

**MEMORANDUM**

November 28, 2006

TO: File S7-10-05: Internet Availability of Proxy Materials

FROM: David Huntington  
Office of the Chairman

RE: **Meeting with Representatives of Automatic Data Processing, Inc.**

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On November 28, 2006, Paul Wilkinson and David Huntington met with Richard Daly, Robert Schifellite, Charles Callan, and Adam Amsterdam of ADP, and discussed the issues raised in the attached presentation.

# **Implementing the SEC's Vision for Investor Communications**

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**Enhancing Participation and Efficiency through an  
Investor Communications Technology Suite**

**November 17, 2006**



## Summary/Contents

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- The Investor Communications Technology Suite enhances corporate governance by:
  - enabling shareholders to communicate in a secure, Internet-based environment
  - providing corporate boards and management with a real-time channel for understanding shareholder views
  - enabling shareholders to communicate and initiate management change more efficiently and effectively than available today
  
- The proposed default under Notice & Access (i.e., a one-time opt-in for paper) will:
  - significantly reduce the voting participation of investors
  - raise solicitation costs to issuers
  
- The Technology Suite is an effective means to efficiently convert millions of investors to e-delivery and e-voting, without leaving any investor behind
  - significantly enhanced information experience and capabilities
  - ADP can utilize the Vote Instruction Form to capture the preferences of 90 m+ investors

# The Investor Communications Technology Suite

Secure,  
Shareholder-Only  
Chat Room

XBRL Support

e-Only Contests

Issuer Education:  
'Bed, Bath &  
Beyond' Model

Investor Mailbox

Dual Distribution

Integrated Research  
& Recommendations



## ***Efficient, One-Stop Means of Increasing Investor Participation in Electronic Distribution – Available Now***

- Electronic mailbox on banks'/brokers' online websites
- Integrated by ADP
  - All regulatory communications deposited into email-box
  - Includes transactional communications, so investors have pertinent account information in one convenient place
- Email notification alerting shareholder to new messages
- Ability to view information and take action (i.e., voting, corporate actions)
- Link to XBRL, HTML and PDF documents
- Link to secure, shareholder-only chat room

***Issuer Costs Continue to Decrease***

SEC ENCOURAGES NOMINEES TO PARTICIPATE

## **in Dual Distribution**



### ***SEC Sets Goal of Eliminating Regular Mail Without Any Loss of Investor Participation***

- Nominees have active email addresses for millions of investors who have not yet consented to e-delivery, despite 3 billion+ invitations to do so. These email addresses can be used to deliver proxy voting information electronically, in conjunction with regular mail (Dual Distribution).
- Dual Distribution provides automatic e-delivery of proxy information to investors who now receive information only by regular mail
- Dual Distribution provides a channel for enhanced, interactive information “pushed” directly to investors who do not want to search the web for it. Investors can easily “click” their consent to e-delivery, and the regular mail channel will be turned off
- Currently 45% of all mailings are eliminated, up from 18.5%, 5 years ago
- Better presentation (i.e., XBRL) will likely capture more electronic participation

## SEC Educates Issuer Community on **Lower Cost, Yet Effective Communications**



### ***Example: Bed, Bath and Beyond Model***

- Combined Annual Report/10K document
- Concise, no frills
  - No photos, straight-forward graphics, one-color glossy wrap
  - Black and white document
- Significantly lower costs for print and postage
  - Unit cost reduced from an average of \$5.95 (across all issuers) to only \$0.82 *all in for Bed, Bath and Beyond* (print and postage)

# SEC Announces Secure, Shareholder-Only **Discussion Room**



## *Improving Corporate Governance through Technology: Available in Six Months*

- The SEC's initiative of enhancing shareholder democracy through rulemaking:
  - 90 million+ investors
  - 800+ custodian banks and brokerage firms
  - 13k+ shareholder meetings each year
  - High efficiency and high voter participation
  - Conflict-free environment
- The envisioned capability would become an industry communications portal available to all 90+m beneficial shareholders

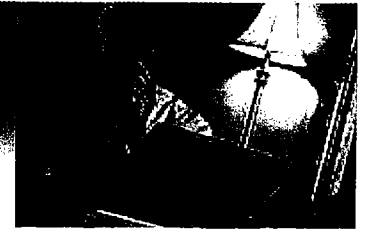
*Discussion Room Can Be Used to Launch E-Contests and  
Other Shareholder Campaigns*



