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Established 1911

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Revision to letter of 2/9/2006
February 10, 2006

Jonathan G. Katz, Secretary
Securities Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-9303

Re: File Number S7-10-05; Internet Availability of Proxy Materials

Dear Mr. Katz:

The Securities Transfer Association ("STA") appreciates the opportunity to comment on the proposed regulations referenced above. The STA is the professional association of transfer agents. Founded in 1911, the STA membership of 143 registered transfer agents maintains records of more than 150,000,000 registered shareholders. As transfer agents for more than 15,000 issuers, STA members mail proxy materials, conduct householding of shareholder meeting materials, record consents and provide electronic delivery of proxy materials, tabulate proxies and conduct other duties associated with the shareholder meeting process.

The STA applauds and supports the Securities and Exchange Commission's ("SEC's") proposed amendments to the proxy rules, and believes the proposed amendments represent an innovative, timely initiative that will reduce expenses, preserve our natural resources, and improve the competitiveness of corporate America without adverse consequences to the proxy distribution process. We wish to make clear that this proposal does not address the pressing need to update the shareholder communications system to facilitate direct communication by issuers to their beneficial shareholders, and hope that the SEC will soon turn to this issue. Attached is a letter sent to the SEC from a recently formed coalition of industry organizations, of which the STA is a member, describing our views on communications with beneficial shareholders. However, the STA fully supports this initiative and

112

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respectfully offers these comments in response to the SEC's request for comments on the proposal.

Accessibility of Documents

As noted in the release, more than 10.7 million beneficial shareholders have already consented to electronic delivery. The STA membership has also seen a growing number of registered shareholders consent to electronic delivery based on implied consent. We believe that a far greater number of households have sufficient Internet access to be able to view proxy materials, either through their home or office systems. Internet voting by registered shareholders continues to grow providing testimony to the growing extent of access and acceptability of the Internet. We believe that Internet access and capacity have grown to the extent that a majority of households, through one means or another, are now able to view and/or download proxy materials.

Implied Consent Model

Requiring shareholders to provide affirmative consent for Internet access, the STA believes, will result in a significant reduction in the number of shareholders utilizing Internet disclosure and voting access. The majority of individual shareholders do not usually respond to such requests. The STA believes this low response rate is due to inertia, rather than shareholder reluctance to use the Internet for this purpose. Further, the recording and maintenance of affirmative consent responses will add additional expenses for issuers. Thus, affirmative consent adds unnecessary cost and inconvenience while providing no benefit to the shareholder.

The STA members' experience in promoting householding of shareholder meeting materials is illustrative of the effectiveness of an implied consent model. Requesting an affirmative response has proven to be highly ineffective under householding rules that provide this option. Only 2.47% of the 779,519 accounts included in a survey by one agent resulted in positive responses, which is a typical rate. Conversely, when issuers and agents use the SEC householding implied consent alternative, less than one percent opt out of the process. This supports the STA's belief that requiring a positive response for Internet access will severely limit the success of the Internet access initiative. The implied consent approach used for householding has been successful and in the STA's experience has not resulted in notable complaints from shareholders.

Access for All Shareholders

The proposal seeks comments regarding the "notice and access" model being made available to all shareholders. We believe the proposed "notice and access" model should be made available to all shareholders – registered and beneficial, individuals and institutional holders alike – as all shareholders will have equal opportunity to view materials electronically or request delivery of paper materials. In fact, the STA believes that the proposal does not go far enough to address the complexities and inefficiencies of the current process of communicating with beneficial shareholders. The STA believes that in order to alleviate these complexities and inefficiencies, an issuer should be able to

designate its own agent or agents responsible for (i) mailing Notices of Internet Availability, (ii) receiving the requests for materials for both registered and beneficial shareholders, and (iii) tabulating the votes.

A more streamlined single agent approach would further improve the ability of issuers to control costs and ensure that all shareholders are treated equally. It eliminates any problems estimating the number of sets of material to send to the vendor that supports the distribution of materials to beneficial shareholders. Under the current rules, an estimate of materials required by beneficial shareholders is received before the delivery of the materials to this vendor. Under the proposed rule, it will not be possible for issuers to ascertain, particularly during the first year of implementation, the number of sets of materials to be provided to the delivery vendor for beneficial shareholders who elect to receive paper materials. By giving issuers the option to designate their own vendor(s) to distribute material to both registered and beneficial shareholders, the timing of delivery will be shortened and print production costs will be greatly reduced. This more efficient model provides benefits to both the issuer and the shareholding public in both service standards and expense reduction, and should produce more accurate and timely voting. Additional advantages would be generated if issuers were permitted to deliver proxies to these beneficial shareholders, giving these owners the same access and rights as registered shareholders. This concept is further developed in the White Paper and Concept Release presented by the STA in December of 2004, a copy of which is enclosed.

