



BENEFICIAL OWNER DATA AGGREGATION: IMPLEMENTATION ANALYSIS

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NOV. 1, 2010

Computershare

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Joseph Trezza is a seasoned securities industry professional with four decades of experience in all matters related to the servicing of securities assets.

In 1969, during the famed “paper crunch,” Joseph began his career at what would become The Depository Trust and Clearing Corporation (“DTCC”). From April 2000 through 2009, Joseph was the senior product manager and vice president for DTCC’s asset services product lines, including: Securities Processing; Custodial Services; Corporate Actions; Issuer Services (which includes proxy services); Stock Dividends; and Principal and Income Processing business lines. Specific responsibilities included “cradle-to-grave” product development from concept due-diligence to final rollout; process and automation system enhancements; contract negotiations with partners and vendors; evaluating, managing and limiting business line risk while reducing cost and increasing revenue; DTCC liaison to regulators and Self Regulatory Organizations (“SROs”); etc.

Joseph led DTCC participants, regulators, industry groups, national and regional exchanges, transfer agents, and issuers, including stakeholders’ operations and automation systems groups, to implement the final phases of dematerialization and the implementation of the Direct Registration System. These efforts resulted in reducing the risk of maintaining and processing physical certificates and saving the industry an estimated \$400 million annually. For his efforts, Joseph was dubbed “Mr. Demat” by the industry.

In his various operational roles, Joseph’s responsibilities included cash and stock reconciliation, collections and distributions; reorganization and proxy announcements and processing; securities transfer and custodian processing; securities position reconciliation and underpayment/overpayment research and collections; customer service and expediting; etc.

Other accomplishments:

- › Developed and implemented a cost basis reporting system, two years prior to TARP, mandating the securities industry to implement such a tax reporting system by 2010.
- › Implemented various new restricted securities processing enhancements, including Networking for Equities, modeled after the NSCC FUND/Serv Networking service.
- › Industry spokesperson for dematerialization and related products with interviews with WCBS Radio, The Wall Street Journal and numerous industry-specific publications.
- › Authored and coauthored many white papers, op-ed pieces, editorials, etc.

Industry organizations:

- › SIFMA’s Corporate Action Group
- › Shareholder Services Association
- › Securities Transfer Association, including the cost basis sub-committees
- › MMI’s cost basis planning committee

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Prior to joining Georgeson in February 2000, Richard worked at ADP Investor Communication Services (now Broadridge), where he served as director of Institutional Services. He was a prominent contributor in the initial design and implementation of ProxyEdge, the electronic voting and record-keeping system utilized by the majority of institutional investors and voting agents today. In his role as product manager, Richard was responsible for directing product development, managing day-to-day customer support and contributing to the firm's sales and marketing efforts. From 1987 to 1992, Richard was Assistant Vice President of Client Services for the Independent Election Corporation of America, where he was responsible for managing the day-to-day support of the firm's bank and broker clients. Richard began his career in the Personal Custody Department at Chemical Bank, initially as a Custody Administrator and later as Staff Assistant to the department Vice President.

Richard is a member of the SIFMA Corporate Actions Division as well as the Council of Institutional Investors.

CLAIRE CORNEY

Executive Vice President, Global Capital Markets Computershare Limited

Claire is a key contributor to Computershare's Global Capital Markets group, primarily focusing on market structure analysis and advisory work, and the development of global services solutions for Computershare's clients. This has included transactions such as the Cadbury plc/Dr Pepper Snapple Group demerger and the News Corporation reincorporation. Claire also structures Computershare's depository services in the U.S., the U.K. and Australia.

Claire has legal, regulatory and operational experience across three international markets — the U.S., the U.K. and Australia — and has worked on regulatory and market structure issues affecting many other markets where Computershare operates.

Claire worked for several years with the Australian Stock Exchange, managing the CHES Regulation group, then as Senior Policy Officer for ASX Trading & Clearing Regulatory Policy, managing regulatory and compliance issues. Prior to joining Computershare in 2001, Claire spent two years in Ireland, managing special projects for Davy Stockbrokers, with a major focus on delivering an internet-based trading system and multi-currency cross-border execution services.

PAUL CONN

President, Global Capital Markets Computershare Limited

Paul is president of Computershare's Global Capital Markets Group, the division that spearheads international and cross-border initiatives and develops strategies and solutions for major market developments in our core markets.

Since joining Computershare in 1998, Paul has led the development of a number of strategic initiatives to leverage Computershare's global assets and capabilities, in turn delivering a unique service platform for Computershare. He leads a highly experienced team with responsibility for new global products and services, driving and responding to major developments and opportunities in securities markets and developing and expanding relationships with Computershare's partners, whether through alliances, joint ventures or acquisitions.

Prior to joining Computershare, Paul gained extensive international securities markets experience through a range of senior roles at both the London Stock Exchange (LSE) and the Australian Stock Exchange (ASX; now the Australian Securities Exchange). He played a key role in leading significant market reforms of the Australian stock market, including the development of CHES. Prior to joining ASX, Paul worked for

the LSE in a range of administrative and management positions. One of its youngest senior executives, he was also appointed by the Council of LSE as its Buying In & Selling Out Official.

Paul has 30 years' experience in operations, market infrastructure, development and strategic policy in international capital markets. Currently based in the U.S., he has spent his career working (in almost equal periods) in the markets in London, Sydney and New York.

ABOUT COMPUTERSHARE AND GEORGESON

Computershare is a global leader in transfer agency, employee equity plans, proxy solicitation and other specialized financial, governance and communication services. Recognized for our expertise in data management, high-volume transaction processing, payments and stakeholder engagement, we help many of the world's leading organizations maximize the value of their relationships with their investors, employees and other stakeholders. Globally, we service approximately 100 million shareholder and employee accounts on behalf of 14,000 corporations, including 33 percent of the Fortune 500, 37 percent of the S&P 500, 60 percent of the Dow 30, and thousands of small and mid-cap companies in the United States.

Georgeson, a Computershare Company, is the world's leading provider of strategic proxy and corporate governance consulting services to corporations and shareholder groups working to influence corporate strategy. Combined, Computershare and Georgeson mail more than 400 million shareholder packages around the world annually, including 140 million in the United States. A significant portion of these mailings are proxy materials for shareholder meetings.

Computershare Communications Services 2010 output:

Printed images processed 2010:

Global = 1.4 billion

U.S. = 400 million

North America (including Canada) = 525 million

Mail packs processed 2010:

Global = 460 million

U.S. = 140 million

North America (including Canada) = 152 million

We operate at approximately 50 percent utilization; therefore even just with current equipment and facilities we could service circa 800 million images and 280 million mail packs in the U.S. alone. Further, we may invest in additional hardware and facilities to deliver up to 1.2 billion images and 420 million mail packs if demand necessitates greater capacity.

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1. EXECUTIVE SUMMARY

This document outlines the purpose and functionality of a proposed data aggregator (“Hub”) for beneficial owner data.

We include a brief background on the current state of the US proxy system and the recommended reforms that would facilitate direct issuer communication with their holders, and on the role of the Hub in supporting those policy objectives.

A detailed outline of the proposed operational structure of the Hub is provided, including processing functions and timelines, data structure, capacity, and file transmissions and connectivity. We conclude that from both a technical and operational perspective, the Hub is not only feasible, but it will foster market competition and contribute to a reduction in shareholder communications fees paid by issuers.

The report demonstrates that information aggregation fees can be lowered over time, by drawing a parallel with DTCC’s existing “hub” operation for mutual funds, “Networking,” where fees for the data aggregation function have been lowered to a fraction of a cent. We propose that DTCC act as the information aggregator for beneficial holders, given: (i) it is the owner of all securities held in street name form; (ii) it has the market standing, regulatory position and trusted network in place to act as a hub between intermediaries on the one hand and issuer agents on the other; and (iii) there is an established precedent for such a hub in DTCC’s almost-identical “Networking” operation. Designating DTCC as the Hub would reduce development time and cost due to the similarity with existing platforms.

This report should remove uncertainty regarding the viability of the Hub at the macro level. We believe it significantly advances the dialogue regarding the merit and operation of the Hub.

2. BACKGROUND AND PURPOSE

It has been more than 30 years since the current shareholder voting and communications system was established. Advances in technology, increases in shareholder activism, growth in “street name” ownership and new regulatory requirements have created a need to modernize the communications systems used by publicly traded companies and their shareholders. The current communications systems are cumbersome, circuitous and excessively costly.

In July 2010, the U.S. Securities and Exchange Commission (“the Commission”) distributed the Concept Release on the U.S. proxy system,¹ to evaluate comprehensive changes to the existing shareholder communications system, and sought input from industry participants and shareholders. New regulatory requirements and increasing shareholder activism have elevated the need for public companies to communicate more effectively with their shareholders. Moreover, advances in technology not only provide the opportunity for enhanced communication and efficiency in the proxy process, but also facilitate the decoupling of shareholder voting rights from shareholder economic interests. These developments must be addressed to improve and protect the integrity of the U.S. corporate governance system, of which shareholder communications and the proxy process are essential elements.

