

# Securities Transfer Association White Paper: Estimated Cost Savings of a Market-Based Proxy Distribution Model

## **I. Introduction**

The Securities Transfer Association, (“STA”), is an industry trade association, established in 1911, comprising transfer agents that provide services to over 12,000 large and small public companies in the United States. The STA and its members work closely with issuers of securities on a variety of public policy matters and have been active for many years in advocating for a fair and efficient system for proxy distribution and communications. Because of its influence on corporate governance matters, the proxy processing system is extremely important to the operation of the capital markets in the United States.

At present, many shareholders in the U. S. hold their securities in “street name” in brokerage accounts, rather than holding shares in their own name as a registered owner on the records of the issuer’s transfer agent. There is currently one major provider that distributes annual meeting proxy materials to these beneficial owners, Broadridge Financial Services (“Broadridge”), while transfer agents generally distribute proxy materials to the registered shareholders listed on their records.

The fees that issuers must pay to brokers for the distribution of these materials to street name holders have been approved by the New York Stock Exchange (“NYSE”), but have not been re-evaluated by the NYSE for almost a decade. The STA believes that there is an opportunity to offer greater efficiency and savings to issuers through the introduction of free market competition in the delivery of proxy distribution and communications services. For this reason, the STA has undertaken a survey of its members to determine if less costly services could be provided to issuers with the introduction of this type of competitive model.

## **II. The STA Proxy Fee Survey**

This STA survey was based upon a proposal by the Shareholder Communications Coalition.<sup>1</sup> Under the proposal developed by the Coalition, the current proxy functions of beneficial owner list compilation and proxy distribution would be separated, providing issuers with the opportunity to select a proxy distributor of their own choosing. Once a beneficial owner list is obtained from a central intermediary, issuers and their agents would be responsible for transmitting the proxy statement and proxy forms to all shareholders, including beneficial owners. The prices for proxy distribution and communications services would be established by free market competition among service providers handling these functions, in the same manner as service providers are selected for proxy services involving registered shareholders.

The results of the STA survey demonstrate significant cost savings to issuers of between 20.52% and 71.62%, in comparison to actual Broadridge invoices provided by three issuers. The

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<sup>1</sup> See Shareholder Communications Coalition, Public Issuer Proxy Voting: Empowering Individual Investors and Encouraging Open Shareholder Communications, August 4, 2009, available at <http://www.shareholdercoalition.com/CoalitionDiscussionDraftAug2009.pdf>.

amount of cost savings in each example depended on the size of the issuer, the number of beneficial owner positions, and whether the notice and access method was utilized.

### **III. The Methodology of the STA Survey**

The survey was conducted with the largest transfer agent members of the STA. The six firms participating in the survey account for more than 90% of transfer agent services provided to issuers for registered accounts.

In completing each survey, the participating STA members used the account position volumes from actual Broadridge invoices that were provided to them by three different issuers for this purpose. All information about each issuer was removed from each invoice before it was distributed for comparison; only the processing volumes and Broadridge charges remained. The account positions on the invoices were approximately 6,000, 48,000, and 88,000 respectively.<sup>2</sup> The transfer agents were asked to determine what their own organization would charge to distribute materials to that number of accounts, using the rate cards they currently use for registered accounts. Their comparison conclusions were separately forwarded to the STA, where an average of the six responses was computed.

In developing the invoice data for this survey, postage and sales tax were not considered. In addition, the agents were asked to assume that the services of a data aggregator, or “Hub,” would be needed to: (a) retrieve the necessary beneficial owner data from the brokers and banks, and (b) provide this data to the issuers and their transfer agents.<sup>3</sup> In order to ensure a true and accurate comparison between beneficial and registered costs, an estimated data aggregation fee from a central intermediary was also added to the transfer agent price quotes. For the purposes of this survey, the STA assumed a cost of 5 cents per position for this data aggregation service, a fee that represents the high end of the data processing market.<sup>4</sup>

### **IV. The STA Survey Results**

After computing the averages of the estimates provided to the STA by each of the six transfer agents, the STA has determined that issuers could realize substantial cost savings in providing beneficial owners with annual meeting materials, if the charges could be established

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<sup>2</sup> The exact position numbers for each issuer will not be disclosed to protect the anonymity of the three issuers cooperating with the STA on this study.