Delivery of Notice and Effects

The proposed amendments to the proxy rules suggest that the Notice of Internet Availability be sent separate from other types of shareholder communications. Based upon the experience of our membership, we believe that the delivery envelope for the Notice should be restricted to the Notice, the proxy card, and at the option of the issuer, a business reply envelope. Including other materials will reduce the likelihood of the shareholder recognizing and reading the materials enclosed.

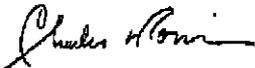
The proposal also asked if the shareholder would be more or less likely to access the materials if the proxy card was delivered with the Notice and if the regulation would increase or decrease the need for discretionary voting. We believe that delivery of the proxy card with the notice will not adversely affect voting percentages. It may even increase shareholder participation. Shareholders respond well today to secondary mailings of proxies and notices. These mailings, performed after the initial delivery of meeting materials, stimulate voting. The delivery of voluminous proxy statement materials and annual reports has the potential to intimidate shareholders and have an adverse effect on individual shareholder voting. It has been our experience that shareholders often comment on the unnecessary use of paper when the Internet would facilitate easy access to information while protecting our natural resources. Shareholders that customarily read the proxy material will still access the material on the Internet, or will request a paper copy. With respect to those shareholders who opt to receive their proxy material in paper form, the Commission has requested comments on the turnaround time from initial request to mailing. The STA, based on its vast experience, would

strongly recommend a three business day turnaround requirement instead of the proposed two business day requirement.

Similarly, the need for discretionary voting should not increase as a result of this initiative. It is possible that individual voting percentages may increase slightly as shareholders may be more responsive to the less intimidating proxy card delivery. However, the percentage of shares voted should not change significantly as a result of this proposal.

We would like to thank the SEC for the opportunity to present these comments and again applaud the development of this initiative. The proposed amendments to the proxy rules will help public companies harness greater Internet cost efficiencies and assist in making corporations more globally competitive. At the same time, we urge the SEC to undertake a broader review of today's cumbersome system and its reliance on intermediaries to facilitate communications between issuers and their shareholders.

Respectfully,



Charles Rossi
President

ENCL

cc: Martin Dunn, Deputy Director
Jerry Carpenter, Assistant Director
Susan Petersen, Special Counsel



Business Roundtable



STA
THE
SECURITIES TRANSFER
ASSOCIATION, INC.



SOCIETY OF CORPORATE SECRETARIES
& GOVERNANCE PROFESSIONALS

July 29, 2005

Alan L. Beller, Director
Division of Corporation Finance
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Annette L. Nazareth, Director
Division of Market Regulation
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

**Re: Coalition Views on Shareholder Communications
(Re: SEC File Number 4-493)**

Dear Ms. Nazareth and Mr. Beller:

It has been well over a year since Business Roundtable filed its Petition for Rulemaking Regarding Shareholder Communications ("Petition") with the Securities and Exchange Commission ("Commission" or "SEC"). The Petition calls for a thorough re-examination of the SEC rules governing the way in which companies communicate with the beneficial owners of their securities held in street or nominee name. Thus far, the Commission has yet to take action on the Petition. The undersigned represent trade associations with significant interest in the shareholder communications issues raised in the Petition. Accordingly, we have formed a coalition to present our shared views on shareholder communications and encourage expeditious SEC review of the shareholder communications system. Enclosed please find our joint statement on shareholder communications.

Since the Petition was filed, issues concerning shareholder communications have continued to increase in importance. Shareholder activism is growing, and the New York Stock Exchange ("NYSE") has formed a "Proxy Working Group" to consider eliminating or restricting broker voting under the so-called 10-day rule. It is critical that the Commission's shareholder communications rules be addressed simultaneously with the NYSE's efforts. These issues are too interrelated to be dealt with in isolation.