A fundamental tenet of state corporation laws is that shareholders have the right to vote their shares to elect directors and to approve or reject major corporate transactions at shareholder meetings. The recently enacted Dodd-Frank legislation will necessitate that shareholders be more involved and further require issuers to communicate effectively with their entire shareholder base.

Computershare and Georgeson, along with other commentators (including the Securities Transfer Association (“STA”) and the Shareholder Communications Coalition (“SCC”)), have advocated reform of the U.S. proxy voting and shareholder communications system to improve the accuracy, integrity and transparency of the voting process; and to facilitate direct communications between issuers and their shareholders in place of the current intermediated communication structure. These proposed reforms are detailed in our submission of October 20th, 2010, lodged with the Commission in response to the Concept Release (and attached here as Appendix 1), as well as in the submissions lodged by the STA and the SCC.

A key element of the proposed reforms is the creation of an independent, third-party service provider to aggregate beneficial owner data from intermediaries (referred to as “the data aggregator” or “the Hub” by various commentators). Computershare has argued that issuers should be able to select a proxy distribution and communication agent of their own choosing, to distribute materials to all their investors, using the beneficial owner data obtained from this Hub as well as registered holder data from the issuer’s transfer agent.

This document has been prepared by Computershare and Georgeson in conjunction with an independent market expert, Joseph Trezza, to analyze the operational structure and processes required to implement the Hub and the proposed direct communication structure, the capacity requirements of the Hub, and the cost and development requirements necessary to introduce the Hub. It has become evident that there is a significant lack of understanding among various market participants about how the Hub would operate in practice. This lack of understanding has led to a level of uninformed criticism and confusion that is unproductive in the market debate over appropriate reforms. The analysis presented in this document, combined with the pricing analysis recently undertaken by the STA,² demonstrates that the Hub is a viable concept that will deliver improved shareholder communications and substantial cost savings to

¹ Commission Concept Release on the U.S. Proxy System, Proposed Rule, Part V, July 2010, <http://www.sec.gov/rules/concept/2010/34-62495fr.pdf>.

² STA White Paper, “Estimated Cost Savings of a Market-Based Proxy Distribution Model” available at <http://www.stai.org/pdfs/STA-White-Paper-10-14-2010.pdf>.

issuers. The proposed Hub is not a new concept — analogous services are already provided by DTCC, and the use of a hub in relation to proxy communications has been suggested since at least 2001.³

Computershare and Georgeson draw upon their extensive global and U.S. market expertise in formulating the recommendations for reform and the analysis presented below, to ensure that the U.S. proxy and shareholder communications systems are highly effective and appropriately representative of all key stakeholders. We advocate, on behalf of our clients, for efficient and effective market structure changes across all major international markets. The analysis presented in this document has been undertaken to help advance the market debate on this critical issue for the U.S. market.

Computershare proposes to share this analysis with its industry colleagues at the STA. We anticipate that the STA may choose to share the work also with the SCC. We also intend to distribute this paper to the New York Stock Exchange (“NYSE”), in relation to the NYSE’s dialogue on pricing; to the DTCC (and any other interested parties); and to the Commission.

³ STA White Paper, “Treating Shareholders Equally: Alternatives for Street Proxy Distributions” available at http://www.stai.org/docs/treating_shareholders_equally.doc.

3. RECOMMENDED REFORMS

The U.S. proxy system and communications system are in need of modernization. The reforms proposed by Computershare are detailed in its Oct. 20, 2010, response to the Commission's Concept Release (see Appendix 1). Key aspects of these proposals relevant to the development of the Hub are outlined below.

1.1 ELIMINATE THE SECURITIES OWNERSHIP DESIGNATION OF NOBO/OBO⁴

The current NOBO/OBO classification prevents an issuer from easily, quickly and cost-effectively communicating with all shareholders, both registered and beneficial. The traditional reason given by intermediaries for maintaining OBO status is the protection of shareholder privacy and identity. In today's market systems, the true impetus for maintaining OBO registration is more likely to be maintaining the confidentiality of the identities and trading strategies of the largest and most sophisticated clients of the NYSE member firms, as well as the trading strategies of institutional shareholders.⁵

Speaking to the issue of confidentiality of NOBOs and the effects on shareholders and the securities industry, The Altman Group wrote in October 2009:

Arguments about a need to protect clients (beneficial shareholders) from direct contact with companies they are invested in ring hollow. Many foreign markets require greater levels of disclosure to companies of beneficial ownership — all without negative consequences for market participants. The use of the NOBO lists in the U.S. by corporations over the last 25 years has not created confidentiality problems for either brokerage firms or their clients (beneficial owners).

Computershare proposes the elimination of the NOBO/OBO status, not the elimination of the beneficial ownership status, as some critics would portray. The roles of all the interested parties, such as custodians, broker-dealers, banks, etc., remain the same. Shareholders electing to hold in street name will still have the direct relationship with their brokers and investment advisors.

Eliminating OBO status does not change the efficient and orderly processing of the U.S. securities markets. Furthermore, those shareholders, such as institutional shareholders or other high-net-worth clients looking to mask their investment strategies, can do so by electing to hold in a nominee name.

1.2 INTRODUCE A SHAREHOLDER "HUB" TO FACILITATE THE COMPILATION OF SHAREHOLDER INFORMATION

Run by an impartial third-party provider, the Hub would facilitate the collection of beneficial shareholder contact information and share positions from broker-dealers, bank agents and other proxy providers, making the information available to the issuer for direct communication for only proxy and corporate governance matters. Contrary to the suggestions of some critics of the concept, the Hub would not dismantle the current proxy process, radically change or discourage the role of service providers, or dilute the current relationship between brokers and their clients.

Run as a regulated industry utility, the Hub will be a low-cost means for issuers to effectively, quickly and securely reach beneficial owners. Secure data collection and retention are key to the process. Issuers, just as broker-dealers, have a vested interest in safeguarding shareholder non-public information (NPI). The provider for the Hub should be required to demonstrate its consistent and prolonged safeguarding of data security. NPI privacy and security measures are in place today, successfully safeguarding shareholder records transferred between banks, broker-dealers, issuers, transfer agents and other intermediaries.

⁴ For further information on NOBO/OBO, see the Commission's Concept Release on the U.S. Proxy System, Proposed Rule, Part V, July 2010.

⁵ Taken in part from The Altman Group comment letter to the NYSE, June 2006, on the "Report and Recommendations of the Proxy Working Group."

The Hub utility will provide mechanisms to apply house-holding across banks and brokers and between beneficial and registered account ownership, thus reducing issuer cost to reach shareholders while providing an issuer greater visibility of its beneficial shareholder investor base. As the cost to communicate with shareholders is reduced, the issuer will have more flexibility, and funding, to enhance its shareholder outreach initiatives.

The Hub will provide a means to ensure the reconciliation of beneficial owner positions prior to submitting positions to the issuer's agent, eliminating over-voting and making it clearer who is entitled to vote.

Computershare strongly supports the Hub concept, which will serve to reduce the expense and the complex hurdles that currently exist for issuers in communicating proxy and corporate governance matters to their beneficial owners.

Facilitate Competition Among Proxy Distribution Service Providers

Today, issuers are not permitted to choose their service providers for distributing proxy materials to beneficial owners. Issuers must work with, and pay, the provider chosen by the banks and broker-dealers. While there are a small number of other service providers, such as Mediant, Broadridge processes more than 99 percent of beneficial owner volumes, giving Broadridge an unregulated near-monopolistic hold on the industry.

The Hub concept discussed above provides the means to separate the beneficial data information aggregation and the proxy distribution process into two distinct functions, providing the issuer the ability to pick a proxy distribution provider of its own choosing. After the Hub gathers and reports the beneficial owner position and contact information, the issuer's agent will mail or electronically send the proxy materials, forms, statements and the like, to all the shareholders.

The issuer decision to choose a service provider will be driven by market conditions and open competition between providers. Service provider pricing will be set by the value, quantity and quality of services to the end user and not by an SRO or other regulator.

On Oct. 20, 2010, the NYSE filed a comment letter with the Commission⁶ on proxy fees. The NYSE expressed its "guiding principles in assessing how to reform proxy regulations." These principles included:

- > Removing self-regulatory organizations from the process of establishing fees
- > Providing competition of service providers, maximizing efficient and reliable services
- > Providing transparency in how the proxy process works

The NYSE comment letter went on to say that although the Exchange has a long history as an innovator and source of rules for the U.S. proxy process, its role in the proxy regulations has diminished over time, and it (the Exchange) may no longer be the best source of proxy fee rulemaking.

