

Memorandum

To: File #: S7-10-05: Internet Availability of Proxy Materials

From: Dorothy McCuaig
Office of Commissioner Nazareth

Re: Meeting with representatives from Automatic Data Processing (ADP)

On February 24, 2006, Richard Daly, Chuck Callan, Adam Amsterdam, and Maryellen Andersen, of ADP as well as David B.H. Martin of Covington & Burling met with Commissioner Nazareth and her legal counsel Dorothy McCuaig and discussed their comment letter on this proposal as well as the attached material that they provided, entitled "Internet Availability of Proxy Materials: A Discussion of Street-Side Shareholder Communication and Proxy Voting."



Internet Availability of Proxy Materials

**A Discussion of Street-Side Shareholder Communication and
Proxy Voting**

**ADP Investor Communication Services
February 24, 2006**

Street-Side Investor Communications and Proxy Voting

High-Level Overview

- **Over 85% of all shares of U.S. publicly traded companies are held in street name. A diminishing percentage of shares is held in registered name with the issuer.**
- **Typically, institutional investors (pension funds, mutual funds, money managers, hedge funds) hold shares with custodian banks. Individual investors hold shares with brokers.**
- **Approximately 40% of street investors (owning 60% of the shares) *object* to being identified to the issuers whose shares they hold.**
- **The SEC requires issuers to provide proxy materials to record owners in sufficient quantity to permit dissemination of material to beneficial owners.**
- **The NYSE specifies that banks and brokers must forward issuer proxy materials to their clients/account holders and enable them to vote. The NYSE specifies fees for banks and brokers to be reimbursed by issuers.**

Critics complain that the street process is complex and multi-layered. The street process is a result of U.S. equity clearing & settlement processes. It was not invented in isolation for proxy purposes alone.

ADP's Role in Shareholder Communications and Proxy Voting

- **Scope:**
 - 87 million investors
 - 12,000+ U.S. meetings
 - 800+ banks and brokers
 - Over 80% of all outstanding shares
- **Economies of scale:**
 - A uniform, accurate process for: identifying street investors, capturing investor preferences and consents, estimating materials requirements, shipping to one location, providing bulk mail discounts, consolidating the invoicing, and reporting meeting status
- **Technology and critical industry solutions – examples:**
 - Specialized processing and voting logic, over 40% of all street accounts
 - Preference processing for eliminating mailings at investor's direction, e.g., householding and e-delivery; Open Enrollment
 - 24x7 voting technologies for all public companies
 - ICSONline – vote status and meeting management tools
 - Over Reporting Prevention Service
- **Services for institutional investors and fund managers – examples:**
 - ProxyEdge: over 2,500 institutions and 55% of all street shares. Consistent presentation across issuers, workflow, and compliance
 - ProxyDisclosure: vote reporting for mutual funds
- **ADP is also a servicing agent to 500+/- corporate issuers for registered share owner communications and proxy voting.**

Note: ADP does not provide research and advisory services and does not solicit for proposal outcomes. ADP is an arms-length processing services provider for nominees.

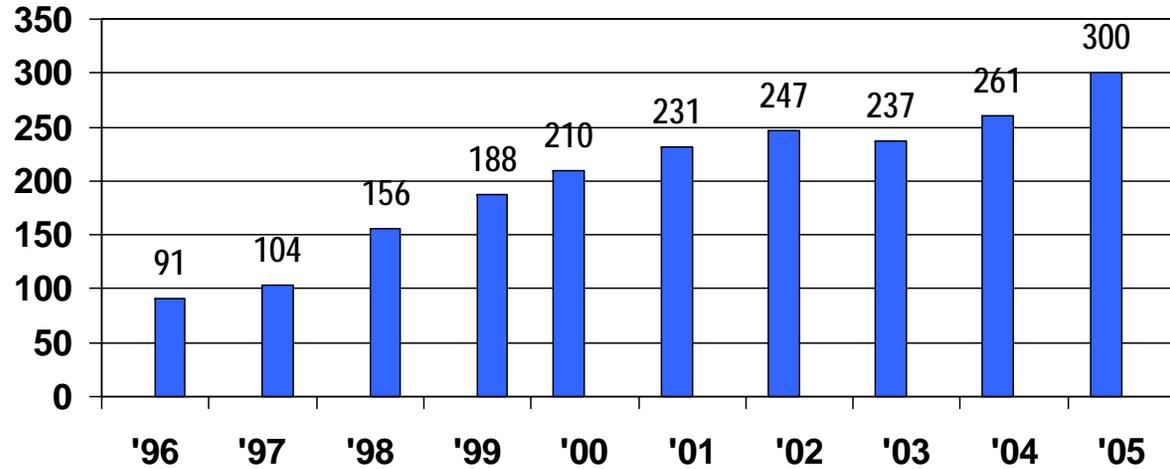
Proxy Season Statistics: Ten-Year Trend

Increasing Levels of Participation

Proxy "Season" (2/15-5/1)

