed its largest members this summer. The participating STA members were provided with three actual 2009 and 2010 Broadridge invoices submitted to issuers with 6,000 beneficial owner positions, 48,000 beneficial owner positions, and 88,000 beneficial owner positions. The STA members were asked to provide a price quote for proxy distribution services to be provided to these three issuers, using the transfer agent rate cards they currently use for services involving registered owners.

In order to have this comparison also evaluate the costs to issuers of purchasing beneficial owner lists from a central data aggregator—an essential component under the competitive market model advocated by the Shareholder Communications Coalition—the STA assumed that this list would cost issuers $0.05 for each beneficial owner position. This estimated cost is 1.5 cents less than the current price of the NOBO list, a charge that was recommended by the securities industry as a reasonable reimbursement rate and, as noted above, has been a fee that has been in effect since 1986.[16] This 5-cent estimate is also similar to the starting price for the NSCC Networking service in 1989, as noted above. As the NSCC Networking fee example demonstrates, the fees for these services should be substantially less than 5 cents per beneficial position, assuming an "at cost" structure and taking advantage of technological advances that have occurred over the past two decades.

Attached is a copy of an STA White Paper containing the survey results. The STA survey demonstrates significant cost savings to issuers of between 20.52% and 71.62%, for the same proxy services as provided in each actual Broadridge invoice. These savings also included the estimated 5-cent data aggregation fee for each position, in order to obtain the beneficial owner list from a central intermediary.

For an issuer with 6,000 beneficial owner positions, the actual Broadridge invoice was $10,100, excluding postage and sales tax. The average transfer agent price quote for these same services, including the cost of obtaining the beneficial owner list, was $8,027, a savings to the issuer of $2,073, or 20.52%.

For an issuer with 48,000 beneficial owner positions, the actual Broadridge invoice was 48,000, excluding postage and sales tax. The average transfer agent price quote for these same services, again including the data aggregation fee estimate, was $14,192, a savings to the issuer of $35,808, or 71.62%.

Finally, for an issuer with 88,000 beneficial owner positions, the actual Broadridge invoice was $100,000, excluding postage and sales tax. The average transfer agent price

[16] See supra note 8.

quote for these same services, with the data aggregation fee, was $40,434, a savings to the issuer of $59,566, or 59.57%.

Using the data obtained through this survey and the STA's knowledge about Broadridge's invoice policies for issuers with more than 200,000 beneficial owner positions, the STA survey was also able to estimate potential cost savings to issuers with these larger positions. For an issuer with 230,000 beneficial owner positions, the expected Broadridge invoice would be approximately $200,000, excluding postage and sales tax. Using the data collected in this STA survey would result in an average transfer agent invoice of $105,800, with the data aggregation fee, a savings to the issuer of $94,200, or 47.10% over the Broadridge invoice. For an issuer with 2 million beneficial owner positions, the expected Broadridge invoice would be approximately $1,300,000, excluding postage and sales tax. Using the data collected in this STA survey would result in an average transfer agent invoice of $600,000, with the data aggregation fee, a savings to the issuer of $700,000, or 53.84% over the Broadridge invoice.

In one of its comment letters on the Concept Release, Broadridge states that average costs to issuers for delivery of proxy materials to registered shareholders through transfer agents are higher than Broadridge's charges to issuers for proxy delivery services for beneficial shareholders.[17] The facts clearly do not support this assertion and, in fact, the opposite is true. Registered costs are lower than current beneficial owner costs, especially as long as Broadridge is able to use the NYSE fee schedule in the manner described above.

The STA's survey also demonstrates that the compilation of a beneficial owner list on an "at cost" basis, plus the benefits of market-based pricing for proxy delivery services, will provide issuers with very significant cost savings over the current NYSE fee structure.

Issuer Communications with Shareholders

The STA strongly supports the proposal by the Shareholder Communications Coalition (and other organizations) that the NOBO/OBO classification system be eliminated.[18] In place for more than 25 years, this classification system has outlived its usefulness and serves as an artificial barrier between public companies and their beneficial owners.