Vote Confirmation Tracking

The current proxy process provides limited capabilities to track beneficial owner votes, including retail and institutional investors, through to final tabulation. Since some brokers reconcile positions to be voted after the return of the vote instruction, there is no way to be certain that the votes cast by an individual shareholder or an institutional shareholder have been passed along in full or in part.

The Hub concept, coupled with assignment of proxy voting rights directly to the beneficial owner, provides the mechanism to track and audit votes submitted from all holders — registered and beneficial (including institutional investors). Banks and brokers, acting as intermediaries, will balance positions prior to submitting their position listings to the Hub. These positions will then be transmitted to the issuer's agent for proxy material distributions.

Institutional investors have long desired the ability to track and confirm votes passed through the proxy system to the tabulator. Institutional investors at times vote large blocks of stock that can shift the outcome of a vote. Under the Hub concept, all shareholders will receive proxy cards, which would be returned to the issuer's agent. Institutional investors, through their service providers (ISS, Proxy

⁶ <http://sec.gov/comments/s7-14-10/s71410-203.pdf>

Governance, Broadridge's ProxyEdge, Glass Lewis, etc.), could electronically return their votes directly to the tabulator. Another option would be for the vote agents to transmit institutional votes through the Hub to the issuer's agent. This recommendation maintains the current processing approach as it provides one point of contact for the institutional investors. The Hub would confirm that the issuer's agent received the votes, providing a tracking number for inquiries and allowing for subsequent vote confirmation.

4. OPERATIONAL STRUCTURE OF THE HUB

4.1 THE HUB CONCEPT

The Hub would be a centralized industry utility for collecting and aggregating proxy record date beneficial shareholder positions and contact information from banks and broker-dealers.

Interfaces with industry members would include the DTCC, banks, broker-dealers and their service providers, issuers and/or their agents, proxy distributors/tabulators, custodians, and vote agents.

4.2 BASIC PROCESSING — ANNUAL MEETINGS

Twenty business days prior to the record date, the Hub will announce an upcoming proxy meeting record date. DTCC participants will begin tallying the number of beneficial owner accounts they hold. The tally for each participant will be provided back to the Hub, typically within five business days of the preannouncement. The participant will poll the respondent banks for their tallies, reporting these tallies to the Hub. (Note: This is a change from the current practices and an added step for broker-dealers.)

Even though broker-dealers would be taking an extra step in polling the respondent banks, it is possible that the efficiencies provided by the Hub can increase the reconciliation cut-off deadline by one business day. This should be explored with the interested parties when a project and process scope document is prepared, with consideration for print and mail schedules.

At close-of-business on the record date, DTCC will provide each participant its record date holdings. The same position information will be provided to the Hub. The participant typically will have two business days (called the cut-off date) to complete any reconciliation processes and to submit the beneficial owner position and contact information records to the Hub. The position reconciliation process supported by the Hub will be the same processing performed today for other forms of shareholder entitlements, such as stock distributions based on record date positions, dividend and interest distributions, and voluntary corporate actions.

At the close of business on the cut-off date, the Hub will provide the beneficial owner positions and contact information to the issuer's agents. (This process usually occurs in the "twilight hours.")

The final participant position submitted to the Hub must balance to the record date or adjusted record date position submitted by DTCC. If an out-of-balance occurs, the Hub will provide an exception report to the DTCC participant for immediate reconciliation. Newly reconciled positions will be updated to the Hub by both the DTCC participant and DTCC. It is anticipated that the Hub provider will monitor timing deadlines for reconciliation, with appropriate Commission regulations governing ongoing noncompliance issues.

The Hub will make exception reports (errors and omissions, out-of-balances, etc.) available to the DTCC participants through both the online facility and return file transmissions.

By reconciling the beneficial owners' positions prior to submitting these to the issuer's agent, over-voting and under-voting should be eliminated. Beneficial owners, including institutional investors, will have certainty that their positions will be cast and recorded accurately and according to instructions. The Hub will provide the mechanism to track votes end-to-end. Based on the shareholder's preference, the issuer's agent will mail or electronically deliver the proxy materials, including a proxy card. The issuer's agent will reconcile the registered positions and mail the proxy card and materials, as is done today.

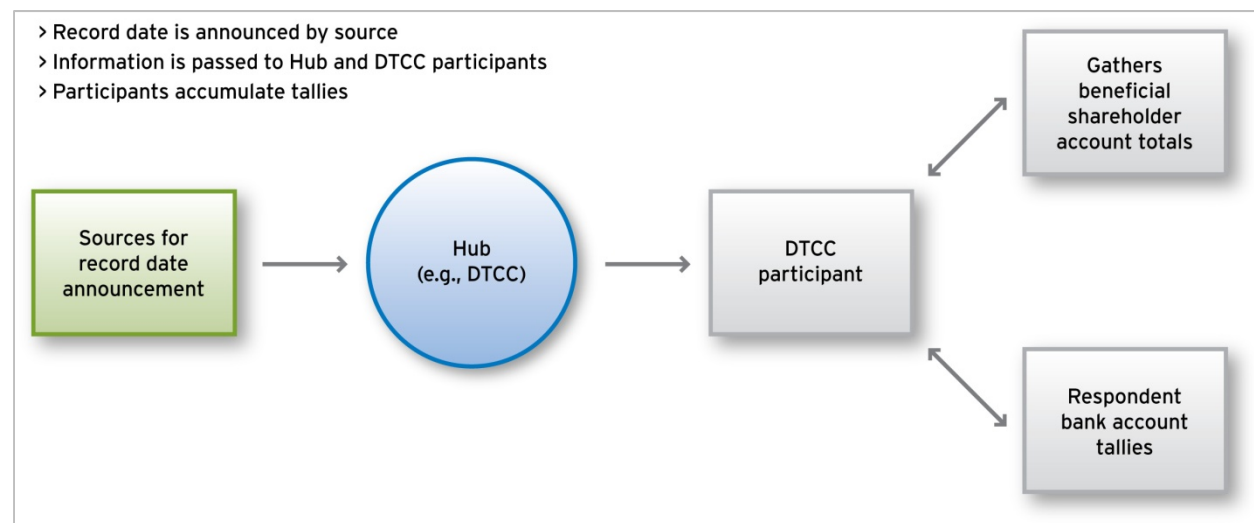
4.3 PROCESS TIMELINE

1. Initiate search process

Approximately 20 business days prior to the record date, the Hub announces the upcoming proxy record date — see flowchart #1 below:

- > The preannouncement information will come from one or more sources, possibly the issuer, issuer's agent, transfer agent, exchange, or DTCC (Note: process unchanged).
- > DTCC and the Hub will notify DTCC participants of the pending record date.
- > DTCC participants will begin to tally beneficial shareholder account totals (Note: process unchanged).
- > DTCC participants will search respondent banks for tallies of their beneficial shareholder accounts. This process occurs today for fully disclosed custodial accounts.

Twenty days prior to the record date:

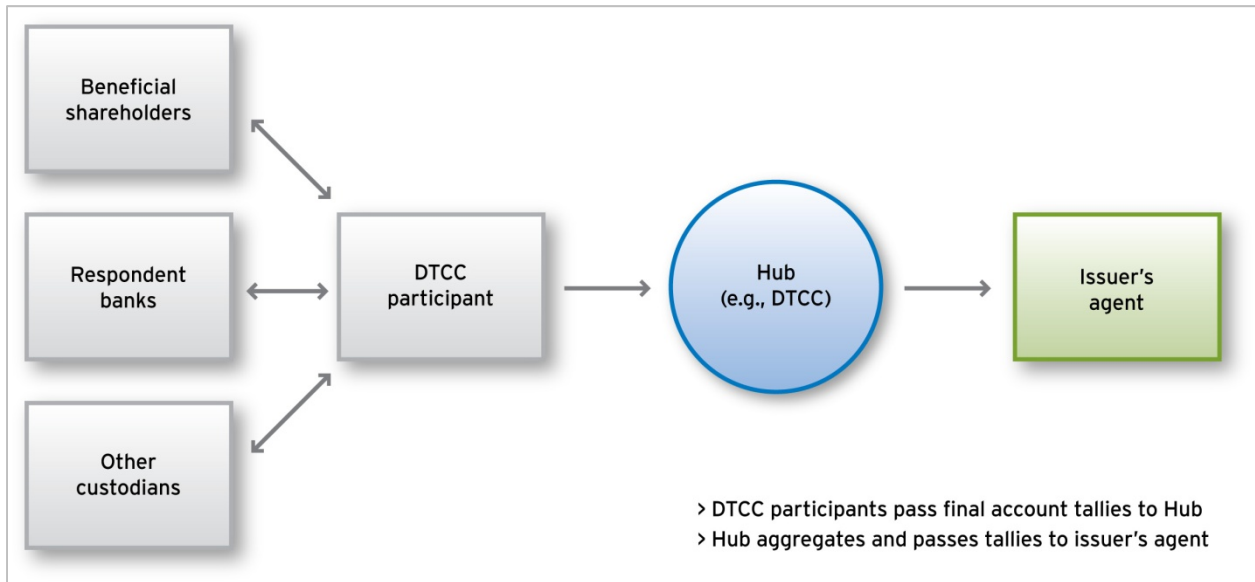


2. Compile search responses

Within five business days after the pre-announcement, DTCC participants begin to return the beneficial shareholder account tallies to the Hub. The Hub will aggregate and pass the tallies to the issuer's agent — see flowchart #2 below:

- > DTCC participants aggregate the beneficial shareholder tallies and the account tallies received from the respondent banks.
- > The Hub gathers the tallies from all participants, passing the information to the issuer's agent (tabulator/mail distributor).