We would appreciate the opportunity to meet with you to further discuss our views on shareholder communications. Please contact Tom Lehner, Public Policy Director, Business Roundtable, at (202) 872-1260.

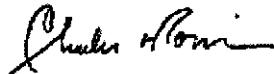
Sincerely,



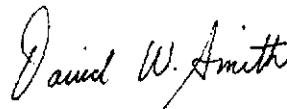
John J. Castellani
President
Business Roundtable



Louis M. Thompson, Jr.
President & CEO
National Investor Relations Institute



Charles V. Rossi
President
Securities Transfer Association



David W. Smith
President
Society of Corporate Secretaries &
Governance Professionals

Enclosure

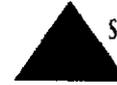
cc: Hon. Cynthia A. Glassman, Acting Chairman, U.S. Securities and Exchange Commission
Hon. Paul S. Atkins, Commissioner
Hon. Roel C. Campos, Commissioner
Hon. Harvey J. Goldschmid, Commissioner
Catherine R. Kinney, President & Co-Chief Operating Officer, NYSE



Business Roundtable



THE STA
SECURITIES TRANSFER
ASSOCIATION, INC.



SOCIETY OF CORPORATE SECRETARIES
& GOVERNANCE PROFESSIONALS

COALITION VIEWS ON SHAREHOLDER COMMUNICATIONS

- Communications between companies and their shareholders are an essential component of corporate governance.
- With increasing shareholder activism and focus on the proxy voting process, companies need to be able to quickly, efficiently and cost-effectively communicate with all of their shareholders, including beneficial owners of their securities held in "street" or nominee name.
- Most shares are held in "street" or nominee name, to enable securities transactions to be cleared more efficiently. Currently, companies do not have the ability to communicate directly with beneficial owners of these shares, and instead must communicate through a circuitous, cumbersome and expensive system.
- The shareholder communications system should take advantage of technological advances, including electronic mail, that make more efficient means of communicating with beneficial owners possible.
- Companies should have access to contact information for all of their beneficial owners (including Objecting Beneficial Owners, so-called "OBOs"), as well as the ability to determine the distributors of their communications, in order to communicate most effectively.
- Brokers, banks and other intermediaries should not stand in the way of effective communications between companies and the beneficial owners of their securities.
- Currently, all shareholders bear the costs of maintaining the anonymity of "street" name holders who are OBOs. Instead, shareholders desiring to remain anonymous should bear the cost of maintaining their privacy, such as through the establishment of nominee accounts.
- Any improvements to companies' ability to identify and communicate with their shareholders should be available to shareholders wishing to communicate with other shareholders.
- The Securities and Exchange Commission needs to promptly address necessary changes to the shareholder communications system.

Treating Shareholders Equally: Alternatives for Street Proxy Distributions

December 2004

WHAT'S INSIDE

REASONS FOR CHANGE
CONCEPT OVERVIEW: OPEN
ACCESS & COMPETITION
OPERATING CONCEPTS
EXPENSE ARGUMENTS

EXECUTIVE SUMMARY

The focus of this White Paper is to illustrate the fundamental challenges associated with distributing shareholder meeting voting rights and materials to beneficial shareholders, and to provide a potential solution for the equitable treatment of both shareholders and issuers. Also provided is a summarization of earlier studies and current experiences that clearly demonstrate a need for change. Studies by tabulators and corporations alike have identified the following issues associated with the current proxy distribution system:

- Inaccurate reconciliation practices of securities held in street name resulting in over-voting for virtually every annual meeting.
- Unequal treatment of beneficial shareholders at the shareholder meeting.
- Issuer access to Non-Objecting Beneficial Owners (NOBOs) for distribution and tabulation of proxies is not permitted.
- Corporations are required by law to cover street proxy distribution costs; however, they have no control over pricing, leading to a monopolistic environment which includes pricing abuses and lack of a complaint review process.

The United States continues to recognize a process that consists of substandard voting rights for beneficial shareholders and non-negotiable pricing. The next section will outline, in greater detail, these such conditions that exist in the current proxy distribution process, and a solution, similar to one recently adopted in Canada, will be provided as an alternative. This White Paper is intended to identify the flaws that exist in the current process and offer solutions utilizing models from both the Canadian market experience and existing market elements already in place in the United States. The proposed solution will provide the following:

1. Processes that ensure that beneficial positions are reconciled in order to prevent over-voting.
2. Procedures and practices that ensure accurate, timely distribution of materials and equitable voting rights for beneficial shareholders.
3. A structure wherein the issuer has responsibility for selecting its proxy material distributor and tabulator.