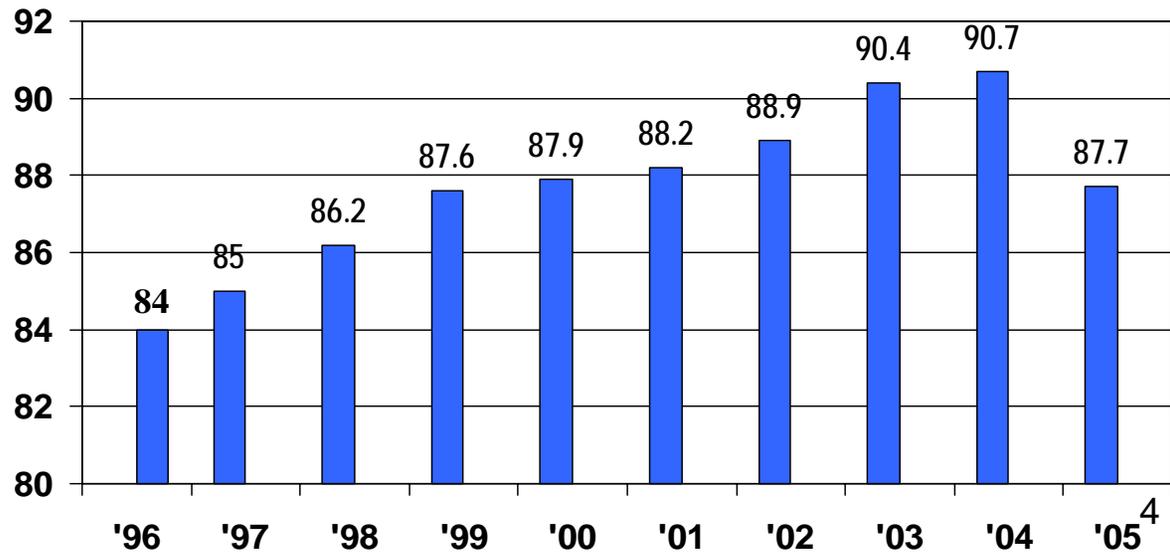
Increasing Volume

Total shares processed by ADP (Billions)



Increasing Participation

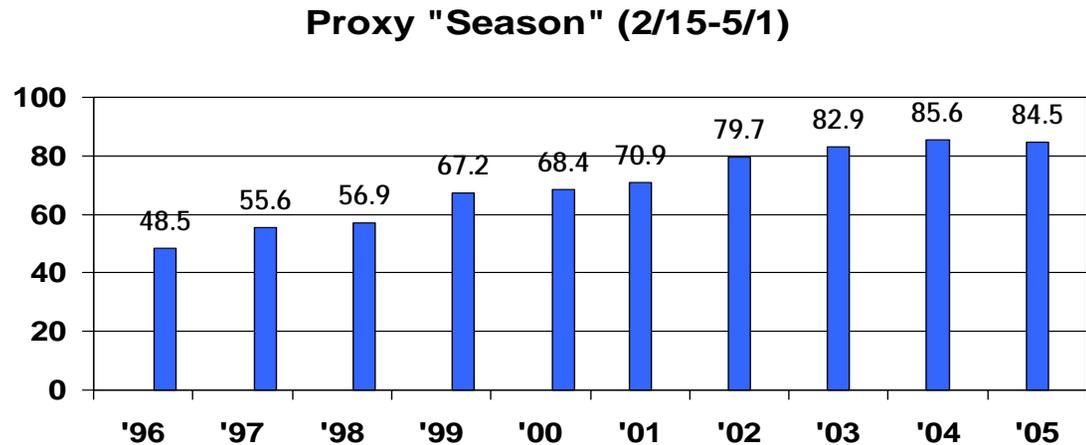
Percent of shares processed by ADP that were voted



Proxy Season Statistics Ten-Year Trends: Increasing Efficiencies for Corporate Issuers