Five days after pre-record date announcement:

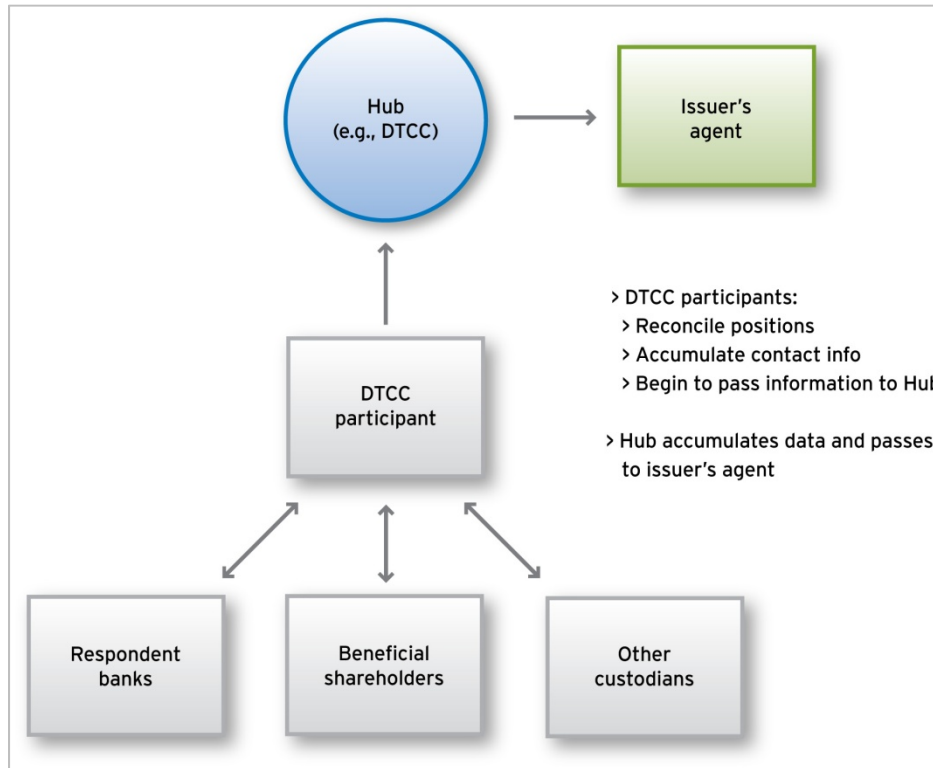


3. Capture record date ownership records

On the record date, the Hub receives position listings from DTCC for each participant's total holdings — see flowchart #3 below:

- > DTCC captures the record date position at close of business on the record date, providing the positions to the DTCC participants and the Hub.
- > DTCC participants begin to reconcile the positions, accounting for pending adjustments to beneficial shareholder positions, shorts, loaned, pledged securities, etc.
- > DTCC participants begin to build their files of all reconciled beneficial shareholder account positions and contact information (see Data Elements section below).
- > Typically, by the close of business on record date plus two days (cut-off date), all positions are reconciled and final beneficial shareholder positions and contact information are compiled and reported to the Hub. (The efficiencies the Hub brings to the process will possibly increase the cut-off date by one day.)
- > Hub reports positions and account contact information to the issuer's agent.
- > DTCC participants can continue to reconcile positions after the cut-off date, reporting the adjustments to the Hub and DTCC.

Record date positions captured; reconciliation begins; reconciled account data returned to the Hub and issuer's agent:

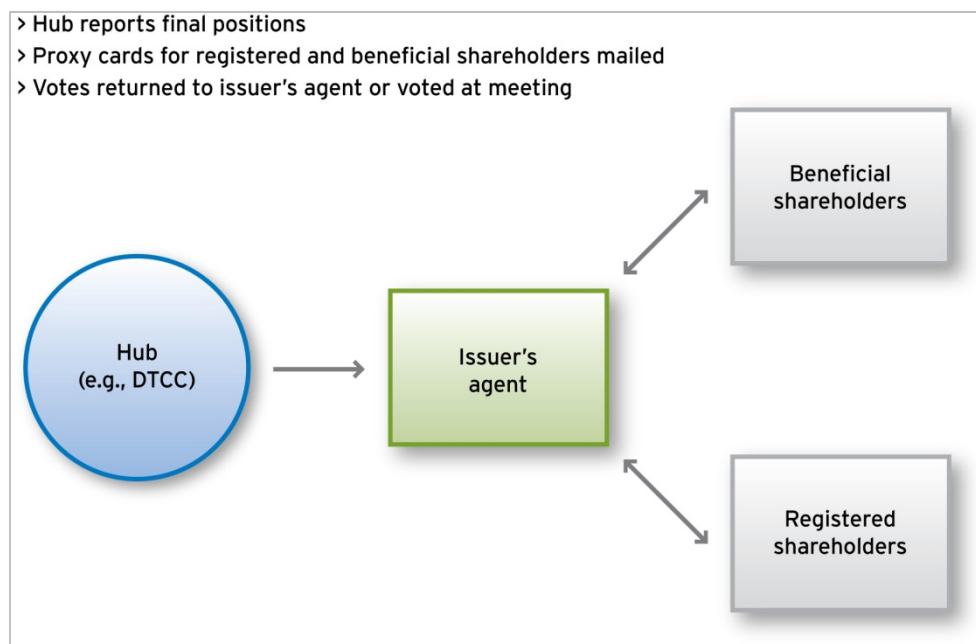


4. Compile eligible voter list

Final beneficial shareholder positions are reported to issuer's agent; proxy materials are mailed:

- > Issuer's agent reconciles positions and gathers contact information for registered shareholder accounts (Note: process unchanged).
- > Issuer's agent aggregates beneficial shareholder information from the Hub with the registered shareholder information.
- > Proxy cards and materials are mailed to all shareholders (Note: process unchanged, although beneficial owners are now included under the same process).
- > Proxy votes are returned to issuer's agent or voted at annual meeting (Note: process unchanged, although beneficial owners are now included under the same process).
- > Respondent banks can elect to use an agent, such as a DTCC participant, for their vote processing, as many do today. In this scenario, the agent would provide the interface with the Hub.

Final beneficial shareholder positions are reported to issuer's agent:



4.4 DATA ELEMENTS

To balance and provide the appropriate data elements, each transmission to the Hub will include:

- > DTCC participant account number
- > Beneficial owner's:
 - > Shareholder name
 - > Full address
 - > Total balanced position
 - > House-holding code
 - > Distribution preference code:
 - > Standing instructions
 - > Opt-out code for Notice & Access
 - > E-mail address
 - > Vote agent service provider, such as ProxyEdge, RiskMetrics, etc.

A confirmation file will be returned to the submitting participant, which will include all the original input data records, with a confirmation file indicating if the record was accepted (A) for processing or rejected

(R). The Hub will assign a unique tracking number to record on the file, allowing for inquiries and confirmations throughout the proxy process, a much sought-after improvement to the current system.

4.5 FILE FORMATS

It is anticipated that each DTCC participant will choose a file transmission format suitable for its volume, and in keeping with its present file format interface with DTCC.

File formats to be used by the Hub:

- > FTP through secure means such as VPN
- > MQ messaging, usually used by high-volume users
- > CPU-to-CPU links
- > Other

The Hub will return a confirmation file back to each DTCC participant at the end of each processing day. The file will contain all the information submitted by the DTCC participant as well as a unique tracking number assigned to each transaction record.

4.6 ONLINE SUBMISSIONS AND INQUIRIES

The Hub will maintain an online interface for small to mid-volume users to input/import beneficial owner positions and contact information. Mid- to high-volume users can use the online connectivity to perform one-off transactions, such as submitting last-minute reconciled position updates or performing inquiries.

For security, input using the online connectivity will be over dedicated lines, not through the open Internet. Data elements can be sent using preformatted input fields, plain text or spreadsheets. Plain text and spreadsheets would be preformatted so that the Hub can upload, verify and aggregate to the database without manual intervention.

Confirmation of both online and file transmissions will be available for viewing as the Hub updates the database on pre-established schedules.