Over the decades, numerous requests have been made for a review of the current proxy system. These requests have been met by ad hoc committee reviews that have reduced prices for the largest companies, while doing little to improve the integrity of the system and provide broad-based, open market competition. Ad hoc committees cannot overhaul the street proxy process. The United States must address the archaic process of restricting issuers access to street name positions for distributing voting rights to beneficial shareholders, if it wants to be a leader in the areas of corporate governance and open-market practices.

Long Standing Reasons For Change

A representative of the brokerage industry has recently described the current system for the distribution of proxies as the “best ever”. At the same time, industry participants have described the system as “overly cumbersome, circuitous and expensive.”¹ The American Society of Corporate Secretaries went even further, noting, “the system is indeed broken and needs fixing.”² Attempted over-voting occurs at some level for almost every shareholder meeting, and in certain circumstances invalid beneficial voting instruction forms are distributed to street name accounts. Additionally, issuers continue to bear excessive, non-negotiable fees and expenses.

The current system for distributing voting instruction forms (not proxies) to beneficial shareholders was developed in the 1960s, and the legal structure for this process was established far before that time. Since then, significant regulatory and technological changes have occurred making it easier and more important to provide beneficial shareholders with direct voting authority. The Business Roundtable suggested that, “If nominees were able to issue omnibus proxies delegating voting power to their customers, beneficial owners of shares... would be able to use the same Internet voting system as registered beneficial shareholders.”³ Although technology is available today that could ensure that beneficial shareholders have the same voting rights as registered shareholders, the current voting system, with its errors and excesses, continues to be used. This current system lacks the necessary controls over verification of ownership and voting rights, which oftentimes results in over-voting conditions.

More than technology has changed in the last 50 years. The basic environment of corporate governance has changed, magnifying the need for corporations to have direct access to beneficial shareholders for the distribution of shareholder meeting material. The Business Roundtable Petition⁴ cites numerous reasons including:

- Increased shareholder activism.
- SEC and NYSE rule changes that “underscore the importance of opening lines of communication between directors and beneficial owners.”⁵
- The limits of applicability of the NYSE ten-day rule for the approval of equity compensation plans and the potential for elimination of this rule.

Other industry groups, such as the American Society of Corporate Secretaries (“ASCS”), cite the “ongoing problems with the current shareholder communication system.”⁶ As the ASCS noted, it is practically impossible to validate a beneficial shareholder’s voting rights under the current system. An article in an industry publication described over-voting as prevalent, citing that “the causes of over-voting may be masked by the inability of the issuer and the issuer’s tabulating agent to have access to underlying beneficial shareholder records for meeting distribution and tabulation.”⁷

¹Steve Odland, Chairman, Corporate Governance Task Force, Business Roundtable, in the cover letter to the SEC for the Business Roundtable Petition for Rulemaking Regarding Shareholder Communication, dated April 12, 2004.

²David W. Smith, President of the ASCS, “Comment Letter to the SEC”, April 2004.

³Steve Odland, page 12.

⁴Steve Odland, The Business Roundtable Petition for Rulemaking Regarding Shareholder Communication.

⁵Steve Odland, page 6.

⁶David W. Smith, April 2004.

⁷The STA Newsletter, Issue 1, 2004, page 5.

While the regulatory changes that have heightened sensitivity to corporate governance issues are relatively recent, concerns regarding the cumbersome and overly expensive nature of the current structure are not new. A 1995 Ad Hoc Committee study provided the following insight into the unfavorable conditions facing the issuer in the distribution process, as well as the unreasonable expenses they incur:

- ♦ “Fees charged to issuers are unrelated to costs actually incurred or services actually rendered.”⁸
- ♦ “Fees are charged to issuers in excess of fees that would be available in a competitive market.”⁹
- ♦ “There is no mechanism by which issuers and member organizations can resolve fee disputes.”¹⁰

The report also documented situations that involved pricing abuse. These abuses were corrected, and subsequently, other equally questionable billing practices have emerged. For example, a large corporation recently paid almost \$200,000 for the suppression of mailing material to managed and wrap brokerage accounts. It was noted on brokerage records that these accounts are not to receive annual meeting material. The printing and postage savings cited as an accomplishment by the street are admirable. However, charging \$200,000 for recognizing an account flag bears no relation to processing costs. Brokers already recognized that these accounts elected not to receive proxy material, yet they include them in the process and generate a considerable fee. These billing practices ultimately represent a cost to all shareholders of American-based companies and most likely would not survive in a competitive market.