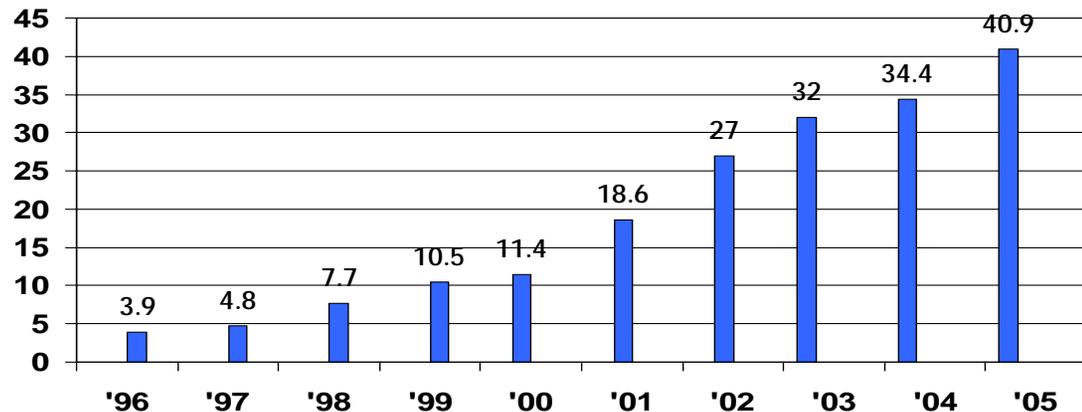
Percent of ADP Shares Voted Electronically

Electronic Voting Includes Telephone, Internet and ProxyEdge. Broker Votes are Excluded.



Mailings Eliminated at the Direction of Investors (% All ADP Accounts Processed)

Eliminations Include ProxyEdge, Managed Accounts, Consents to E-Delivery and Householding (as of 12/00)



Hewlett Packard/Compaq Review

Mailings

- Number of mailings: Management (8), Opposition (6). Total pieces net of suppressions: 8,578,877 pieces
- Turnaround time: all mailings completed in under 2 business days.

Tabulation/Updates

- Void Reports to 335 clients. Contest Status Reports representing 575 nominees
- 26 full-time Client Service Associates supported the process

Audit and Review

- Vote Audit teams spent 7,000 hours, including around-the-clock coverage

Vote Return Highlights

- Processed 1.4 million returns, representing 2.3 billion shares
- Voted 550,000 accounts, processed 440,000 changes in votes, representing 342 million shares. Resolved 68,000 'void votes,' representing 63 million shares

After having received, processed and audited all votes for street shares (94%), ADP issued its final vote in conjunction with the closing of the polls. It was not changed by the Inspector of Elections. In contrast, the Registered vote , representing only 6% of total shares, took 7 weeks to be counted and finalized.

Overview of the Street Proxy Voting Process

Sample of Functionality Not Found in Registered Shares Processing

“The following services, although not required, have been provided for beneficial processing under the existing fee structure. Registered processing, while not requiring all of these services, charges additional fees for services such as telephone voting, internet voting, electronic distribution, householding, etc.”

- Fiscal Year End Profile Distribution to 12,000+ Issuers
- Search Card Notification Processing
- Ad Hoc Request for Material Estimates
- Consolidated Search and Proxy Record Date Shareowner Positions Material Requirements Request to Nominee/Clients (across 800 nominees)
- Provide Nominee/Client with Report Confirming Total Positions and Shares Transmitted for Each CUSIP (across 800 nominees)
- Rule All Proposals (Based on NYSE)
- Assignment of Proposal Code
- Addition and/or Deletion of Record Date Beneficial Owner Name and Address Information
- Vote Reporting by Nominees
 - 15/10 Days; 9 Days Before Meeting Through Day of Meeting
 - 2 Vote Reports Day Before Meeting
 - Day of Meeting Votes
- Electronic Voting Transmission to Solicitor and Transfer Agent
- Vote Inquiries (Banks, Brokers and Institutions Not Voted)
- Consolidated Voting Across Nominees
- Confidentiality of Client Beneficial Shareowner Data
- Exception Processing
- Co-Trustee Processing
- Internet and Telephone Votes for 12,000+ Issuers
- Internet distribution for 12,000+ Issuers
- DTC Over Vote Monitoring
- Vote Confirmation Reporting
- Advanced Record Date Notification
- Meetings with Dissenters Rights Reporting
- Non-Mailed Accounts as of First Issued Vote Reporting
- Closed Meeting Report
- Bank, Broker Confirmation of Mailing
- Bank, Broker Vote Confirmation Summary
- Disaster Recovery
- Interactive Voice Response System
- Affidavit of Compliance (Self-Reporting Mechanism Between ADP and its Clients as Required by NYSE)
- Annual Procedural Audit Report as Required by NYSE
- Weekly Measurement Criteria
- Vote Statistical Audit
- ISO 9002 Certification
- Consolidated Invoicing (Across 800 Nominees)
- Building and Maintenance of Householding Database (Across 800 Nominees)
- Building and Maintenance of Email Database (Across 800 Nominees)
- Funding of Postage Expense on Behalf of Issuer
- Bank/Broker Expense
- Maintenance of Records for 3 Years