The online connectivity can be used to perform various inquiry processes, such as researching and confirming beneficial account information or position. Keying in any number of details about the securities issue or beneficial owner would permit inquiries, such as:

- > Input the CUSIP number and record date to view issue totals for the DTCC participant account
- > Input the unique tracking number assigned by the Hub to view all details about the beneficial position and contact information

Of course, for privacy and competition reasons, the DTCC participant can only view details relative to its participant account and/or beneficial owner information that the participant originally submitted.

4.7 FREQUENCY OF FILE TRANSMISSIONS

It is anticipated that the DTCC participants will have the capability to provide multiple files to the Hub on a daily basis. At the end of each business day, the Hub will accumulate the data submitted by the DTCC participant and make any position changes.

At the close of business on the cut-off date, the Hub will make files available for pickup by the issuer's agent containing the aggregate position and all the beneficial shareholder's positions, with corresponding contact information. Any changes to the cut-off date information or positions will be updated to the Hub's records, and a new file, with the position changes, will be provided to the issuer's agent.

4.8 HUB CAPACITY

The Hub provider must have the requisite database and file capabilities, and experience managing large volumes of data, which is projected to be in excess of 250 million records (based on approximately

13,000 shareholder meetings in 2009). The Hub will be required to store and process based on multiple record dates for an issuer.

The Hub provider must have sophisticated connectivity capabilities, able to handle multiple file and batch transmission types. For security and privacy reasons, files cannot go through the open Internet. In addition, dedicated, secure communication lines are needed to provide access to the online input and inquiry functions while providing full disaster-recovery capabilities.

4.9 ACTIONS OF EACH PROXY INDUSTRY MEMBER

| Industry Member | Responsibilities |
|---|---|
| Banks, broker-dealers | <ul style="list-style-type: none"> > Direct relationship with the beneficial owner (Note: unchanged) > System and process updates, including connectivity to the Hub > Submitting positions and beneficial information to the Hub > Balancing with the Hub |
| Issuer's agents (distribution/tabulation agent) | <ul style="list-style-type: none"> > System and process updates, including connectivity to the Hub > Update infrastructure to process substantially higher volumes and new data elements > New processing messages to confirm votes cast (possibly using the Hub's unique tracking number for the task) |
| Issuers | <ul style="list-style-type: none"> > Better view into all shareholders > Cost and process reductions > Greater ease of reaching all shareholders > Could eliminate multiple mailings to secure a quorum |
| Institutional investors | <ul style="list-style-type: none"> > Would continue to use existing voting platforms, such as ProxyEdge (Note: unchanged) > Votes can be tracked and would be verifiable > Eligible to receive end-to-end confirmations |
| Beneficial shareholders | <ul style="list-style-type: none"> > Contact information will be available to the issuer > Will receive a proxy card and same proxy materials as the registered shareholder |
| Registered shareholders | <ul style="list-style-type: none"> > No change |
| Vote agents | <ul style="list-style-type: none"> > No change to process > Cost reduction for casting and tracking votes processed through the Hub interface > Reduction in processing fees currently paid to Broadridge |
| Inspector of elections | <ul style="list-style-type: none"> > No change |

4.10 OTHER PROCESSES

| Process | Impact |
|---|---|
| Vote count and tabulation | <ul style="list-style-type: none">> Beneficial owner votes counted like registered holder votes> Votes will be counted and tabulated according to applicable state law> Independent inspector of elections services as applicable |
| Beneficial owner proxy authority | <ul style="list-style-type: none">> Proxy authority will be transferred to each beneficial owner on the record date> Same omnibus proxy process as today |
| Transparency | <ul style="list-style-type: none">> Under the Hub, the voting process will be verifiable, for both the reconciled positions and all the beneficial owners eligible to vote> Votes cast can be confirmed, including final tabulation from the shareholder meeting |

5. HUB PROVIDER

Computershare recommends that the Depository Trust and Clearing Corporation or one of its subsidiaries provide the Hub services.

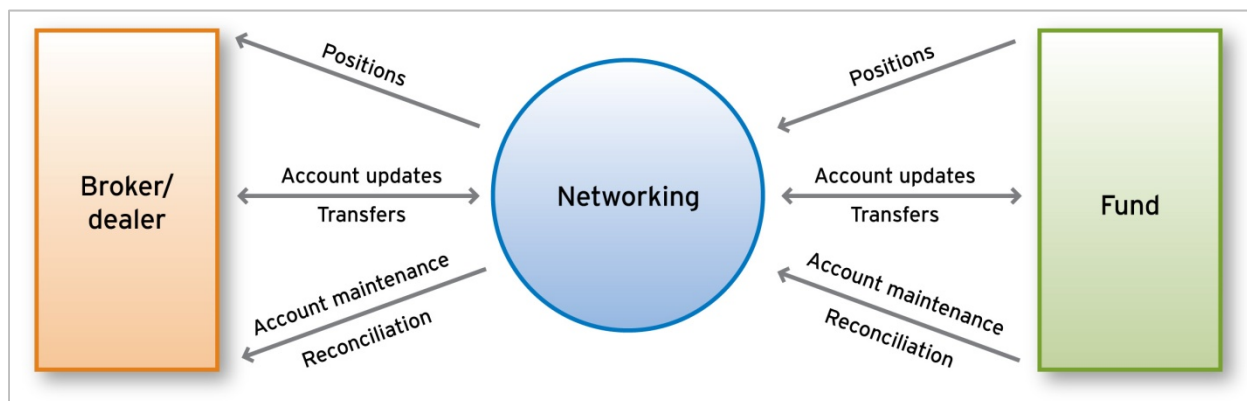
DTCC is the central repository for (and owned by) the banks and broker-dealers that hold and maintain in a fungible bulk the beneficial shareholder positions, which are the focal point of these recommendations. As a low-cost provider of choice, it has built and maintains automated electronic connectivity to all the industry members in the proxy process, including the proxy tabulator/distributor providers, such as Broadridge and Mediant. Issuers and their agents have direct communication links with DTCC.

DTCC is also the logical provider as it is the custodian for the beneficial shareholder positions held in nominee name (Cede & Co).

DTCC has unprecedented experience as a “hub” provider. For example, its subsidiary, National Securities Clearing Corporation,⁷ operates Networking, a mutual fund process under the FUND/Serv product line. Networking is a central record-keeping system through which all mutual fund investor account information can be exchanged and reconciled between the funds (issuers) and banks, broker-dealers and other designated distribution firms, allowing identical investor information to appear on all intermediary records. This model is similar in scope and functionality to the Hub that the SCC is recommending.

Through FUND/Serv and the Networking services, broker-dealers and mutual funds have the processing capacity and flexibility to handle growth and meet the requirements of all industry participants. Networking connects a vast number of funds with an even broader number of providers and distributors. All the NSCC participants and the mutual funds share investor account information.

Some typical investor data exchanged through Networking:



In actuality, the proxy Hub would be less complex than the FUND/Serv service. With FUND/Serv, the broker-dealer or the fund takes additional steps to define which firm services all or part of the investor's account needs. For example, the introducing broker might elect to service the investor's year-end statement processing, leaving the fund to service other matters, such as maintaining the address file and distributing dividend payments. The proxy Hub will collect reconciled shareholder positions and a shareholder's address of record.

Under DTCC's depository services, DTCC operates the Profile Modification System (Profile), another example of DTCC providing Hub-like services for the exchange of beneficial owner contact information and positions. Through Profile, DTCC provides an electronic interface to pass instructions to move beneficial and registered shareholder positions between DTCC participants and issuers and transfer

⁷ DTCC's subsidiary, National Securities Clearing Corporation (NSCC), provides clearing, settlement, risk management, central counterparty and other services for virtually all broker-to-broker trades involving equities, corporate and municipal debt, American depository receipts, etc.

agents. Shareholder information, such as broker or transfer agent account numbers, addresses, and Social Security and Tax Identification numbers, is exchanged on a daily basis.

DTCC has clearly demonstrated its ability to readily control and bring down fees over time. For example, for the Networking product mentioned earlier, DTCC introduced the service in the late 1990s at a cost of about \$.05 per transaction. DTCC has implemented many enhancements to the Networking system since its introduction while reducing the transactional fees to less than a penny per transaction today.

DTCC has the ability to manage and store large volumes of data in a secure manner, alleviating any security or privacy issues. The demographics of its participants and other users are diverse in size, electronic connectivity and capacity. DTCC supports a comprehensive range of electronic connectivity methods, such as batch, file transfer and secure online connections. DTCC already has the systems and processes in place to announce and track multiple record dates for an issuer.

The Hub will require Commission regulations to be implemented, with the Commission possibly assisting in choosing a provider. The Commission and federal and New York banking authorities, among others, regulate DTCC and most of its subsidiaries.

If the DTCC Board approves the building and maintaining of the Hub, it is foreseeable, based on DTCC's experience and capabilities, that the Hub could be built, tested and implemented within 12 months.

