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

Dear Commission members,

Thank you for providing the opportunity to comment on the mechanics of the U.S. proxy system. Much has changed since the SEC last looked at proxy mechanics, and the current system simply does not work well with these changes. Communicating with the retail investor is a high priority for AEP, but the current system certainly impedes our efforts. We applaud you for taking the initiative to ensure that the regulatory foundation is up to date with the market realities of 2010.

The concept release issued in July covers several areas of vital importance to the proxy system. We highlighted the areas below that are of particular importance to us that are noted in the release, along with recommendations for your consideration.

### **Shareholder engagement**

#### **Engagement with shareholders (Section IV A)**

The NOBO/OBO classification system is outdated and prevents public companies from knowing many of their shareholders and engaging in meaningful communications with them. These shareholders frequently hold significant portions of an issuer's shares.

With the recent adoption of the proxy access rule and the NYSE's elimination of the broker discretionary vote on key issues, the SEC has taken major steps toward promoting shareholders' rights. As these changes take effect, we expect voting results will likely become much closer. Therefore, it is important for issuers to know who owns their shares to facilitate effective communication, and we propose the following recommendations:

- Eliminate the outdated NOBO/OBO classifications, enabling transparency of share ownership and direct communications between issuers and their investors.
- Give shareholders the option to remain anonymous through the use of a custodial or nominee account.

#### **Retail investor participation and education (Section IV B)**

With all the changes that have occurred in recent years (along with the upcoming changes due to the Dodd-Frank legislation), we believe it is important for regulators, the issuer community and other core stakeholders to reach out to investors to help increase voter participation and to make sure that shareholders are educated on all of the rule changes.

We believe that a system in which issuers have direct access to all their shareholders and are able to communicate cost effectively with both their registered and beneficial holders will increase the level of engagement and improve voter participation rates. Clearer and more effective communications will make it easier to explain to investors how they may cast their vote(s).

For example, the "one size fits all" look of the current VIF is not investor friendly and makes it difficult for investors to distinguish one company's proxy from another. We believe that a customized proxy card, with our company's logo, larger font and a description of the agenda items being voted on, is more likely to attract the attention of our shareholders.

### **Direct communication with holders**

#### **Fees, competition and choice (Section III D)**

The current costs associated with proxy distribution and communication is exorbitant, and it is indeed frustrating that there is such a monopoly on the process in this era of competition. The SEC has the opportunity to create a fair-market system for these services by allowing prices for proxy distribution and communication services to be established by open competition among a variety of different service providers, rather than through the current fee schedule established under NYSE rules.

The NYSE conducted its most recent review of proxy fees in 2002. There does not appear to be a direct relationship between the fees approved from this review and the actual costs incurred by intermediaries. We do not believe the problem can be addressed solely through another review of the NYSE fee schedule. Distribution methods have also changed dramatically over the past several years with electronic distribution, householding, and notice and access, yet the NYSE-regulated fees have not been reduced to reflect these lower costs of production. In fact, costs have continued to increase, when technology should be driving those costs down. It is highly likely that technology will continue to create new opportunities for communications, which in turn could continue to create pressure to reduce prices.

Issuers should have a choice of agents in a competitive environment; choice would reduce costs by eliminating redundant processing and ensure that fees are set by market forces, which we believe would foster higher levels of service and product innovation.

To reduce our costs (and to our shareholders) and create an open market for proxy distribution and communication services, we ask the SEC to consider the following recommendations:

- Open up free market competition. A competitive environment would allow issuers to choose a proxy/communications agent based not only on price but also on the quality of service and innovative products.
- The current functions of (a) beneficial owner data aggregation and (b) proxy communications distribution should be separated, providing a public company with the opportunity to select a distribution provider of its own choosing in a fair market environment.
- The existence of a central data aggregator (e.g., DTCC) would allow for open competition for distribution and tabulation services.

## **The voting and tabulation process**

### **Over-voting and under-voting (section III A in the concept release)**

Under the current system, cases have arisen where the reported shares eligible to vote have not coincided with the record-date position maintained at DTCC. As of now, there are no rules requiring brokers to reconcile their positions as of the proxy record date. This situation allows borrowers and lenders to vote the same positions. There is also no consistency in how brokers address the reconciliation of voting rights across their clients' holdings.

We believe that the underlying regulations should be revised to ensure integrity in voting results, and we offer the following recommendations:

- The SEC should require brokers and other financial intermediaries to produce an eligible-voters list as of the record date for each shareholder meeting.
- The reconciliation methodology should be standardized. Reconciliation should occur before an intermediary transmits record-date beneficial owner information to the data aggregator and before proxy forms are mailed. This will eliminate duplicate voting and prevent erroneous VIFs (or proxy forms, if subsequent recommendations are adopted) from being distributed.

### **Vote tabulation accuracy/record keeping (Section III B)**

The lack of transparency in the current proxy system (and in the "street name" system generally) can make it difficult to ensure the accuracy of the results of a shareholder vote. Also, the current proportion of beneficial holders is much higher than it was when the current proxy rules were adopted.

We believe the regulations should be changed, and we offer the following recommendation:

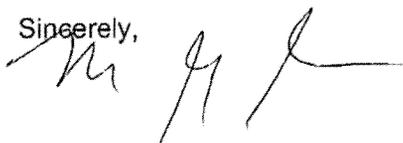
- Every shareholder should be allowed to vote using a legal proxy card (eliminate VIFs). A proxy card with our company's logo, a larger font and a plain-English description of the agenda items being voted on is more likely to attract the attention of our shareholders. This would also facilitate end-to-end validation and vote confirmations.

Thank you again for providing this opportunity to the public to comment on improving the mechanics of the proxy system. We are hopeful that the underlying mechanics of the proxy system can be brought into line with modern communication practices.

Please feel free to contact me if you have any questions or need any additional information.

Thank you.

Sincerely,



Thomas G. Berkemeyer  
Assistant Secretary and Associate General Counsel  
American Electric Power Company, Inc.