# Timeline for Implementing Shareholder-Only Discussion Room

ID	Task Name	Start	Finish	Novemb	Decembe	January	Februar	March	April	May	June
1	Discussion board	Mon 12/4/06	Thu 5/31/07								
2	Business Requirements	Mon 12/4/06	Thu 12/21/06								
3	Functional Analysis and Design	Fri 12/22/06	Thu 1/11/07								
4	Technical Analysis and Design	Fri 1/12/07	Fri 2/2/07								
5	Test Strategy	Fri 1/12/07	Fri 2/2/07								
6	Build Solution	Fri 1/26/07	Fri 3/23/07								
7	Leverage and integrate into ProxyEdge and Issuer Portal	Fri 1/26/07	Fri 2/9/07								
8	Shareholder Anonymity Option	Fri 1/26/07	Fri 2/9/07								
9	Integrate Control Number Security with message board	Fri 1/26/07	Fri 2/9/07								
10	Integrate beneficial share authority with Postings	Fri 2/9/07	Fri 2/23/07								
11	Integrate and Customize Message Board by Meeting	Fri 2/9/07	Fri 2/23/07								
12	Automate and integrate message board template based on meeting proposal categories	Fri 2/9/07	Fri 2/23/07								
13	Provide aggregate share influence through control number roll-up	Fri 2/9/07	Fri 3/2/07								
14	Integrate all meetings for a shareholder under one account id	Fri 2/9/07	Fri 3/2/07								
15	Automate message board profiles based on proxy shareholder information	Fri 2/9/07	Fri 3/2/07								
16	Integrate custom posting reporting into existing report suite	Fri 2/9/07	Thu 3/15/07								
17	Integrate notification and event escalation of postings	Fri 2/9/07	Thu 3/15/07								
18	Integrated Available Bulletin Board Administration	Fri 2/9/07	Thu 3/15/07								
19	Automated email notification for new postings	Mon 2/26/07	Fri 3/23/07								
20	Integrate into multi-lingual community	Mon 2/26/07	Fri 3/23/07								
21	Operational Readiness Test	Thu 3/1/07	Fri 4/13/07								
22	QA and UAT	Thu 3/1/07	Thu 5/3/07								
23	Pilot with Issuer, Institution and Bank/Broker communities	Mon 4/16/07	Thu 5/3/07								
24	Deploy Solution	Fri 5/4/07	Fri 5/4/07								
25	Post implementation Review	Mon 5/7/07	Thu 5/31/07								

## SEC Supports e-Only Contests



### ***A Solution to 'Shareholder Access to the Proxy' that Will Evolve into an Even More Powerful Tool as Investor Participation Increases***

- Availability
  - ProxyEdge (e-delivery to over 55% of shares) exists today
  - e-Delivery of contests can be implemented within two months
- Technology (in place now)
  - ProxyEdge (Institutional investors)
  - InvestorDelivery.com (Individual investors)
  - Investor Mailbox (Both)
- Features
  - e-Delivery today to approximately 60% of the street shares of Fortune 500 companies
  - Access to research (available now)
  - Link to XBRL for Notice & Proxy Statement (taxonomy availability in six months)

## SEC's Initiative Enables XBRL for Notice and Proxy Statements



### *Improved View and Analysis of Data Leading to Increased Shareholder Participation: Available in Six Months*

**In a position to innovate and execute by May, 2007**

- ADP VP, New Product Development, a member of XBRL-US Steering Committee
- Sample template in development

**Committed to developing a “Qualitatively Improved” Information Experience for  
investors**

- Taxonomy for Notice & Proxy Statement
- Initial estimate from PWC. Discussions with visualization and tools firms.  
Commitment from research firm to code proposals
- Work collaboratively with all interested parties
- Notice & Proxy Statement template development for ease of use; conversion by  
ADP

## Research and Recommendations Linked to Proxy Voting

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### *SEC Encourages Research Firms to Make Information More Broadly Available to All Investors*

- ADP currently provides links from ProxyEdge to many research providers
- Facilitated informed voting and participation, and ease of participation
- e-Only contest capabilities are enhanced when more investors have access to research

# The Technology Suite Supports the SEC's Vision and Addresses Today's Needs



## Distribution Enhancements

- Investor Mailbox
- Dual Distribution
- Best Practices (e.g., Bed, Bath and Beyond)



The right answer to “e-Proxy” without the unintended consequences to investor participation: provides greater cost savings to issuers and greater voting participation -- with no shareholder left behind.

## Corporate Governance Improvements

- Secure, shareholder-only chat room



A solution to “shareholder access to the proxy” - provides enhanced, real-time communications, and an environment that improves with increasing participation.

- e-Only Contests



Reduces costs for opposition groups

## Enhanced Tools

- XBRL Financial Statements
- XBRL Notice and Proxy Statement
- Integrated Research and Recommendations



Better presentation, better information “pushed” to investors, along with tools to analyze and vote -- results in greater, more-informed participation. Enhances the value proposition for e-participation.

## Changing the Default to a One-Time Opt-In for Paper Will Reduce Participation

### Key findings of three, separately conducted surveys:

	Forrester (+/- 2.5%)	NYSE (+/- 4%)	AARP
% of Investors Who Do Not Participate	13% "Never Look" (p.18)	7% "Throw Out Without Opening" (p.15)	(not surveyed)*
% of Investors Who Vote	67% "Some," "Most," or "All" of the Time (p. 11)	73% "Sometimes", "Always" (p.15)	61% "Voted in Past 2 Years" (p. 24)

### Notice & Access (e-Proxy) will disenfranchise over 1/3 of all voters.

	Forrester	NYSE (+/- 2.5%)	AARP
% of Investors Saying Notice & Access Will Make Them Less Likely to Vote	38% "Less Likely," or "Not at All" (p. 39)	(not surveyed)	33% "Less Likely" (p.48)

Sources: ADP-commissioned Forester Telephone Survey, 1/06, and AARP-commissioned Woelfel Research Survey, 2/06, are filed as comments to the proposed rules on Internet Availability of Proxy Materials. NYSE-commissioned Opinion Research Survey, 4/06, as per Proxy Working Group.

