

## MEMORANDUM

**To:** File No. S7-10-05: Internet Availability of Proxy Materials (Proposed Rule)

**From:** Jonathan Block, Counsel to Commissioner Campos

**Date:** December 13, 2006

**Re:** Meeting with Representatives from Automatic Data Processing (ADP)

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On December 8, 2006, Richard Daly, Bob Schifellite and Chuck Callan of ADP, as well as Keir Gumbs of Covington & Burling, met with Commissioner Campos and his legal counsel Jonathan Block and discussed their comment letters on this proposal as well as the attached material that they provided, entitled "Implementing the SEC's Vision for Investor Communications."

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

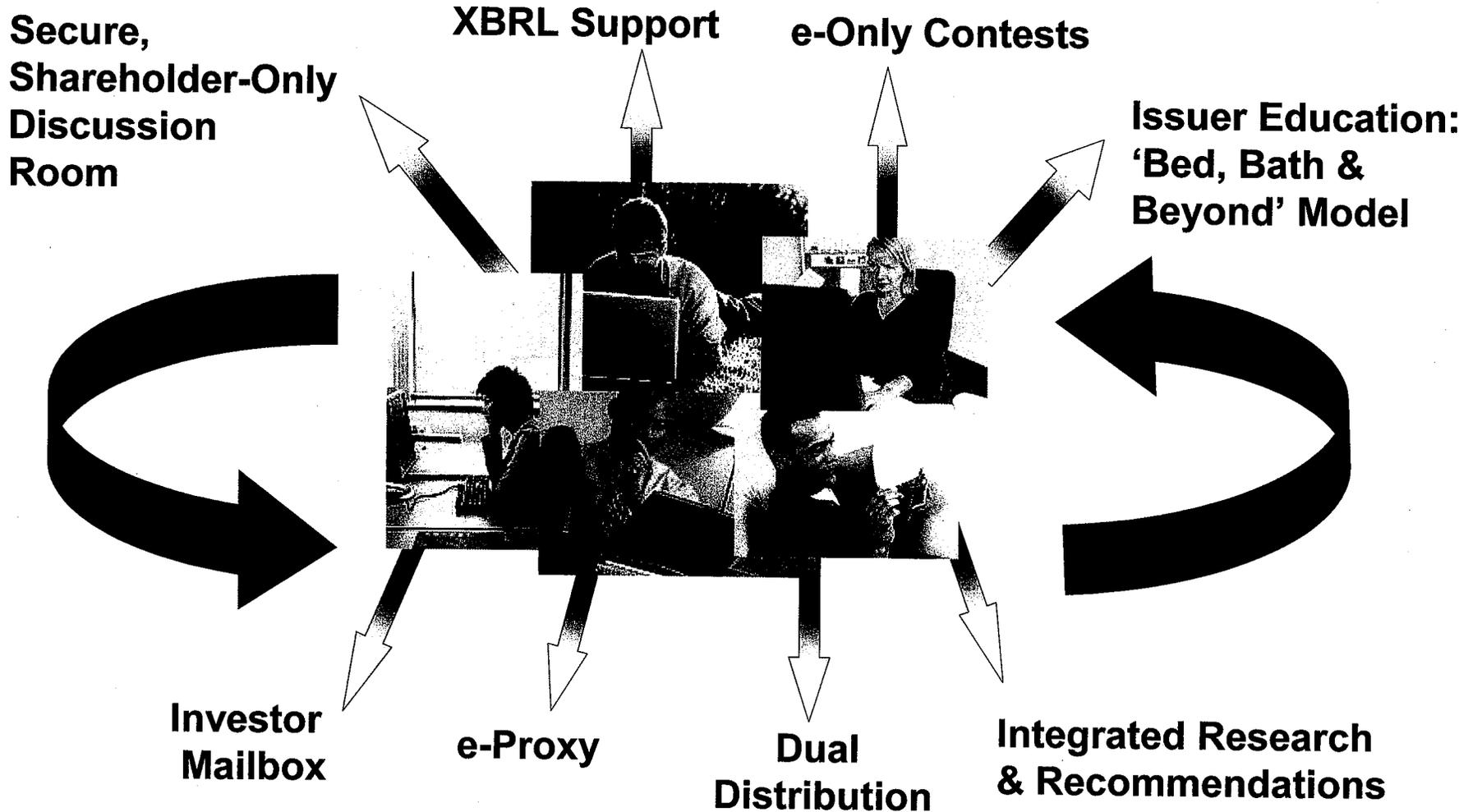
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**Enhancing Participation *and* Efficiency through an  
Investor Communications Technology Suite**