6. COST TO IMPLEMENT AND MAINTAIN THE HUB

6.1 DEVELOPMENT COST

The following extrapolations are based on an IT development fee of \$120 per man-hour (MH), with 140 MH in a man-month (MM). The dollar amounts and the MH/MM estimates⁸ are an average based on cost provided by vendors and transfer agents. The calculations are for internal system updates and file connectivity with the Hub. Infrastructure cost, such as a new server, is noted. It is anticipated these costs are for high-volume users; lower-volume users will have potentially less programming and less scenario testing to do. Also, certain file-handling methods, such as FTP, are easier to implement than CPU-to-CPU file transmissions. Of course, the actual cost to each firm will differ.

| Firm Type | Type of Development | MM/MH | Est. Cost |
|--|--|--------------------------|----------------------------|
| Bank, broker-dealer | > Internal system programming | 3MM | \$50,400. |
| | > Develop file transmission | 1MM | \$16,800. |
| | > Testing connectivity and reconciliation with the Hub | 1MM | <u>\$16,800.</u> |
| | | | Total: \$84,000. |
| Issuer's agent (distribution/ tabulation agent) | > Internal system programming | 3MM | \$50,400. |
| | > Develop file transmission | 1MM | \$16,800. |
| | > Testing connectivity and reconciliation with the Hub | 1MM | \$16,800. |
| | > Infrastructure (1 server plus 1 backup server, fully loaded) | | <u>\$50,000.</u> |
| | | Total: \$134,000. | |
| Hub provider⁹ | > Preliminary project scope | | \$100,000. |
| | > Develop and implement database | 24MM | \$403,200. |
| | > Develop and implement proxy announcement database integration | 6MM | \$100,800. |
| | > Integrate online input and inquiry functions | 6MM | \$100,800. |
| | > Develop file layouts | 3MM | \$50,400. |
| | > Internal testing | 3MM | \$50,400. |
| | > External testing | 3MM | \$50,400. |
| | > End-to-end testing | 3MM | \$50,400. |
| | > Infrastructure – 2 servers for storage, backup facilities, other associated hardware, fully loaded | | <u>\$150,000.</u> |
| | | | Total: \$1,056,400. |

⁸ Assumptions are based on DTCC providing the Hub services. If another vendor were to provide the services, additional interfaces, reconciliation and file transfer development could result, substantially raising the development cost.

⁹ Assumption is that the Hub provider is DTCC.

6.2 TRANSACTIONAL FEES

This chart presents fee estimates for the data aggregation process. The figure of \$.05/record quoted by the STA in its white paper "Estimated Cost Savings of a Market-Based Proxy Distribution Model" has been used as the basis for analysis. It should be noted, however, that this is likely to be a conservative estimate, given that the NSCC division of DTCC currently processes records at a fraction of a cent. To illustrate the impact of the cost efficiencies that could be delivered by DTCC, the table also shows costs based on the NSCC fee rate.

Assumptions:

- > DTCC is the Hub provider.
- > From scope to implementation will take 12 months.
- > At the end of one full-year billing cycle, the Hub provider will expect a full return on investment (ROI).
- > Based on 2009 statistics, it is expected that the issuer's agents will receive approximately 250 million beneficial owner records through the Hub.
- > Each issuer's agent will pay the Hub fee of \$.05 per accepted transaction records.
- > For the first full billing cycle, the "per transaction" fee will include an ROI fee of \$.005 per transaction, setting the first year's fee schedule at \$.055 per accepted transaction record.
- > Over time, as an at-cost provider, DTCC would reduce fees.

The issuer or its agent would pay the following fees:

| Annual Volume | 1 st -Year Fee Payable by the Issuer Agent | Annual Revenue to Hub (Millions) | 2nd Year and After Payable by the Issuer Agent | Ongoing Annual Revenue to Hub (Millions) |
|----------------------|---|----------------------------------|--|--|
| 250 million accounts | \$.055 per account | \$13.88 | \$.050 per account | \$12.50 |
| 250 million accounts | \$.0055 per account | \$1.38 | \$.005 per account | \$1.25 |

6.3 COST REDUCTIONS

A recent STA¹⁰ report indicates that, depending on the number of beneficial shareholders, issuers can reduce their cost of distributing proxy materials by between 20 percent and 72 percent of the NYSE-regulated fee currently payable to Broadridge.

The STA surveyed six of the largest transfer agents, who maintain over 90 percent of registered shareholder accounts in the U.S. Each transfer agent compared the proxy materials invoices of three issuers, with registered shareholders of 6,000, 48,000 and 88,000. Ancillary fees, such as postage and sales tax, were not compared. The transfer agents assumed the Hub would aggregate beneficial shareholder positions and contact information, at a processing fee of \$.05 per account.

After computing the average invoice estimates provided to the STA by each of the six transfer agents, it was determined that issuers would have substantial cost savings by providing beneficial owners with annual meeting materials through the Hub interface and having fees set through free market competition and not through regulated fees.

Processing fees included in the survey that would be reduced or eliminated included:

- > Processing fee of \$.50 per account, for paper communications
- > Suppression fee of \$.40 per account, for suppressing proxy materials from delivery for specific beneficial accounts, such as for house-holding and e-delivery
- > Nominee coordination fee of \$20 per nominee account

The following table summarizes these estimated cost savings:

| Beneficial Shareholder Accounts | Broadridge Invoice \$ | Transfer Agent Estimate \$ | Cost Savings \$ | Cost Savings % |
|--|------------------------------|-----------------------------------|------------------------|-----------------------|
| 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% |

The STA concluded that free market competition would significantly reduce the cost to issuers for providing proxy materials to shareholders.

¹⁰ The STA is an industry trade association, established in 1911, comprising transfer agents that provide services to over 12,000 large and small public companies.

7. CONCLUSION

Despite some discussion among market participants and a small number of corporate issuers regarding the viability of the data aggregator (the Hub), this report concludes that from both a technical and operational perspective, the Hub is not only feasible, but it will foster market competition and contribute to a reduction in shareholder communications fees paid by issuers.

The Hub will create an environment where the obligation to communicate to all shareholders, including beneficial owners, can be placed on issuers (rather than intermediaries) and aligned with the obligation of issuers to pay for such services. The non-alignment of these obligations in the current market structure (where intermediaries are responsible for communicating and may select an outsourcing organization to perform the communication services, while the obligation to pay for such services is passed by virtue of NYSE Rule 465) is a core contributor to the current near-monopoly environment and attendant lack of competition. This misalignment is what necessitates having an independent party sit between relevant groups to decide what "appropriate" reimbursement fees should be.

While Broadridge states that unbundling the holder and holding information gathering functions from the proxy distribution and tabulation function will cause fees to issuers to increase, this report demonstrates that this will not be the case. Further, it demonstrates that information aggregation fees can be lowered over time by drawing from the parallel of the existing hub operation for mutual funds, Networking, where fees for the data aggregation function have been lowered to a fraction of a cent. (Note: This report works on the conservative basis of \$.05 per name, initially.) The Networking model demonstrates that a hub can be operated for the benefit of the industry: issuers, intermediaries and investors alike. The Networking model should also be sufficient to dispel any concerns about how such a hub model might conceptually operate.

This paper also demonstrates that the rationale and logic for DTCC to act as the information aggregator is sound. DTCC is the right party to perform this role, given: (i) it is the owner of all securities held in street name form; (ii) it has the market standing, regulatory position and trusted network in place to act as a hub between intermediaries on the one hand and issuer agents on the other; and (iii) there is an established precedent for such a hub: the Networking arrangement is an almost identical facility operated by the mutual fund industry, where the benefits of cost reduction are clear and measurable.

A separate third party may step up to be the information aggregator, and this should be considered. However, there are clear "time to market" and cost advantages if DTCC performs this role.

This report should remove uncertainty regarding the viability of the Hub at the macro level. We believe it significantly advances the dialogue regarding the merit and operation of the Hub. We look forward to refining the paper regarding micro aspects of the Hub's intended operation as feedback is received.

APPENDIX: COMPUTERSHARE COMMENT LETTER

Computershare Submission to Securities & Exchange Commission, October 20, 2010.

October 20, 2010

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Concept Release on the U.S. Proxy System, File No. S7-14-10

Dear Ms. Murphy,

Computershare and Georgeson welcome the opportunity to respond to the request for comments made by the Securities and Exchange Commission (the "Commission") in its July 14, 2010 Concept Release regarding an analysis of the U.S. proxy system. We would like to also commend the extensive effort that has been invested by the Commission in the analysis of this complex area and the preparation of the Concept Release.

Computershare is a global leader in transfer agency, employee equity plans, proxy solicitation and other specialized financial, governance and communication services. Recognized for our expertise in data management, high volume transaction processing, payments and stakeholder engagement, we help many of the world's leading organizations maximize the value of their relationships with their investors, employees and other stakeholders. Globally, we service approximately 100 million shareholder and employee accounts on behalf of 14,000 corporations including 33% of the Fortune 500, 37% of the S&P 500, 60% of the Dow 30 and thousands of small and mid-cap companies in the United States.