<sup>3</sup> This process is more fully described in a policy paper issued by the Shareholder Communications Coalition on August 4, 2009. See *supra* footnote 1.

<sup>4</sup> This 5-cent per position number is very similar to the NYSE fee of \$0.065 for obtaining a Non-Objecting Beneficial Owner (“NOBO”) name, address, and share position. This estimated fee of 5 cents per position also resembles the fee structure used by the National Securities Clearing Corporation (“NSCC”) for exchanging account information between broker-dealers and mutual funds. When this NSCC service began in 1989, the fee for each beneficial owner position or record was approximately 6 cents. As a result of the NSCC’s “at-cost” structure, this fee has been lowered substantially, as a result of technological developments and other factors over the past 20 years. The fee for exchanging similar account information between broker-dealers and mutual funds is now 10 cents for 100 records, or \$0.001 for each beneficial owner position. See Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Revise Fee Schedule, Exchange Act Release No. 34-61413, 75 Fed. Reg. 4,894 (Jan. 29, 2010).

through free market competition, instead of through a fee schedule established by regulators. The following table summarizes these estimated cost savings for different types of issuers:

**Cost Savings for Issuers at Three Levels of Beneficial Ownership**

<u>Issuer Beneficial Positions</u>	<u>Broadridge Invoice (\$)</u>	<u>Transfer Agent Estimate (\$)</u>	<u>Cost Savings (\$)</u>	<u>Cost Savings (%)</u>
6,000	\$10,100	\$8,027	\$2,073	+20.52%
48,000	\$50,000	\$14,192	\$35,808	+71.62%
88,000	\$100,000	\$40,434	\$59,566	+59.57%

What follows is a more detailed discussion about each invoice and the nature of the cost savings achieved through the results of this survey.

**A. STA Cost Comparison for Proxy Distribution Involving 6,000 Beneficial Owners**

The first STA cost comparison was for an annual meeting in 2009 involving approximately 6,000 beneficial owners. This issuer used the notice and access format. Excluding postage and sales tax, the Broadridge invoice totaled slightly more than \$10,000, itemized in the following manner:

**Broadridge Invoice—6,000 Beneficial Owner Positions**

Processing Fee for 6,000 Positions (@ \$0.50/position)	\$3,000
Paper and Postage Elimination Fee for 3,000 Positions (@ \$0.40/position)	\$1,200
Intermediary Nominee Coordinating Fee for 120 Nominees (@ \$20.00/nominee)	\$2,400
Notice and Access Processing Fee for 6,000 Positions (@ \$0.25/position)	\$1,500
Envelopes and Forms	\$200
Other Charges	\$1,800
<b>TOTAL INVOICE (excluding postage/sales tax)</b>	<b>\$10,100<sup>5</sup></b>

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<sup>5</sup> This amount is not the exact amount on the actual invoice to protect the anonymity of the issuer cooperating with the STA in providing it with a copy of this Broadridge invoice.

The six transfer agents participating in the survey responded that they provide these same services for registered holders at an average cost to the issuer of \$7,727. Adding in the estimated data aggregation cost of \$300,<sup>6</sup> raises the total average cost to \$8,027, providing savings of more than \$2,000, or 20.52%, over the Broadridge invoice.

The differences in pricing between this Broadridge invoice and the transfer agent survey results for this particular invoice appear in at least 3 places:

- Processing Fees. First, Broadridge charged a \$0.50 processing fee, based on the NYSE-approved fee schedule. All of the participating transfer agents charge a smaller fee than this NYSE-approved fee for similar services, resulting in a lower cost to issuers in this category. The processing fee charged by Broadridge by definition includes costs for print communication services and it appears that Broadridge does not reduce this fee for positions that do not require paper communications services.
- Suppression Fees. Second, Broadridge charged a \$0.40 per position fee for suppressing certain beneficial owner positions, such as for householding, e-delivery, and managed accounts. As noted in the SEC Concept Release on the U.S. Proxy System, Broadridge charges a recurring fee for suppressing a mailing after the year in which a shareholder makes an election for e-delivery, even though the only continuing role for a data processor is to ensure that the shareholder did not change his or her election.<sup>7</sup> In addition, Broadridge charged this issuer a suppression fee for more than 1,500 managed accounts, which are accounts not receiving proxy materials because the investor has delegated investment and voting responsibilities to a third-party investment adviser.<sup>8</sup> In the STA survey, the average transfer agent charge for all suppressed fees was substantially smaller, reflecting the fact that the transfer agents do not apply these fees in the same manner as Broadridge. Similar to the processing fee noted above, these fees have a print communications component to them and it appears that Broadridge does not reduce these fees for positions that do not require any print communications services.
- Nominee Coordination Fees. Third, Broadridge charged a nominee coordination fee of \$20 per nominee. With an estimated number of 120 nominees involved in this annual meeting, this charge increased the invoice cost by \$2,400. This cost would not typically be charged by any of the transfer agents and, under the market-based model advocated by the STA, should be included in the 5-cent per position data aggregation fee.