**December 7, 2006**



# Implementing the SEC's Vision: The Investor Communications Technology Suite



# Overview of Investor Communications Technology Suite Offerings

## Shareholder-Only Discussion Room

- The envisioned capability would become an industry communications portal available to all 90m+ beneficial shareholders
- Conflict-free, secure environment

## Dual Distribution

- Provides automatic e-delivery of proxy information to investors who now receive information by regular mail
- E-mail address obtained from brokers
- Investors can easily “click” their consent to e-delivery, and the regular mail channel will be turned off

## Investor Mailbox

- Electronic mailbox on banks/brokers online websites
- E-mail notification alerting shareholders to take actions (i.e. voting, corporate actions)

## Best Practices (e.g. Bed, Bath and Beyond)

- Concise, no frills document
- Lower costs for print and postage (\$5+ reduced to \$.82)

## E-proxy

- Additional choice for investors opting-in for Notice & Access model
- Facilitated through ADP’s voting instruction form
- Investors always have option to opt-in

## E-Only Contests

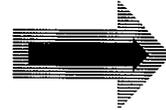
- e-Delivery today to approximately 60% of the street shares of Fortune 500 companies

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



## Distribution Enhancements

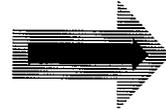
- Investor Mailbox
- Dual Distribution
- e-Proxy offered as a choice for *investors*
- Best Practices (e.g., Bed, Bath and Beyond)



The right solution to e-Proxy: greater cost savings *and* greater e-participation -- with no shareholder left behind.

## Corporate Governance Improvements

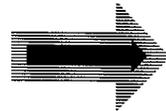
- Secure, Shareholders-only Discussion Room
- e-Only Contests



A solution to “shareholder access to the proxy.” Enhanced, real-time communications in an environment that improves with increasing participation. Lower costs for opposition.

## 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.

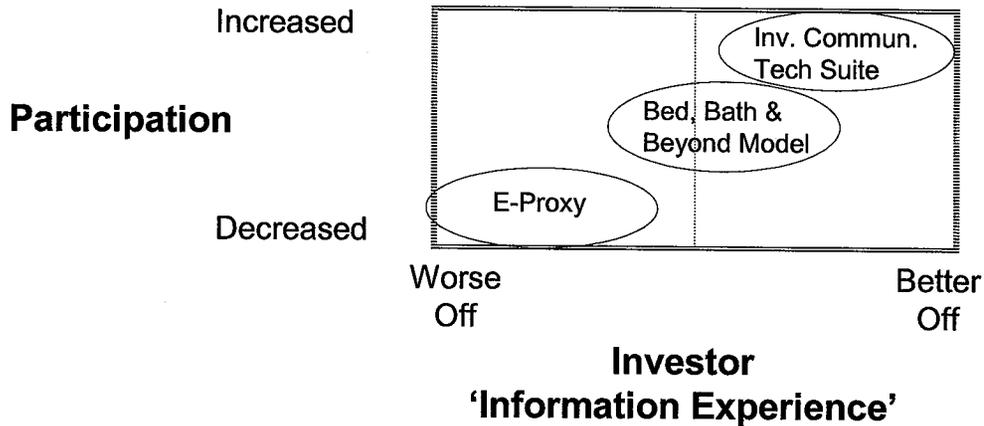
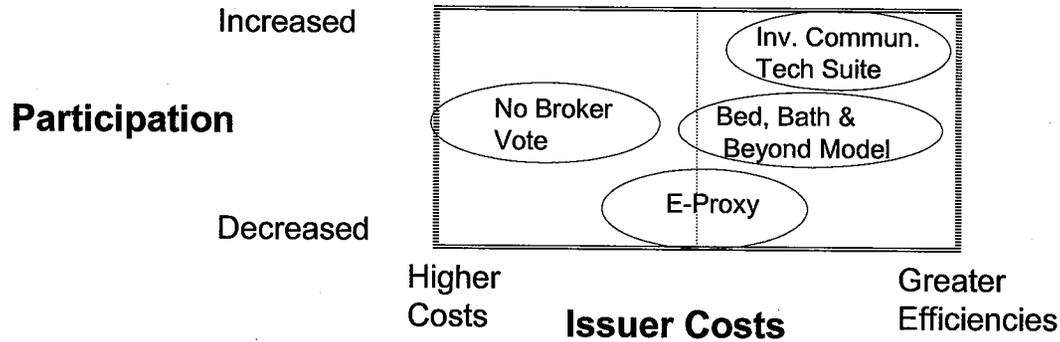
# Changing the Default Reduces Participation by at Least One-Third