The investor attitudes survey commissioned by the NYSE Proxy Working Group several years ago indicated that the NOBO/OBO system is a source of significant confusion among individual investors.[19] This survey also indicated that when a cost is attached to

[17] Letter from Chuck V. Callan, Senior Vice President-Regulatory Affairs, Broadridge Financial Solutions, Inc., to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, Oct. 14, 2010, available at http://www.sec.gov/comments/s7-14-10/s71410-77.pdf.
[18] SCC Discussion Draft at 5.
[19] Opinion Research Corporation, Investor Attitudes Study, at 3, Apr. 7, 2006, available at http://www.shareholdercoalition.com/NYSEORCInvestorStudy4706.pdf.

maintaining OBO status, a substantial majority of individual investors opt for fully disclosed NOBO status.[20]

Mindful of privacy concerns that have been raised by various parties, the STA believes that both institutional and individual investors should have the opportunity to retain their anonymity, if they so choose. Therefore, the STA supports the proposal by the Shareholder Communications Coalition that investors who wish to remain anonymous are permitted to register their shares in nominee name or hold their shares in a custodial arrangement. This proposal would simply extend what is a common practice among institutional investors to individual investors.

Providing public companies with more direct access to their beneficial owners through eliminating the NOBO/OBO rules would certainly help increase individual investor participation in the proxy voting process, through more and better communication. Eliminating this classification system also will reduce costs of communicating with beneficial owners.

The STA also supports the proposal by Business Roundtable and the Shareholder Communications Coalition to transfer proxy voting authority to the beneficial owner level.[21] Instead of sending voting instruction forms, or VIFs, to beneficial owners, proxy voting authority should be transferred to each beneficial owner, as of the record date established for a shareholder meeting. This can be accomplished through the same omnibus proxy process that is currently employed by DTC and is used to transfer proxy voting authority from the depository institution for street name shares to broker-dealers and banks, as DTC participants.

As noted above, replacing VIFs with actual proxy cards will improve the transparency of the voting process, helping to ensure an accurate vote count for a director election, shareholder proposal, or other matter being voted on at a shareholder meeting.

A second benefit of sending a proxy card in place of a VIF is the fact that a more differentiated proxy voting document would be sent to beneficial owners than the current uniform and "one-size-fits-all" VIF document which is now used by Broadridge for each public company. A proxy card will have a unique design and lettering, and, in many cases, will have the company logo included. The non-uniform design of each proxy voting instrument may help companies to differentiate themselves and should induce more voting interest by individual investors.

A third benefit to this proposal is that an individual investor can attend an annual meeting without following any additional procedural steps. Since a VIF does not authorize a beneficial owner to vote at a shareholder meeting—whether attending in person or not—

[20] Id. at 4.

[21] See Business Roundtable, Petition for Rulemaking Regarding Shareholder Communication, File No. 4-493 (Apr. 12, 2004), available at http://www.shareholdercoalition.com/BRTPetition4-16-04.pdf; and SCC Discussion Draft at 7.

an individual investors has to contact his or her broker-dealer or bank to make arrangements for receipt of a legal proxy instrument to attend a meeting, vote at the meeting, and otherwise participate in the meeting. The automatic transfer of proxy voting authority to each beneficial owner through the omnibus proxy process will eliminate this problem altogether.

Means to Facilitate Retail Investor Participation

As the SEC moves forward with reforms to its proxy voting and shareholder communications rules, the STA supports the recommendation of the Shareholder Communications Coalition that a national campaign be organized to educate individual investors about these new changes and the importance of participating in the proxy voting process. STA believes that all participants in the proxy system have a responsibility to help with this educational initiative. Educational materials about the proxy process should be available on broker-dealer, bank, and issuer websites, as well as other websites frequented by individual investors. Panel discussions, webinars, public service announcements, and other public relations efforts should also be explored.

Conclusion

After 25 years, the time has come to fundamentally reform the U.S. proxy voting and shareholder communications system, with the twin goals of: (1) permitting direct and open communications between issuers and all of their shareholders, both registered and beneficial, and (2) improving the integrity of the proxy voting process, by ensuring that individual votes and the overall vote count are transparent, verifiable, and auditable.