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<sup>6</sup> This calculation is derived by multiplying 6,000 positions by the \$0.05 data aggregation fee estimated by STA.

<sup>7</sup> See Concept Release on the U.S. Proxy System, Securities and Exchange Commission, 75 Fed. Reg. 42, 982, at 42,997.

<sup>8</sup> In the case of this particular invoice, Broadridge charged a suppression fee for more than 1,500 managed accounts, increasing the invoice cost to this issuer by at least \$600 (1,500 accounts @ \$0.40/account).

## B. STA Cost Comparison for Proxy Distribution Involving 48,000 Beneficial Owners

The second STA cost comparison was for an annual meeting in 2010 involving approximately 48,000 beneficial owners. This issuer did not use the notice and access format. Excluding postage and sales tax, the Broadridge invoice totaled about \$50,000, itemized in the following manner:

### **Broadridge Invoice—48,000 Beneficial Owner Positions**

Processing Fee for 48,000 Positions (@ \$0.50/position)	\$24,000
Paper and Postage Elimination Fee for 39,000 Positions (@ \$0.50/position)	\$19,500
Intermediary Nominee Coordinating Fee for 250 Nominees (@ \$20.00/nominee)	\$5,000
Envelopes and Forms	\$1,000
Other Charges	\$500
TOTAL INVOICE (excluding postage/sales tax)	\$50,000 <sup>9</sup>

The six transfer agents participating in the survey responded that they provide these same services for registered holders at an average cost to the issuer of \$11,792, with the highest priced transfer agent providing a price quote of between \$16,000 and \$17,000. Adding in the estimated data aggregation cost of \$2,400,<sup>10</sup> raises the total average cost to \$14,192, providing savings of more than \$35,000, or 71.62%, over the Broadridge invoice. Remarkably, even the most expensive transfer agent estimate would charge only approximately \$19,000, including the data aggregation fee, resulting in savings of \$31,000, or 62%, over the Broadridge invoice.

The differences in pricing between this Broadridge invoice and the transfer agent survey results for the invoice are generally the same as in the earlier example:

- Processing Fees. First, Broadridge charged a \$0.50 processing fee to this issuer, based on the NYSE-approved fee schedule. Similar to the survey results regarding 6,000 beneficial owner positions, all of the transfer agents charge a significantly smaller fee than the NYSE-approved fee, resulting in a lower cost to issuers in this category. And, as noted before, this processing fee does not appear to have been reduced for positions requiring no paper communications services.
- Suppression Fees. Second, Broadridge charged a \$0.50 per position fee for suppressing certain beneficial owner positions, such as for householding, e-delivery,

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<sup>9</sup> This amount is not the exact amount on the actual invoice to protect the anonymity of the issuer cooperating with the STA in providing it with a copy of this Broadridge invoice.

<sup>10</sup> This calculation is derived by multiplying 48,000 positions by the \$0.05 data aggregation fee estimated by STA.

and managed accounts. As noted above, Broadridge charges a recurring fee for suppressing a mailing after the year in which a shareholder made the election, even though the only continuing role for a data processor is to ensure that the shareholder did not change his or her election.<sup>11</sup> In addition, Broadridge charged this issuer a suppression fee for more than 30,000 managed accounts, which are accounts not receiving proxy materials because the investor has delegated investment and voting responsibilities to a third-party investment adviser.<sup>12</sup> In the STA survey, the average transfer agent charge for suppressed fees was substantially smaller, reflecting the fact that the transfer agents do not apply these fees in the same manner as Broadridge.