Georgeson, a Computershare Company, is the world's leading provider of strategic proxy and corporate governance consulting services to corporations and shareholder groups working to influence corporate strategy. Combined, Computershare and Georgeson mail over 400 million shareholder packages¹ around the world annually, including 140 million in the United States. A significant portion of these mailings are proxy materials for shareholder meetings.

Computershare and Georgeson have taken a long-standing and active interest in proxy reform, through our direct participation in the debate and also through our involvement with the Securities Transfer Association. We have worked closely with the New York Stock Exchange (the "NYSE") and, more recently, the Shareholder Communications Coalition, to identify areas of critical concern within the existing proxy system and to make recommendations on how to improve the outdated system currently in place.

¹ Computershare Communications Services 2010 Output:

Printed Images Processed 2010:

Global = 1.4 billion

US = 400 million

North America (including Canada) = 525 million

Mail Packs Processed 2010:

Global = 460 million

US = 140 million

North America (including Canada) = 152 million

We operate at approx 50% utilization; therefore even just with current equipment and facilities we could service circa 800 million images and 280 million mail packs in the US alone. Further, we may invest in additional hardware and facilities to deliver up to 1.2 billion images and 420 million mail packs if demand necessitates greater capacity.

NOTE: This document has been reformatted since submission to the SEC; therefore page numbers may differ slightly from the version posted to the SEC website.

The recent amendment to Rule 452, coupled with the impact of relevant aspects of the Dodd-Frank legislation and the anticipated implementation of Proxy Access rules, make it even more critical that corporate issuers have the ability to identify and directly engage all of their shareholders and to communicate with them in a reliable and cost-effective manner. Yet at a time when all shareholders, including beneficial owners, should be more engaged with the proxy process and exercising their voting rights, vote returns from retail beneficial owners continues to decline.

The Concept Release examines many issues that have been raised by various parties with respect to the proxy voting system, in a systematic and comprehensive manner. Where practicable, we have addressed our response within the structure of the Concept Release. We appreciate that the Commission has placed considerable effort in the development of the Release and in the structuring of the concepts examined in it. However, bearing in mind the many points of interconnectivity between the issues and the proposed reforms that we endorse, we have first provided an overview of the key points where the system currently does not operate to the maximum benefit of issuers and their investors, and the reforms that we propose to rectify these areas of concern. We have then further addressed the detail of these issues within the format of the Concept Release. Many of these issues have also been presented in our earlier submissions to the Commission², and in the submissions of the Securities Transfer Association³ and the Shareholder Communications Coalition⁴.

The recent report of the NYSE Commission on Corporate Governance⁵ details ten key principles of corporate governance. Principle six recognizes the importance of transparency by both corporations and investors, and the necessary interdependency of the corporation (Board and management) and shareholders in achieving good corporate governance, as follows:

“Principle 6

Good corporate governance includes transparency for corporations and investors, sound disclosure policies and communication beyond disclosure through dialogue and engagement as necessary and appropriate.

*The Commission recognizes that transparency is a critical element of good corporate governance, and that companies should make regular efforts to ensure that they have sound disclosure policies and practices. While disclosure is the primary method of communication with shareholders, the Commission understands that, where appropriate, management or directors should engage in direct dialogue with investors on governance, performance or strategy concerns. Companies and shareholders should develop best practices to ensure that such conversations are meaningful to the participants, result in increased understanding and trust among boards, shareholders and management, and are conducted in compliance with applicable rules and regulations. **Investors should also be held to appropriate levels of transparency and be required to disclose holdings, including derivative or other security ownership, on a timely and equal basis, subject to the recognition that certain information relating to trading and investment strategies may be proprietary [our emphasis added].**”*

² Computershare & Georgeson letters to the Commission: Dated March 27, 2009, regarding “Proposed Rule Change, as modified by Amendment 4, to Amend New York Stock Exchange Rule 452 and Listed Company Manual Section 402.08, to eliminate Broker Discretionary Voting for the Election of Directors, Release No. 34-59464; File Number SR-NYSE-2006-92”; and dated August 17th, 2009, regarding “Facilitating Shareholder Director Nominations, File No. S7-10-09”.

³ Letter of the Securities Transfer Association, Inc., to the Honorable Mary Shapiro, dated June 2, 2010, regarding “Proxy Communication Fees”.

⁴ Shareholder Communications Coalition dated August 17, 2009, regarding “Facilitating Shareholder Director Nominations, File No. S7-10-09”.

⁵ Report of the New York Stock Exchange Commission on Corporate Governance, September 23, 2010

While the NYSE Commission on Corporate Governance did not offer any new insights on proxy mechanics, we agree that it is critical for the Securities and Exchange Commission to push forward with reform measures to give effect to some of the core corporate governance principles contained in the report. It is useful to note that the recommendations of the Shareholder Communications Coalition, which we continue to support, are not inconsistent with these broad umbrella principles set by the NYSE Commission.

Reform is urgently needed

Reform of the current proxy system is critical, to ensure the establishment of a process that provides:

1. Better Governance Outcomes
 - Transparency of share ownership and the ability for issuers to engage in direct communication with all shareholders;
 - The re-engagement of investors in the proxy voting process;
2. Process and Cost Effectiveness
 - Improved system-wide integrity of the vote by implementing processes to increase vote accuracy and auditability;
 - Reduction in complexity of the system and ability for issuers to choose service providers, yielding the creation of material cost savings.

There are three broad problems with the current system: monopolistic practices, decreased voter participation, and slower innovation than would occur in a highly competitive market:

1. A near-monopoly environment, created in part (and thereafter entrenched) by the existing regulatory framework which places the onus (but not the cost) for communication to beneficial owners on intermediaries, means that issuers have no control over or any choice in service provider or the full range of communication channels they might use to reach their shareholders; yet issuers must bear the full costs of intermediary communications. Issuers are also subjected to excessively high, non-negotiable, transaction costs for services provided by the agent chosen by the intermediary;
2. Decreased voter participation has resulted from issuers' inability to directly communicate with a significant portion of their shareholders, due to a bifurcated market, the cost to communicate and regulatory barriers;
3. Lack of competition results in slower, sporadic innovation and reduces communication options for issuers and their investors (while elsewhere other industries are experiencing significant technological shifts that deliver greater flexibility, increased choice and lower operating costs).

These issues will not be remedied by simply engaging in incremental reforms or by merely adjusting again the regulated fees charged to issuers; the system needs to be more fundamentally reconfigured.

Background

When the current system was first introduced, in the 1970's, there were some major impediments to the type of system that we are advocating now:

1. Computerization and integrated workflow processing were not ubiquitous: the industry relied on many manual processes;
2. There were no industry standards in place for file formats or data transmission for these types of transactions;
3. Only 30% of shares were in street-name form, while 70% of shares were held in registered form (permitting direct communications between the issuer and investor);
4. Some street-name investors who held accounts at intermediaries wanted to protect their identity and did not want their details to be notified to the company they were invested in;
5. Not all intermediaries claimed reimbursement from issuers for the costs of proxy distribution;
6. There were many more transfer agents in existence than now, making the co-ordination and manual distribution of materials and the manual submission of votes by investors back to so many parties highly inefficient;
7. There was no central settlement system in operation until the establishment of the Depository Trust Company ("DTC").

Today, technology has rendered most of these issues either irrelevant or easily manageable. Viewed in this historical context, we hope the public policy interest will be clear for many more observers and commentators to understand.

1. Computerization in the securities industry is now ubiquitous. Technology is critical to the operation of the markets and its future development;
2. Industry standards are in place. This is a non-issue in the context of the proposal under consideration. Common message formats can be readily adopted by market participants. This is a critical aspect to unbundling the data aggregation function from the transactional functions that utilize that information;
3. Some 70% of shares are held in street-name form, in a system that was designed when only 30% of shares were held in that form. By contrast, direct communication between issuers and investors was easily permitted for 70% of all shares before this dramatic increase in intermediation. In this historical context, it is clear that the intermediary system has progressively disconnected the issuer and investor relationship;
4. Some street-name investors who hold accounts with intermediaries such as banks and brokers still want to protect their identity and do not want their details to be disclosed to the company they are invested in. The direct communications proposal respects this. Furthermore, technology (especially when coupled with regulation) enables privacy rights to be managed effectively without compromising the broader benefits of introducing a more open, competitive and transparent shareholder communications system;

5. Effectively all intermediaries claim reimbursement for the costs of proxy distribution, through the dominant proxy agent invoicing issuers at the maximum rate specified in the NYSE rules.
6. The top four transfer agents now provide services to 85% of registered shareholders in public companies in the US.

Today, the Depository Trust & Clearing Corporation (“DTCC”) plays a critical and pivotal role in the operations of the securities market. DTCC is the hub that connects all major market participants including brokers, banks and trust companies representing investors; with transfer and other agents representing issuers. DTCC operates a highly secure network that is responsible for supporting settlement of over a quadrillion dollars of trades⁶ every year. It is a trusted and regulated party. It has the regulatory standing, technology, expertise and legal role in the intermediated ownership structure to facilitate more open and effective communications.