Thank you again for providing the STA with the opportunity to comment on the SEC's Concept Release on the U.S. proxy system.

Very truly yours,

Charles V. Rossi
President
Securities Transfer Association

Attachment

ATTACHMENT

Securities Transfer Association White Paper: Estimated Cost Savings of a Market-Based Proxy Distribution Model

I. Introduction

The Securities Transfer Association, ("STA"), is an industry trade association, established in 1911, comprising transfer agents that provide services to over 12,000 large and small public companies in the United States. The STA and its members work closely with issuers of securities on a variety of public policy matters and have been active for many years in advocating for a fair and efficient system for proxy distribution and communications. Because of its influence on corporate governance matters, the proxy processing system is extremely important to the operation of the capital markets in the United States.

At present, many shareholders in the U. S. hold their securities in "street name" in brokerage accounts, rather than holding shares in their own name as a registered owner on the records of the issuer's transfer agent. There is currently one major provider that distributes annual meeting proxy materials to these beneficial owners, Broadridge Financial Services ("Broadridge"), while transfer agents generally distribute proxy materials to the registered shareholders listed on their records.

The fees that issuers must pay to brokers for the distribution of these materials to street name holders have been approved by the New York Stock Exchange ("NYSE"), but have not been re-evaluated by the NYSE for almost a decade. The STA believes that there is an opportunity to offer greater efficiency and savings to issuers through the introduction of free market competition in the delivery of proxy distribution and communications services. For this reason, the STA has undertaken a survey of its members to determine if less costly services could be provided to issuers with the introduction of this type of competitive model.

II. The STA Proxy Fee Survey

This STA survey was based upon a proposal by the Shareholder Communications Coalition.[22] Under the proposal developed by the Coalition, the current proxy functions of beneficial owner list compilation and proxy distribution would be separated, providing issuers with the opportunity to select a proxy distributor of their own choosing. Once a beneficial owner list is obtained from a central intermediary, issuers and their agents would be responsible for transmitting the proxy statement and proxy forms to all

---

[22] See Shareholder Communications Coalition, Public Issuer Proxy Voting: Empowering Individual Investors and Encouraging Open Shareholder Communications, August 4, 2009, available at http://www.shareholdercoalition.com/CoalitionDiscussionDraftAug2009.pdf.

shareholders, including beneficial owners. The prices for proxy distribution and communications services would be established by free market competition among service providers handling these functions, in the same manner as service providers are selected for proxy services involving registered shareholders.

The results of the STA survey demonstrate significant cost savings to issuers of between 20.52% and 71.62%, in comparison to actual Broadridge invoices provided by three issuers. The amount of cost savings in each example depended on the size of the issuer, the number of beneficial owner positions, and whether the notice and access method was utilized.

III. The Methodology of the STA Survey

The survey was conducted with the largest transfer agent members of the STA. The six firms participating in the survey account for more than 90% of transfer agent services provided to issuers for registered accounts.

In completing each survey, the participating STA members used the account position volumes from actual Broadridge invoices that were provided to them by three different issuers for this purpose. All information about each issuer was removed from each invoice before it was distributed for comparison; only the processing volumes and Broadridge charges remained. The account positions on the invoices were approximately 6,000, 48,000, and 88,000 respectively.[23] The transfer agents were asked to determine what their own organization would charge to distribute materials to that number of accounts, using the rate cards they currently use for registered accounts. Their comparison conclusions were separately forwarded to the STA, where an average of the six responses was computed.

In developing the invoice data for this survey, postage and sales tax were not considered. In addition, the agents were asked to assume that the services of a data aggregator, or "Hub," would be needed to: (a) retrieve the necessary beneficial owner data from the brokers and banks, and (b) provide this data to the issuers and their transfer agents.[24] In order to ensure a true and accurate comparison between beneficial and registered costs, an estimated data aggregation fee from a central intermediary was also added to the transfer agent price quotes. For the purposes of this survey, the STA assumed a cost of 5 cents per position for this data aggregation service, a fee that represents the high end of the data processing market.[25]

---

[23] The exact position numbers for each issuer will not be disclosed to protect the anonymity of the three issuers cooperating with the STA on this study.