Recommendations issued to the NYSE almost ten years ago in the study by the Ad Hoc Committee were echoed in those made a decade later by the ASCS and the Business Roundtable for the direct distribution of proxies to beneficial shareholders. The Ad Hoc Committee report urged the NYSE to “examine the practicality of issuer direct distribution of proxy materials to Non-Objecting Beneficial Owners (NOBOs).”¹¹ The report went on to note that the “price control approach is not compatible with the free-market, capitalistic system,” and “is not the best one for protecting the legitimate interests of issuers, member organizations and beneficial owners alike.”¹²

The NYSE formed a second Ad Hoc Committee in 2001 to review the proxy fee pilot and make other recommendations based on its observations. The committee concluded in 2002 by making minor changes such as dropping fees slightly from \$0.50 to \$0.45 for the largest corporations. In approving the NYSE Rulemaking request based on the 2001 Committee, the SEC stated that the “commission continues to believe that ultimately market competition should determine reasonable rates and expects the NYSE to continue its ongoing review.”¹³

⁸AD HOC Corporate Committee for NYSE Proxy Fees, “A Report on the Fees Paid by Corporate Issuers to NYSE Member Organizations for the Distribution of Proxy Materials to Beneficial Owners”, October 1995, page 13.

⁹AD HOC Corporate Committee, page 18.

¹⁰Ad Hoc Corporate Committee, page 20.

¹¹Ad Hoc Corporate Committee, page 30.

¹²Ad Hoc Corporate Committee, page 32.

¹³Securities and Exchange Commission Release No. 34-456--, File No. SR-NYSE-20001-53, Section V.A.

In retrospect, while the current system works for some, it does not work for all. This contradiction of opinions can be attributed to each viewer's perspective. From the issuer's viewpoint, the lack of control, accountability, fees, expenses and delivery issues, coupled with the lack of direct access to beneficial owners, makes the process seem both complex and inefficient. Some intermediaries, when generating the beneficial shareholder-voting file, have apparently not factored into their control environment failed trades, stock loans or other short conditions. As a result, a number of requests for voting instructions are mailed to parties that should not be authorized to vote. At times, this can result in votes being discounted and the real owners unknowingly losing their voting power or, in some cases, they are ignored.

Despite all of the diverse opinions in regards to the effectiveness of the current system, two very real motivations for examining alternative distribution systems should be the rights of the Issuer, who should have open access to beneficial holders for the purposes of soliciting their votes within a cost effective, structured and competitive open market, and the rights of the beneficial shareholder. It is recognized that beneficial shareholders do not share the same voting rights as registered shareholders. Registered shareholders are also allowed easier access to shareholder meetings while access for beneficial shareholders is encumbered.

Concept Overview: Open Access & Competition

The following alternative to the current street proxy distribution system is a simple, yet comprehensive approach that addresses each of the issues defined in the preceding paragraphs. Following are list of actions suggested by this proposal:

1. Require the passing of direct voting rights from intermediaries to the rightful NOBO and not passing these rights on when stock has been loaned or is, for other reasons, not long in the customer's position.
2. Permit issuers to direct the distribution of proxies to all shareholders, registered and NOBO. Eliminate the disparate treatment of beneficial versus registered shareowners.
3. Mandate open access by issuers to NOBO shareholder information for the distribution of proxy materials and the right of all shareholders to receive proxies (as provided for by the Canadian model).
4. Utilizing the Canadian model, the mailing of proxy material to Objecting Beneficial Owners (OBOs) should be the responsibility of the broker/custodian. Issuers, although not obligated to pay the expense, may elect to do so. Like the Canadian experience, a negotiated price for broker generated data, could be achieved. Over time, competition for the Proxy Hub could evolve. Using the Canadian model will minimize the scope of change in the United States.
5. Have industry standardized formats and procedures for the electronic transmission of beneficial shareholder information to and from the Proxy Hub (also noted in the Canadian model). Joint committees comprised of brokers, custodians, issuers and transfer agents could define these and the appended operational procedures.
6. Require tabulating agents that receive the DTCC Securities Position Report ("SPR") and broker's or custodian's positions to balance to the totals in the beneficial shareholder records provided by the broker/custodian. When discrepancies occur, require the tabulating agent to report record discrepancies through the Proxy Hub to the brokers/custodians. Alternatively, the Proxy Hub could perform this record comparison and report. Joint committees could develop procedures for this reporting.
7. Issue eligibility rules for tabulators similar to those issued for transfer agents.