Source: Proxy Voting Review Committee, 2002. Today, over 40% of ADP street accounts require specialized processing. And, there are approximately 100 million investor 'consents' to householding and e-delivery.

ADP Technology in Perspective

- Over 8,000,000 lines of code, adding or revising 750,000 lines each year
- Over 350,000 un-weighted function points, adding and/or revising over 30% annually
- Approximately 400 man years of program development invested in unique functions
- ICS Development Shop is CMM Level 2 with 3 of the 7 KPA's for Level 3 in place
- Single day peak processing: over 500,000 separate client (nominee) votes across more than 2500 issuers
- World-class brokerage datacenter; over \$300 million invested
- Advanced practices for information security and disaster recovery
 - 2-hour recovery from point of failure
 - Redundant communications networks, can switch if a major carrier goes down.
 - IBM Sterling Forest facility, and full back up
 - Appropriate levels of security: physical and information
 - Annual review of disaster recovery plans and testing with the SEC
- Industry tools for electronic distribution and electronic voting
- Specialized processing for over 40% of all accounts processed

Research on Notice and Access Potential for Unintended Consequences

Research

Investor Demographics and Online Usage

Telephone Survey of 1,500 Investors

Online Survey of 1,700 Frequent Internet Users

White Papers on “Defaults,” and Opt-In/Opt-Out Behavior

Costs-Benefits Analysis - Lexecon, Inc.



Potential Outcomes

Less participation

Lower cost savings,
could increase costs

Other repercussions, e.g., the
Broker Vote

US Investor Households

Potential Impact on Investor Segments

Investor Segments	Number	Number Not Online	Number Without Broadband Access at Home
Seniors (60+)	10 million	4 million	6.3 million
Annual Income under \$50,000	14.2 million	8 million	11 million
Rural and Smaller Market	10.5 million	2.5 million	8.1 million
African American	2.8 million	700 thousand	2 million

Just 38% of all investor households have broadband at home.

Source: Forrester’s Consumer Technographics® Q3 2005 North American Benchmark Survey – base of 42 million investor households. Multiple investors under one roof are counted as one ‘investor household.’

Telephone Survey Results

Investors indicate the Notice and Access rule would make them *less likely* to look at corporate disclosures and *less likely* to vote their proxies.