[24] This process is more fully described in a policy paper issued by the Shareholder Communications Coalition on August 4, 2009. See supra footnote 1.

[25] This 5-cent per position number is very similar to the NYSE fee of $0.065 for obtaining a Non-Objecting Beneficial Owner ("NOBO") name, address, and share position. This estimated fee of 5 cents per position also resembles the fee structure used by the National Securities Clearing Corporation ("NSCC") for exchanging account information between broker-dealers and mutual funds. When this NSCC service began

IV. The STA Survey Results

After computing the averages of the estimates provided to the STA by each of the six transfer agents, the STA has determined that issuers could realize substantial cost savings in providing beneficial owners with annual meeting materials, if the charges could be established through free market competition, instead of through a fee schedule established by regulators. The following table summarizes these estimated cost savings for different types of issuers:

Cost Savings for Issuers at Three Levels of Beneficial Ownership

Issuer Beneficial Positions	Broadridge Invoice ($)	Transfer Agent Estimate ($)	Cost Savings ($)	Cost Savings (%)
6,000	$10,100	$8,027	$2,073	+20.52%
48,000	$50,000	$14,192	$35,808	+71.62%
88,000	$100,000	$40,434	$59,566	+59.57%

What follows is a more detailed discussion about each invoice and the nature of the cost savings achieved through the results of this survey.

A. STA Cost Comparison for Proxy Distribution Involving 6,000 Beneficial Owners

The first STA cost comparison was for an annual meeting in 2009 involving approximately 6,000 beneficial owners. This issuer used the notice and access format. Excluding postage and sales tax, the Broadridge invoice totaled slightly more than $10,000, itemized in the following manner:

Broadridge Invoice—6,000 Beneficial Owner Positions

Processing Fee for 6,000 Positions (@ $0.50/position)	$3,000
Paper and Postage Elimination Fee for 3,000 Positions (@ $0.40/position)	$1,200
Intermediary Nominee Coordinating Fee for 120 Nominees	

in 1989, the fee for each beneficial owner position or record was approximately 6 cents. As a result of the NSCC's "at-cost" structure, this fee has been lowered substantially, as a result of technological developments and other factors over the past 20 years. The fee for exchanging similar account information between broker-dealers and mutual funds is now 10 cents for 100 records, or $0.001 for each beneficial owner position. See Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Revise Fee Schedule, Exchange Act Release No. 34-61413, 75 Fed. Reg. 4,894 (Jan. 29, 2010).

(@ $20.00/nominee)	$2,400
Notice and Access Processing Fee for 6,000 Positions (@ $0.25/position)	$1,500
Envelopes and Forms	$200
Other Charges	$1,800
TOTAL INVOICE (excluding postage/sales tax)	$10,100[26]

The six transfer agents participating in the survey responded that they provide these same services for registered holders at an average cost to the issuer of $7,727. Adding in the estimated data aggregation cost of $300,[27] raises the total average cost to $8,027, providing savings of more than $2,000, or 20.52%, over the Broadridge invoice.

The differences in pricing between this Broadridge invoice and the transfer agent survey results for this particular invoice appear in at least 3 places:

- Processing Fees. First, Broadridge charged a $0.50 processing fee, based on the NYSE-approved fee schedule. All of the participating transfer agents charge a smaller fee than this NYSE-approved fee for similar services, resulting in a lower cost to issuers in this category. The processing fee charged by Broadridge by definition includes costs for print communication services and it appears that Broadridge does not reduce this fee for positions that do not require paper communications services.