- Nominee Coordination Fees. Third, Broadridge charged a nominee coordination fee of \$20 per nominee. With an estimated number of 250 nominees involved in this annual meeting, this charge increased the invoice cost by \$5,000. This cost would not typically be charged by any of the transfer agents and, under the market-based model advocated by the STA, should be included in the 5-cent per position data aggregation fee.

C. STA Cost Comparison for Proxy Distribution Involving 88,000 Beneficial Owners

The third STA cost comparison was for an annual meeting in 2009 involving approximately 88,000 beneficial owners. This issuer used the notice and access format. Excluding postage and sales tax, the Broadridge invoice totaled about \$100,000, itemized in the following manner:

**Broadridge Invoice—88,000 Beneficial Owner Positions**

Processing Fee for 88,000 Positions (@ \$0.50/position)	\$44,000
Paper and Postage Elimination Fee for 65,000 Positions (@ \$0.40/position)	\$26,000
Intermediary Nominee Coordinating Fee for 300 Nominees (@ \$20.00/nominee)	\$6,000
Notice and Access Processing Fee (@0.25 and 0.20)	\$18,000
Bulk Processing Fee	\$500
Envelopes and Forms	\$1,400
Other Charges	\$5,500

<sup>11</sup> See Concept Release on the U.S. Proxy System, Securities and Exchange Commission, 75 Fed. Reg. 42, 982, at 42,997.

<sup>12</sup> In the case of this particular invoice, Broadridge charged a suppression fee for approximately 30,000 managed accounts, increasing the invoice cost to this issuer by at least \$15,000 (30,000 accounts @ \$0.50/account).

TOTAL INVOICE (excluding postage/sales tax)

\$100,000<sup>13</sup>

The six transfer agents participating in the survey responded that they provide these same services for registered holders at an average cost to the issuer of \$36,034, with the highest priced transfer agent price quote being between \$50,000 and \$60,000. Adding in the estimated data aggregation cost of \$4,400,<sup>14</sup> raises the total average cost to \$40,434, providing savings of more than \$59,000, or 59.57%, over the Broadridge invoice. If one assumes that the most expensive transfer agent quote would result in a charge of approximately \$55,000, including the data aggregation fee, this estimate results in a savings of \$45,000, or 45%, over the Broadridge invoice.

The differences in pricing between the Broadridge invoice and the transfer agent survey results for this particular invoice are generally the same as in the earlier two examples:

- Processing Fees. First, Broadridge charged a \$0.50 processing fee, based on the NYSE-approved fee schedule. Similar to the survey results above, all of the transfer agents charge a significantly smaller fee than the NYSE-approved fee, providing cost savings to issuers in this category. Again, as noted above, Broadridge does not appear to be reducing this fee for positions which do not require print communications services.
- Suppression Fees. Second, Broadridge charged a \$0.40 per position fee for suppressing certain beneficial owner positions, such as for householding, e-delivery, and managed accounts. As noted above, Broadridge charges a recurring fee for suppressing a mailing after the year in which a shareholder made the election, even though the only continuing role for Broadridge is to ensure that the shareholder did not change his or her election.<sup>15</sup> In addition, Broadridge charged a suppression fee to this issuer for more than 50,000 managed accounts, which are accounts not receiving proxy materials because the investor has delegated investment and voting responsibilities to a third-party investment adviser.<sup>16</sup> In the STA survey, the average transfer agent charge for suppressed fees was substantially smaller, reflecting the fact that the transfer agents would not be applying these fees in the same manner as Broadridge.
- Nominee Coordination Fees. Third, Broadridge charged a nominee coordination fee of \$20 per nominee. With an estimated number of 300 nominees involved in this annual meeting, this charge increased the invoice cost by \$6,000. This cost would not typically be charged by any of the transfer agents and, under the market-based model

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<sup>13</sup> This amount is not the exact amount on the actual invoice to protect the anonymity of the issuer cooperating with the STA in providing it with a copy of this Broadridge invoice.

<sup>14</sup> This calculation is derived by multiplying 88,000 positions by the \$0.05 data aggregation fee estimated by STA.

<sup>15</sup> See Concept Release on the U.S. Proxy System, Securities and Exchange Commission, 75 Fed. Reg. 42, 982, at 42,997.