Operating Concepts

Provided below is an overall description of the proposed operating concepts for the Proxy Hub and the shareholder meeting process envisioned in this White Paper.

Notices of Meetings

The Proxy Hub will act as a centralized electronic processing center. It will receive the notice of annual meetings from issuers or their duly appointed tabulation agent. Such agency appointments must be in verifiable electronic format or in writing. The Proxy Hub will disseminate pending shareholder meeting notices to all brokers and custodian banks. This notice will act as an electronic "trigger", creating the impetus for brokers and custodians to provide the beneficial shareholder file. It will also allow the Hub to validate and forward the beneficial shareholder information to the appropriate tabulating agent.

Broker Quantity Notifications

The Proxy Hub will receive the estimated quantities of material notices required under the current SEC regulations. The Proxy Hub will then collect and transmit this information to the issuer's registered tabulation agent.

Beneficial Shareholder Information

The Proxy Hub will receive the beneficial shareholder information from each broker or custodian bank in a uniform format that will include the shareholder's name (surname given in a distinct field), address, number of shares, identifying numbers, such as the broker's account number, and any other required or desirable information. Joint industry committees can develop the standardized file format. Brokers and custodians must also certify the number of shares held long by OBOs if the OBO information is not to be transmitted to the Hub. This will permit file balancing as noted below.

Proxy Hub Transmissions to Tabulators

The Proxy Hub will transmit the beneficial shareholder information to the tabulating agent duly appointed by the issuer. A "one time notice" until revoked should be used to preclude issuers having to constantly update this information.

Tabulators

Tabulators will have executed a confidentiality agreement to ensure that none of the beneficial shareholder information is distributed to any party other than the issuer. Confidential voting may be performed. Tabulators will promptly and uniformly mail proxies to all shareholders. Tabulators could also potentially mail dissident's material, reducing the cost and increasing the uniformity in the distribution of material.

File Balancing

Tabulators or the Proxy Hub will also balance the beneficial shareholder share totals by participant. Industry participants must jointly define best practices in cases where the records submitted to the Hub do not balance to the position reported by DTCC. The tabulating agent's responsibilities will be defined in the event the total beneficial shareholder positions exceed those allotted by DTCC's position report. For example, the tabulating agent could report the difference through the Proxy Hub back to the participant. The tabulator could still mail proxies, not indicating the shares on the cards, and correct the positions (and votes, if already tabulated) when adjusting entries are finally received from the participant. A second option, though less desirable, would be for the tabulator to hold up the mailing of proxies to this participant's customers until the participant reconciles the overstated position.

Proxy Edge

Either ADP will continue to offer institutional voting through Proxy Edge or the Proxy Hub or tabulation agents will be required to develop similar services. Institutional record date positions must be included in the balancing process performed by the tabulating agent. Institutional holders should still be able to enjoy a single access point for voting their shares. That access point could remain Proxy Edge or another competitive system.

Suppression of Accounts

Accounts that elect not to have voting authority, such as "wrap" and "managed" accounts, should be suppressed from the process at the cost of the intermediary. These accounts are coded on the intermediary's system. Thus, the intermediary need only out sort these accounts from the transmission to the Hub. Issuers should not have to pay a fee to a third party to receive and suppress accounts that are known to the maintaining broker as disinterested parties.