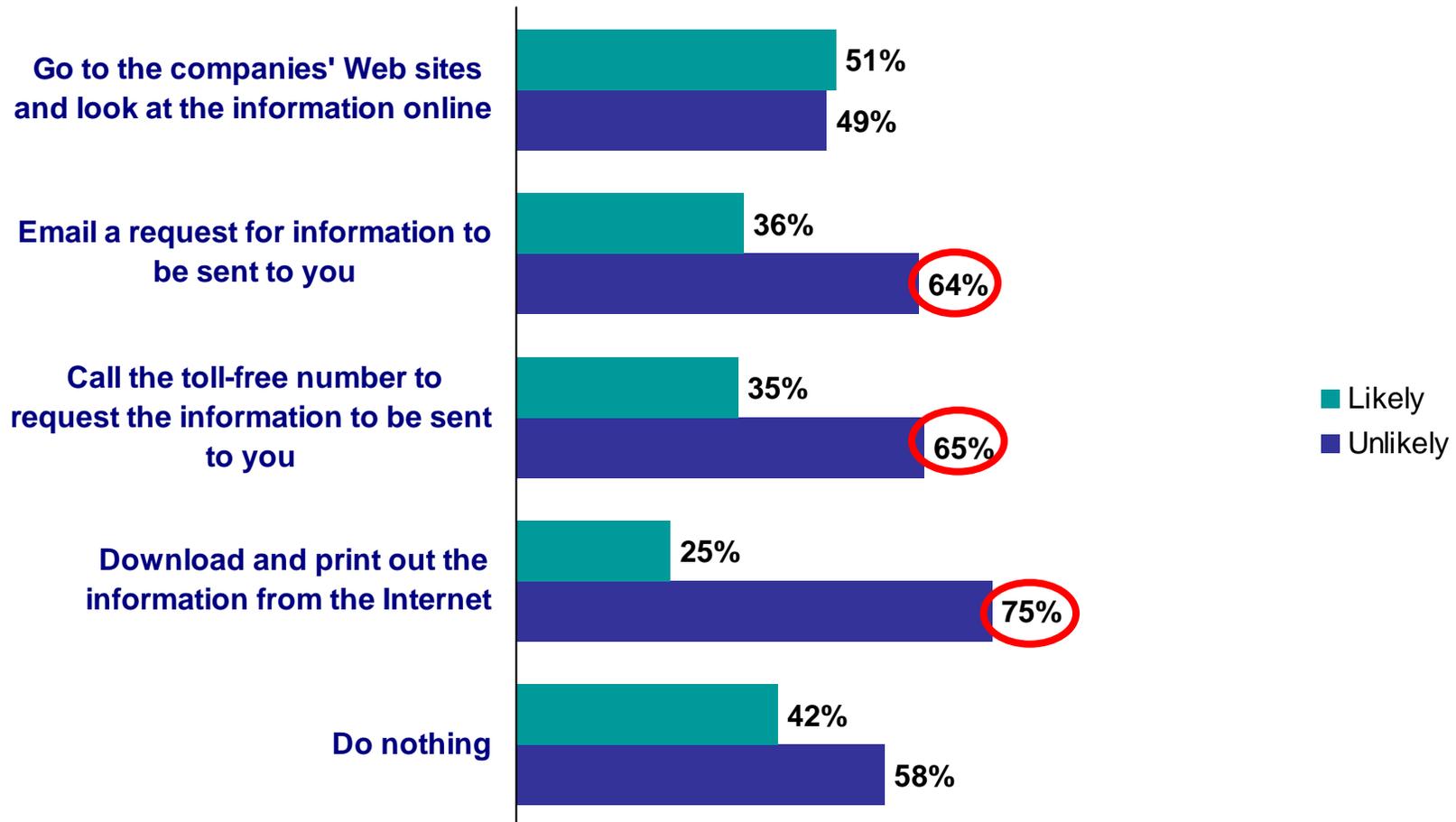
	<i>Less Likely</i>	<i>More Likely</i>
Look at Disclosures	38%	16%
Cast Votes	38%	12%

Source: Telephone Survey of 1,500 investors, conducted by Forrester Research, January 2 – January 10, 2006.

Note: Similar indications from respondents to surveys by comScore and AARP

Many Investors Are *Unlikely* to Take the Required Steps.

Q13. (If Online and Mail Receivers) Under the proposed new rule, you will have to take new or additional steps to get your annual reports and proxy voting information. Please state if you are likely or unlikely to do the following (select one answer for each row):



Base: 971 Online mail receivers

Costs-Benefits Analysis

The Proposed Rule Could End Up Costing More

Proposed Rule:

- Fixed costs remain, some new costs added
- Some costs shifted to investors
- More expensive fulfillment model: *Today: “Pick ‘N Pack”* per unit cost = 6x “Mass Fulfillment”

Lexecon, Inc.

- Cost impact on issuers and investors
- Depends on investor participation
- Overall cost-benefit for public companies (2005): (-)\$180 m to +\$205 m

‘The proposed rule leads to cost savings precisely when enough shareholders are discouraged from requesting materials.’

Alternatives

Greater Efficiencies *Without* Compromising Participation

- **Dual Distribution to Broker e-Mail Addresses:**
 - E-Mail message with Internet voting to every individual investor – two criteria:
 - Currently receive printed information by mail
 - Email address on file with broker-dealer – potential to increase suppression rate to 60+% (from 45% (e) in 2006).
 - Electronic distribution – encouraging e-delivery, explaining the benefits, click-through to consent capture
 - Broker-dealer customer education and support
 - ADP and broker-dealer technology solutions
 - Potential savings: Increase in physical delivery suppression rate to 60-70%. Additional millions of dollars in savings for issuers.

- **Smaller, less-expensive, compliance document:**
 - Example Bed, Bath and Beyond
 - \$0.82 total per unit vs. over \$5.00 total per unit for glossy (per unit amounts include fixed and variable costs)

- **XBRL for proxy**
 - Potential to add value to Internet experience
 - Dependent on progress with financial reporting
 - ADP commitment to invest