- Suppression Fees. Second, Broadridge charged a $0.40 per position fee for suppressing certain beneficial owner positions, such as for householding, e-delivery, and managed accounts. As noted in the SEC Concept Release on the U.S. Proxy System, Broadridge charges a recurring fee for suppressing a mailing after the year in which a shareholder makes an election for e-delivery, even though the only continuing role for a data processor is to ensure that the shareholder did not change his or her election.[28] In addition, Broadridge charged this issuer a suppression fee for more than 1,500 managed accounts, which are accounts not receiving proxy materials because the investor has delegated investment and voting responsibilities to a third-party investment

[26] This amount is not the exact amount on the actual invoice to protect the anonymity of the issuer cooperating with the STA in providing it with a copy of this Broadridge invoice.
[27] This calculation is derived by multiplying 6,000 positions by the $0.05 data aggregation fee estimated by STA.
[28] See Concept Release on the U.S. Proxy System, Securities and Exchange Commission, 75 Fed. Reg. 42, 982, at 42,997.

adviser.[29] In the STA survey, the average transfer agent charge for all suppressed fees was substantially smaller, reflecting the fact that the transfer agents do not apply these fees in the same manner as Broadridge. Similar to the processing fee noted above, these fees have a print communications component to them and it appears that Broadridge does not reduce these fees for positions that do not require any print communications services.

- Nominee Coordination Fees. Third, Broadridge charged a nominee coordination fee of $20 per nominee. With an estimated number of 120 nominees involved in this annual meeting, this charge increased the invoice cost by $2,400. This cost would not typically be charged by any of the transfer agents and, under the market-based model advocated by the STA, should be included in the 5-cent per position data aggregation fee.

B. STA Cost Comparison for Proxy Distribution Involving 48,000 Beneficial Owners

The second STA cost comparison was for an annual meeting in 2010 involving approximately 48,000 beneficial owners. This issuer did not use the notice and access format. Excluding postage and sales tax, the Broadridge invoice totaled about $50,000, itemized in the following manner:

Broadridge Invoice—48,000 Beneficial Owner Positions

Processing Fee for 48,000 Positions (@ $0.50/position)	$24,000
Paper and Postage Elimination Fee for 39,000 Positions (@ $0.50/position)	$19,500
Intermediary Nominee Coordinating Fee for 250 Nominees (@ $20.00/nominee)	$5,000
Envelopes and Forms	$1,000
Other Charges	$500
TOTAL INVOICE (excluding postage/sales tax)	$50,000[30]

The six transfer agents participating in the survey responded that they provide these same services for registered holders at an average cost to the issuer of $11,792, with

[29] In the case of this particular invoice, Broadridge charged a suppression fee for more than 1,500 managed accounts, increasing the invoice cost to this issuer by at least $600 (1,500 accounts @ $0.40/account).
[30] This amount is not the exact amount on the actual invoice to protect the anonymity of the issuer cooperating with the STA in providing it with a copy of this Broadridge invoice.

the highest priced transfer agent providing a price quote of between $16,000 and $17,000. Adding in the estimated data aggregation cost of $2,400,[31] raises the total average cost to $14,192, providing savings of more than $35,000, or 71.62%, over the Broadridge invoice. Remarkably, even the most expensive transfer agent estimate would charge only approximately $19,000, including the data aggregation fee, resulting in savings of $31,000, or 62%, over the Broadridge invoice.

The differences in pricing between this Broadridge invoice and the transfer agent survey results for the invoice are generally the same as in the earlier example:

- Processing Fees. First, Broadridge charged a $0.50 processing fee to this issuer, based on the NYSE-approved fee schedule. Similar to the survey results regarding 6,000 beneficial owner positions, all of the transfer agents charge a significantly smaller fee than the NYSE-approved fee, resulting in a lower cost to issuers in this category. And, as noted before, this processing fee does not appear to have been reduced for positions requiring no paper communications services.

- Suppression Fees. Second, Broadridge charged a $0.50 per position fee for suppressing certain beneficial owner positions, such as for householding, e-delivery, and managed accounts. As noted above, Broadridge charges a recurring fee for suppressing a mailing after the year in which a shareholder made the election, even though the only continuing role for a data processor is to ensure that the shareholder did not change his or her election.[32] In addition, Broadridge charged this issuer a suppression fee for more than 30,000 managed accounts, which are accounts not receiving proxy materials because the investor has delegated investment and voting responsibilities to a third-party investment adviser.[33] In the STA survey, the average transfer agent charge for suppressed fees was substantially smaller, reflecting the fact that the transfer agents do not apply these fees in the same manner as Broadridge.