Treatment of Objecting Beneficial Owners (OBOs)

Any solution may need to be sensitive to OBO confidentiality, if required. The Canadian model provides a rational compromise that permits brokers/custodians to retain distribution and tabulation responsibilities to these entities provided that the issuer is not obligated to pay the expenses related to this distribution. Issuers may elect to pay this expense. Thus far in Canada, many issuers elect to cover this expense. This arrangement is logical, permitting strict confidentiality to be maintained and holding the issuer responsible only for the expenses they can control and negotiate. The argument given in Canada was that a holder, wishing to preserve confidentiality, should pay the cost of such special service, just as a telephone subscriber pays for an unlisted phone number. The participant would have the choice of passing along these expenses to their customer or absorbing them if the issuer does not offer to absorb them. Others argue that OBOs should be eliminated and issuers have access to the identity of all shareholders. The solutions presented herein neither support nor deny this position, but do provide the flexibility to be adapted to either environment.

Contracts and Agreements

The following contractual obligations are envisioned within the operating concepts of this White Paper:

- The Proxy Hub will be assigned based upon a service term of some period.
- The Proxy Hub must be secure and enter into a confidentiality agreement. Adequate backup and data recovery procedures must be certified.
- Tabulators must provide a verifiable electronic or written signed authorization from the issuer evidencing their appointment as tabulator for the issuer. The notice could be issued in a "standing" format, until a superseding notice from the issuer is received.
- Tabulators must provide the Proxy Hub with a confidentiality agreement and limited use of information agreement.
- The Proxy Hub application software must be agreed to be stored off site and available for industry access should the Proxy Hub suffer any kind of sustained failure.
- Standardized Notice of Meeting (trigger file) and Beneficial Owner file formats would be established.

Advantages of A Proxy Hub Concept

Some of the advantages of the Proxy Hub concept are briefly described below:

- All investors get proxies and have equal rights.
- Issuers will have the right to select and use a mailing agent and tabulating agent of their choice based on service and competitive rates.
- Issuers have more open and direct control over access to their owners.
- Issuers who are responsible for the costs associated with proxy distributions will be responsible for insuring distribution occurs. They will be permitted to select the service provider and negotiate price in a freely competitive market.
- Distribution of proxy materials for each issuer can be handled more efficiently and effectively by one distribution center appointed by the issuer for both beneficial and registered shareholders. Currently, shipment of materials is often required to two locations, the agent for the registered shareholders and ADP.
- Standardized formats, transmission protocols and operating procedures will streamline the operations of all industry participants.

Disadvantages

- ♦ Additional regulations and rule changes are required.
- ♦ A transition period will be required.
- ♦ There will be some development costs of the Hub. Various organizations have expressed interest in serving in this capacity. There is an apparent willingness in commercial firms to support the development cost on the prospect of becoming the service Hub.
- ♦ Start-up of the Hub may take some period of time. The Canadian model suggests a solution to bridge this period. As an interim step, regulators may consider unbundling ADP's own data "hub" from ADP's distribution and tabulation services until such time as the Hub is readied and tested. This will, in turn, put competition on a fast track and alleviate the transition.

Expense Arguments

Larger Issues Support Smaller Companies

One argument for the status quo is that the fees paid by larger issuers support the market price charged to smaller issuers. This position must be considered suspect, given the Canadian experience. The Canadian agents received a bid from a viable competitor to be the hub processor. This firm submitted a bid of \$0.10 Canadian per beneficial shareholder transmitted for searches or tabulation *without* a "per intermediary" charge. Using this price model, a survey of the actual fees paid by smaller companies demonstrated savings between 50.4% and 74.55% over the currently cost configuration.

Current Canadian Expenses

The marketplace in Canada went through a dramatic change. The brokerage/custodial community balked at alternative vendors, permitting the legacy provider to set a price. While much lower than the preceding fees, the fees charged were still higher than the fees offered by a viable competitor. For early searches and tabulation of shareholders, smaller issuers would receive a street fee of \$0.326 per holder plus an Intermediary fee of \$15.00 (Canadian). A small issuer with 1,398 beneficial shareholders currently incurs \$2,275 in expense or \$1.63 per shareholder (U.S. Dollars). Under the Canadian pricing model, this is reduced to \$1,492.56 Canadian, or about \$1,044.00 U.S. The tabulator's charges for mailing and tabulating this population will vary from agent to agent. It is expected that competitive forces are likely to reduce this fee to around \$0.50 (U.S.) or less, saving the issuer about \$500 for a reduction of at least 32%. Savings will vary from issuer to issuer dependent upon the size of the beneficial shareholder base and the competition. In any regard, the old argument that larger issuers were subsidizing smaller issuers has already been proven to be specious. All issuers should expect reduced fees.