<sup>16</sup> In the case of this particular invoice, Broadridge charged a suppression fee for approximately 50,000 managed accounts, increasing the invoice cost to this issuer by at least \$20,000 (50,000 accounts @ \$0.40/account).

advocated by the STA, should be included in the 5-cent per position data aggregation fee.

#### D. Additional Cost Comparisons

Using the data obtained through this survey and the STA's knowledge about Broadridge's invoice policies for issuers with larger numbers of beneficial owner positions than those examined in this survey, it is possible to extrapolate estimates of the potential cost savings to issuers with more than 200,000 beneficial owner positions, using an average of the rate cards for services to registered owners provided by the participating transfer agents.

For example, the STA estimates that a large issuer with 230,000 beneficial owner positions, using the notice and access format, would pay approximately \$200,000 in fees to Broadridge for its annual meeting. Applying the average transfer agent pricing to this hypothetical Broadridge invoice would result in an average invoice of \$94,300, excluding postage and sales tax.<sup>17</sup> Adding in the estimated data aggregation cost of \$11,500,<sup>18</sup> raises the total average cost to \$105,800, providing savings of \$94,200, or 47.10%, over the Broadridge invoice.

In a second example, the STA evaluated the fees for a very large issuer with 2 million beneficial owner positions, not using the notice and access format. The STA estimates that this issuer would receive an invoice from Broadridge for approximately \$1,300,000 for its annual meeting. Applying the average transfer agent pricing to this hypothetical Broadridge invoice would result in an average invoice of \$500,000, excluding postage and sales tax.<sup>19</sup> Adding in the estimated data aggregation cost of \$100,000,<sup>20</sup> raises the total average cost to \$600,000, providing savings of \$700,000, or 53.84%, over the Broadridge invoice.

### V. Conclusion

This STA survey demonstrates that a market-based model can result in significant cost savings to both large and small issuers in the delivery of proxy distribution services. A comparison of several different Broadridge invoices to the rate cards for six different transfer agents for services involving registered holders results in savings to issuers of between 20.52% and 71.62%. In most instances, these savings are also significant when the Broadridge invoice is compared to the most expensive transfer agent pricing in the survey results. Further, these savings can be extrapolated for large issuers with more than 200,000 beneficial owner positions.

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<sup>17</sup> This calculation was derived by dividing the average transfer agent cost of \$36,034 for registered positions by 88,000 beneficial positions for this issuer using a notice and access format. This calculation results in a unit cost of \$0.41, which was multiplied by 230,000 beneficial positions to derive the estimated invoice amount.

<sup>18</sup> This calculation is derived by multiplying 230,000 positions by the \$0.05 data aggregation fee estimated by STA.

<sup>19</sup> This calculation was derived by dividing the average transfer agent cost of \$11,792 for registered positions by 48,000 beneficial positions for this issuer not using a notice and access format. This calculation results in a unit cost of \$0.25, which was multiplied by 2,000,000 beneficial positions to derive the estimated invoice amount.

<sup>20</sup> This calculation is derived by multiplying 2,000,000 positions by the \$0.05 data aggregation fee estimated by STA.

It appears that the primary differences between the registered and beneficial rates for proxy processing are attributable to both the size and the type of fees charged by Broadridge. Several of these fees were originally designed to have a print communications component to them and Broadridge does not appear to be reducing these fees for positions which do not require any print communications services. In the STA survey, the transfer agent print communications charges were consistently less than what Broadridge charged issuers in these three actual invoices.

There also is a practice of charging issuers suppression fees for managed accounts, which are accounts in which no proxy materials are to be sent to the beneficial owner level because of a delegation of investment authority to a third-party adviser.<sup>21</sup>

Finally, there are other fees and charges that would not be necessary for issuers to pay—such as a nominee coordination fee—if the proxy processing system were changed to one in which pricing was established by competitive market forces.

October 14, 2010

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<sup>21</sup> The STA submitted a letter to the SEC on this managed accounts issue. See Letter from Thomas L. Montrone, The Securities Transfer Association, to Mary L. Schapiro, Chairman, Securities and Exchange Commission, June 2, 2010, available at [http://www.stai.org/pdfs/STA\\_Letter\\_to\\_SEC\\_re\\_Managed\\_Accounts\\_6-2-2010.pdf](http://www.stai.org/pdfs/STA_Letter_to_SEC_re_Managed_Accounts_6-2-2010.pdf).