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

	<b>Forrester (+/- 2.5%)</b>	<b>NYSE (+/- 4%)</b>	<b>AARP</b>
<b>% of Investors Who Do Not Participate</b>	13% “Never Look” (p.18)	7% “Throw Out Without Opening” (p.15)	(not surveyed)*
<b>% of Investors Who Vote</b>	67% “Some,” “Most,” or “All” of the Time (p. 11)	73% “Sometimes”, “Always” (p.15)	61% “Voted in Past 2 Years” (p. 24)
<b>% of Investors Saying e-Proxy Will Make Them Less Likely to Vote</b>	38% “Less Likely,” or “Not at All” (p. 39)	(not surveyed)	33% “Less Likely” (p.48)

Sources: ADP-commissioned Forrester Telephone Survey (1/06) and AARP-commissioned Woelful 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 >25 years old.

# Tradeoffs: Participation *and* Efficiency



# Discussion of Costs-Benefits Comparison of Alternatives

Method	Investor Participation	Impact on Issuers
e-Proxy	35-40% decrease in voting by individuals	Costs could <i>increase</i> by \$181m or <i>decrease</i> by \$205m <sup>(1)</sup> (Lexecon)
Bed, Bath & Beyond Model	No impact	\$797m in CY05 (all issuers)
Technology Suite:  - Dual Distribution/Investor Mailbox  - Shareholder Opt-In of e-Proxy	Same or better	<p>\$13.5m savings for each percentage point increase in suppression and/or e-Proxy selection.</p> <p>Dual distribution is expected to drive suppression rate up an additional 15-25 percentage points resulting in a savings of \$202m to \$337.5m.</p> <p>Expected opt-in rates of approximately 5% for e-Proxy will contribute an additional \$67.5m in savings.</p>

<sup>(1)</sup> The e-Proxy proposal transfers costs from issuers to shareholders approximating \$7.95 per proxy package printed.

# Discussion of Costs-Benefits

## e-Proxy Could Lead to Higher Costs

- The SEC requested analysis of costs-benefits.
- Lexecon, Inc. was commissioned. Findings:
  - Actual cost savings would be significantly less than estimated by the SEC.
    - Range of savings: +\$205m to (-)\$181m.
    - No impact on *fixed costs*, e.g., financial filing preparation
  - Could result in higher costs to issuers.
    - *Unit costs* would be significantly higher for on-demand fulfillment (six times greater today).
  - Costs are shifted to investors -- at a higher unit rate.
    - \$7.95 per proxy printed
- Lexecon's conclusion: "The proposed rule leads to cost savings precisely when enough shareholders are discouraged from participating in the process in this way."
- Note: Lexecon's analysis did not estimate the potential for higher downstream solicitation costs. It did not estimate the impact of uncertainty on the potential benefits.

## The Technology Suite Generates High, Measurable Savings

- If all issuers had utilized the *Bed, Bath & Beyond* model, the savings in CY05 would have exceeded \$797 million.
- In the 2006 proxy season, 45% of all regular mailings were eliminated (up from 4% in 1996).
- We estimate *Dual Distribution* alone could increase the suppression rate to 60%-70% of all regular mailings. Each percentage point increase in e-delivery is worth \$13.5 million to the issuer community.

Note: Concerns about e-Proxy's higher costs to small- mid-cap issuers – refer to comment letter of the American Business Conference.

## SEC Rulemaking - Choices for Investors

***Notice & Access can be added as a new option (opt-in) for investors on a pilot basis. Every issuer is provided with a Report Card on investor participation and process efficiencies.***

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

- Can opt-in for Internet delivery (ProxyVote.com)
- Can opt-in to the Investor Mailbox, if offered by their broker
- 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

***HEADLINE: SEC Leadership Expands Notice & Access Proposal Through a Technology Suite Offering which includes the Shareholder-Only Discussion Room and Various e-Proxy Options; Issuer Costs are Reduced and No Investors are Left Behind***