- Nominee Coordination Fees. Third, Broadridge charged a nominee coordination fee of $20 per nominee. With an estimated number of 250 nominees involved in this annual meeting, this charge increased the invoice cost by $5,000. This cost would not typically be charged by any of the transfer agents and, under the market-based model advocated by the STA, should be included in the 5-cent per position data aggregation fee.

[31] This calculation is derived by multiplying 48,000 positions by the $0.05 data aggregation fee estimated by STA.
[32] See Concept Release on the U.S. Proxy System, Securities and Exchange Commission, 75 Fed. Reg. 42, 982, at 42,997.
[33] In the case of this particular invoice, Broadridge charged a suppression fee for approximately 30,000 managed accounts, increasing the invoice cost to this issuer by at least $15,000 (30,000 accounts @ $0.50/account).

C. STA Cost Comparison for Proxy Distribution Involving 88,000 Beneficial Owners

The third STA cost comparison was for an annual meeting in 2009 involving approximately 88,000 beneficial owners. This issuer used the notice and access format. Excluding postage and sales tax, the Broadridge invoice totaled about $100,000, itemized in the following manner:

Broadridge Invoice—88,000 Beneficial Owner Positions

Processing Fee for 88,000 Positions (@ $0.50/position)	$44,000
Paper and Postage Elimination Fee for 65,000 Positions (@ $0.40/position)	$26,000
Intermediary Nominee Coordinating Fee for 300 Nominees (@ $20.00/nominee)	$6,000
Notice and Access Processing Fee (@0.25 and 0.20)	$18,000
Bulk Processing Fee	$500
Envelopes and Forms	$1,400
Other Charges	$5,500
TOTAL INVOICE (excluding postage/sales tax)	$100,000[34]

The six transfer agents participating in the survey responded that they provide these same services for registered holders at an average cost to the issuer of $36,034, with the highest priced transfer agent price quote being between $50,000 and $60,000. Adding in the estimated data aggregation cost of $4,400,[35] raises the total average cost to $40,434, providing savings of more than $59,000, or 59.57%, over the Broadridge invoice. If one assumes that the most expensive transfer agent quote would result in a charge of approximately $55,000, including the data aggregation fee, this estimate results in a savings of $45,000, or 45%, over the Broadridge invoice.

The differences in pricing between the Broadridge invoice and the transfer agent survey results for this particular invoice are generally the same as in the earlier two examples:

[34] This amount is not the exact amount on the actual invoice to protect the anonymity of the issuer cooperating with the STA in providing it with a copy of this Broadridge invoice.
[35] This calculation is derived by multiplying 88,000 positions by the $0.05 data aggregation fee estimated by STA.

- Processing Fees. First, Broadridge charged a $0.50 processing fee, based on the NYSE-approved fee schedule. Similar to the survey results above, all of the transfer agents charge a significantly smaller fee than the NYSE-approved fee, providing cost savings to issuers in this category. Again, as noted above, Broadridge does not appear to be reducing this fee for positions which do not require print communications services.

- Suppression Fees. Second, Broadridge charged a $0.40 per position fee for suppressing certain beneficial owner positions, such as for householding, e-delivery, and managed accounts. As noted above, Broadridge charges a recurring fee for suppressing a mailing after the year in which a shareholder made the election, even though the only continuing role for Broadridge is to ensure that the shareholder did not change his or her election.[36] In addition, Broadridge charged a suppression fee to this issuer for more than 50,000 managed accounts, which are accounts not receiving proxy materials because the investor has delegated investment and voting responsibilities to a third-party investment adviser.[37] In the STA survey, the average transfer agent charge for suppressed fees was substantially smaller, reflecting the fact that the transfer agents would not be applying these fees in the same manner as Broadridge.

- Nominee Coordination Fees. Third, Broadridge charged a nominee coordination fee of $20 per nominee. With an estimated number of 300 nominees involved in this annual meeting, this charge increased the invoice cost by $6,000. This cost would not typically be charged by any of the transfer agents and, under the market-based model advocated by the STA, should be included in the 5-cent per position data aggregation fee.