\*AARP survey (p. 23) tests awareness that mailed material contains request to vote: 83% are *Aware*, 16% are *Not Aware*. Includes equity and fund investors.

## **A One-time Opt-In for Paper Does Not Solve the Participation Problem Because the Default for No Action Is *No Information***

**Research on *defaults* indicates that opt-in rates are low, opt-out rates are low, and that few people take action when a default is changed, *even when it is in their economic interest to do so.***

- Broad range of programs and experience: 401(k) participation, insurance adoption rates, rebate program redemption rates, do not call registry, and others
- Conclusion: changes in defaults can result in unintended consequences

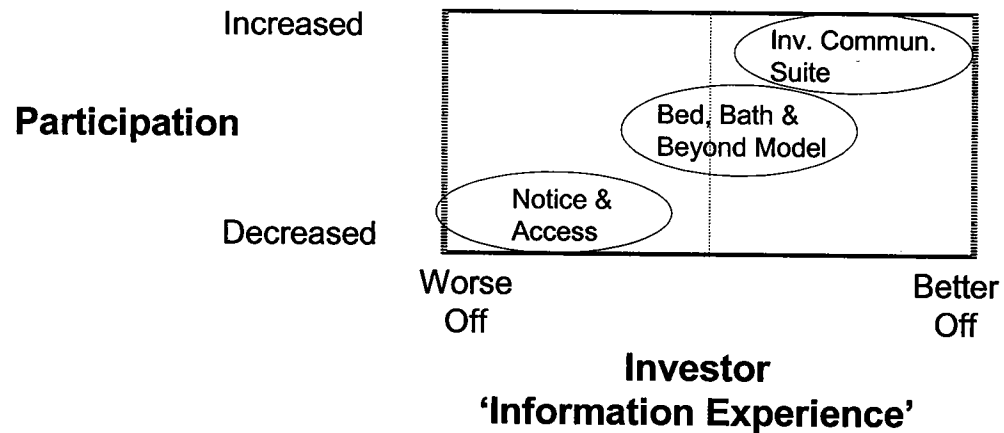
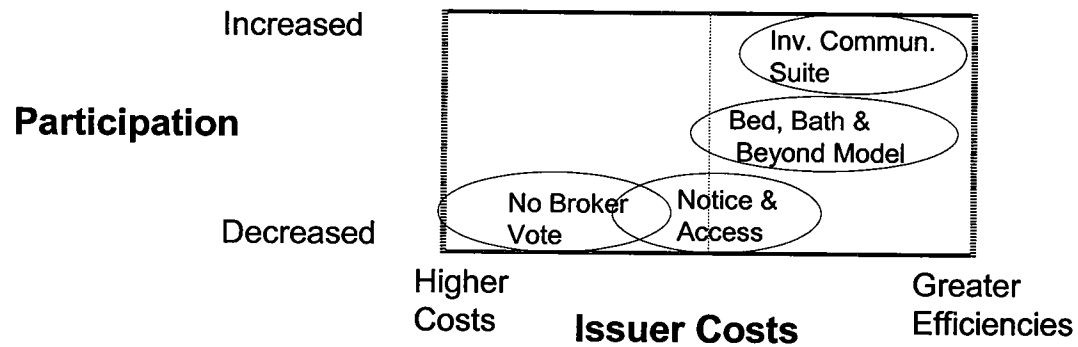
**Research on Notice & Access points to participation problems with opting-in for paper or going to a website to view information online:**

- Among Voters: 65% say they are less likely to take steps to get information
- Among Investors Who Receive Info by Mail:
  - 49% say they are unlikely to go to a website to view the information.
  - 64% say they are unlikely to request paper copies. (Forrester)
  - 39% say they will be less likely to read it. (AARP)

**Increasing the level of 'e-participation' requires more than making it harder for investors to access printed information. Since e-delivery of proxy materials has been an option, over 2.5 million of those who opted-in subsequently opted-out. The Technology Suite provides an enhanced value proposition.**

# Investor Communications Suite

## Participation *and* Efficiency





# **SEC Rulemaking - Choices for Investors**

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Investors have a number of choices today for information delivery and voting:

- Can opt-in for Internet delivery
- Can opt-in for ProxyEdge
- Can utilize regular mail
- Can utilize telephone voting on a 24x7 basis
- Can utilize internet voting on a 24x7 basis
- Can household mailings to the same address

*Notice & Access can be added as a new option (opt-in)  
for investors*