D. Additional Cost Comparisons

Using the data obtained through this survey and the STA's knowledge about Broadridge's invoice policies for issuers with larger numbers of beneficial owner positions than those examined in this survey, it is possible to extrapolate estimates of the potential cost savings to issuers with more than 200,000 beneficial owner positions, using an average of the rate cards for services to registered owners provided by the participating transfer agents.

For example, the STA estimates that a large issuer with 230,000 beneficial owner positions, using the notice and access format, would pay approximately $200,000 in fees

---

[36] See Concept Release on the U.S. Proxy System, Securities and Exchange Commission, 75 Fed. Reg. 42, 982, at 42,997.

[37] In the case of this particular invoice, Broadridge charged a suppression fee for approximately 50,000 managed accounts, increasing the invoice cost to this issuer by at least $20,000 (50,000 accounts @ $0.40/account).

to Broadridge for its annual meeting. Applying the average transfer agent pricing to this hypothetical Broadridge invoice would result in an average invoice of $94,300, excluding postage and sales tax.[38] Adding in the estimated data aggregation cost of $11,500,[39] raises the total average cost to $105,800, providing <u>savings of $94,200, or 47.10%, over the Broadridge invoice</u>.

In a second example, the STA evaluated the fees for a very large issuer with 2 million beneficial owner positions, not using the notice and access format. The STA estimates that this issuer would receive an invoice from Broadridge for approximately $1,300,000 for its annual meeting. Applying the average transfer agent pricing to this hypothetical Broadridge invoice would result in an average invoice of $500,000, excluding postage and sales tax.[40] Adding in the estimated data aggregation cost of $100,000,[41] raises the total average cost to $600,000, providing <u>savings of $700,000, or 53.84%, over the Broadridge invoice</u>.

V. <u>Conclusion</u>

This STA survey demonstrates that a market-based model can result in significant cost savings to both large and small issuers in the delivery of proxy distribution services. A comparison of several different Broadridge invoices to the rate cards for six different transfer agents for services involving registered holders results in savings to issuers of between <u>20.52%</u> <u>and 71.62%</u>. In most instances, these savings are also significant when the Broadridge invoice is compared to the most expensive transfer agent pricing in the survey results. Further, these savings can be extrapolated for large issuers with more than 200,000 beneficial owner positions.

It appears that the primary differences between the registered and beneficial rates for proxy processing are attributable to both the size and the type of fees charged by Broadridge. Several of these fees were originally designed to have a print communications component to them and Broadridge does not appear to be reducing these fees for positions which do not require any print communications services. In the STA survey, the transfer agent print communications charges were consistently less than what Broadridge charged issuers in these three actual invoices.

---

[38] This calculation was derived by dividing the average transfer agent cost of $36,034 for registered positions by 88,000 beneficial positions for this issuer using a notice and access format. This calculation results in a unit cost of $0.41, which was multiplied by 230,000 beneficial positions to derive the estimated invoice amount.

[39] This calculation is derived by multiplying 230,000 positions by the $0.05 data aggregation fee estimated by STA.

[40] This calculation was derived by dividing the average transfer agent cost of $11,792 for registered positions by 48,000 beneficial positions for this issuer not using a notice and access format. This calculation results in a unit cost of $0.25, which was multiplied by 2,000,000 beneficial positions to derive the estimated invoice amount.

[41] This calculation is derived by multiplying 2,000,000 positions by the $0.05 data aggregation fee estimated by STA.

There also is a practice of charging issuers suppression fees for managed accounts, which are accounts in which no proxy materials are to be sent to the beneficial owner level because of a delegation of investment authority to a third-party adviser.[42]

Finally, there are other fees and charges that would not be necessary for issuers to pay—such as a nominee coordination fee—if the proxy processing system were changed to one in which pricing was established by competitive market forces.

October 14, 2010

---

[42] The STA submitted a letter to the SEC on this managed accounts issue. See Letter from Thomas L. Montrone, The Securities Transfer Association, to Mary L. Schapiro, Chairman, Securities and Exchange Commission, June 2, 2010, available at http://www.stai.org/pdfs/STA_Letter_to_SEC_re_Managed_Accounts_6-2-2010.pdf.