To ensure market competitiveness, and to ensure the market can innovate at the speed that buyers and consumers of services demand, it is critical that the Commission reconfigure the proxy system to enable direct communications between issuers and investors. The intermediary system is critical to the operation of a vibrant and liquid stock market but its design has some shortcomings. While maximizing trading and settlement efficiency, it impedes the parallel and equally important corporate governance needs – thereby diminishing the engagement that is critically needed between issuers and investors. Shareholder engagement is of critical importance to the good governance of companies and the efficient operation of the equity market.

The intermediary system represents a wall that separates issuers and their investors; this wall needs to come down.

Today, we contend that both critical policy objectives - market infrastructure that supports a vibrant securities market on the one hand and a communications and processing infrastructure that facilitates open, transparent and effective communications environment on the other - are no longer mutually exclusive. Technology, when coupled with effective regulation, competition and innovation will deliver this.

Reforming the System

We strongly recommend that the current system be fundamentally reformed to improve the accuracy, integrity and transparency of the voting process. This can be achieved by:

1. Eliminating the distinction between OBOs and NOBOs
 - This would greatly enhance the ability of issuers to identify and communicate directly with all their shareholders equally;
 - The distinction is outdated, poorly understood by investors and acts as a substantial inhibitor to a transparent and effective proxy voting system. It does not serve the interests of the vast majority of investors yet imposes excessive costs on issuers;
2. Unbundling the key functions necessary to administer voting by beneficial owners, to optimize cost-effectiveness, transparency and auditability
 - The functions of: (1) aggregating beneficial owner data; and (2) disseminating communications to those holders, should be unbundled;
 - Beneficial owner data aggregation should be recognized as a critical central function that must be operated on behalf of all key stakeholders: issuers as well as the intermediaries.

⁶ Source: DTCC

The centrality of this function necessitates that it should be performed by an independent third party “hub” that is accountable to the needs of all stakeholders in the process;

- Issuers should be able to select a proxy distribution and communication agent of their own choosing, to distribute materials to *all* their investors, using the beneficial owner data obtained from the entity serving as the data aggregator hub as well as registered holder data from the issuer’s transfer agent.
3. Transferring proxy authority to the beneficial owner directly
- Beneficial owners should be entitled to receive the same proxy form as registered shareholders, and to directly lodge their vote with the issuer; to attend the meeting; or to sub-delegate their proxy authority to an agent to exercise on their behalf if so desired;
 - Beneficial owners should be directly enfranchised to vote their security entitlements within a secure, transparent and fully auditable process. This is not possible with the opacity of the current process, where intermediaries allocate voting rights without any obligation to reconcile votes issued to shares held at record date;
 - The use of issuer-directed, informative and plain-English proxy forms would help increase shareholder engagement by facilitating recognition of the relevant issuer that is subject of the proxy and providing clearer communication on the vote items. In our view, this would improve vote participation by beneficial owners;
 - Street-name holders would continue their direct relationship with their intermediary but would be allowed to directly exercise their voting right with the issuer.

DTCC is a logical party to undertake the role of aggregator of beneficial ownership data. Not simply because it is the operator of the settlement system and a highly secure hub connecting all parties in the financial system; it is also a logical party since DTCC holds the legal ownership of all shares in the US that are held in street-name form. Investors hold entitlements to such securities, but DTCC holds the legal ownership on the books of the issuers. Under prevailing laws, Cede & Co.⁷, first receives the right to vote; these voting entitlements are delegated to brokers and banks that then canvass their clients for instructions.

The selection of a “hub” operator such as DTCC is essential to enabling direct communications between issuers and investors. We refer the Commission to the Shareholder Communications Coalition letter of August 4, 2009 which also detailed these proposed reforms.

Accuracy, Transparency and Efficiency of the Voting Process

Over-voting and Under-voting

Problems of integrity and accuracy in the current system are apparent, and have been documented in various forums, including news media reports of voting miscounts and delays in determining election results by proxy service providers. We have attached in Appendix 1 a sample of errors that have come to public attention through media commentary. The current system does not permit an independent third-party to audit and verify the results of an election, “end-to-end” (from compilation of a reconciled list of beneficial owners that are eligible to vote through to the final tabulation of votes cast at a shareholder meeting). These problems need to be addressed, as increasing investor activism and proposed regulatory changes are expected to cause many more close votes on shareholder proposals and director elections.

The NYSE Commission on Corporate Governance noted that:

⁷ DTCC’s nominee that is the registered shareholder for all securities represented in DTCC’s systems.

Shareholders have a right to vote on fundamental issues relating to the corporation, including certain mergers and other proposed transactions as well as the election of directors. Shareholders have a right to expect that voting on these issues is fair, honest, accurate and transparent, and that the board and management give due weight to shareholder votes⁸.

In our view, the lack of transparency in the current system does not permit independent verification of the “fairness, honesty or accuracy” of recording the votes of street-name holders.

In October 2010, we conducted a survey of key issuers, representing a cross-section of our client base, to obtain their opinions on the current U.S. proxy system (please refer to Appendix 2). Of the participants, 55% responded that the current ‘street-name’ voting system does not deliver sufficiently reliable, accurate and auditable results. Only 17% expressed faith in the current system. A clear majority of 73% agreed that a more transparent proxy system would improve the reliability, accuracy and auditability of voting results, while an overwhelming 90% believe that a competitive market environment will provide cost savings in the shareholder communications and meeting process.

Securities are most commonly held in so-called “fungible bulk” at DTCC by the intermediaries. The beneficial owner has only a pro rata property right to the securities held in bulk by the relevant intermediary for all clients that hold securities entitlements through that intermediary. Beneficial owners reasonably expect that they have a direct entitlement to the securities that are the subject of their economic investment, and entitlement to the incidents of ownership of securities, including payment of dividends and the right to vote. However, at present there is no rule that requires intermediaries to reconcile for proxy purposes the aggregate of their entitlement holders’ positions to their aggregate holding of the relevant securities (most commonly through the fungible bulk position at DTCC but potentially also to their upper-tier custodian, if used). Conversely, we note that intermediaries and DTCC do reconcile four times a year for the purposes of managing dividend payments, specifically for tax credits to ensure these cannot be manufactured and over-claimed. The over-voting process should be analogous to this.

Pre and Post Reconciliation

In the Concept Release, the Commission poses questions about which method brokers should use to reconcile client positions with available proxies. Two reconciliation methods are practiced today: “pre reconciliation” and “post reconciliation”. Many commentators who seek greater transparency and integrity of the voting process argue that the reconciliation should be conducted *before* proxy forms are issued, so that an eligible voter list can be made available. This is a sound and robust recommendation and we support this position.

The alternative “post reconciliation” method is held out as one that enables more shares to be voted, which supposedly benefits the company. This is a curious statement since the increase in voting is achieved by more parties being given the *capacity* to provide voting instructions, through Voter Instruction Forms (“VIFs”), than should have an *entitlement* to vote, due to an imbalance between the sum of entitlements created by an intermediary for its clients (and the intermediary’s own position in the relevant securities) and the total number of securities held in the intermediary’s fungible bulk position at DTCC. This imbalance arises where DTCC debits an intermediary’s securities held in its fungible bulk position to satisfy its settlement obligations; but where the intermediary has not correspondingly debited the relevant entitlement positions on its broker-client systems, that should otherwise reconcile to the fungible bulk. The securities may have been used as a securities loan, or to satisfy a market settlement

⁸ Refer note 5 above.

obligation. In most cases, the beneficial owner of the securities will not know that ‘their’ securities have been used in this fashion.

As the entitlement positions are not adjusted to reflect the use of the investor’s securities, the “post reconciliation” method results in a VIF being sent to the investor, in addition to the party that acquired those shares receiving an entitlement to vote. How can this approach offer certainty to investors that their vote will be accepted? This approach is only feasible on the assumption that some investors will not return their vote instructions, allowing the lack of reconciliation to be hidden through the bulk position of the intermediary. Otherwise, an over-vote situation would arise. Under a securities lending arrangement, the securities may have been transferred to another party where the parcel of shares could have been bought and sold many different times.

The purchaser or purchasers of the securities (i.e. the person in possession of the securities) is entitled to vote the shares, yet the original entitlement holder still receives a VIF that they can return to their intermediary. We believe that this is not a fair or equitable structure, particularly where the acquiring investor may have different voting intentions from the original entitlement holder, whose securities have been lent or transferred, at times without their explicit knowledge. We appreciate that client agreements may permit an intermediary to use securities for lending purposes. However, our concern is with the lack of visibility to the client when this occurs – the client continues with the expectation that they are entitled to vote shares that have in fact been transferred to another party, who therefore is actually entitled to vote the shares at the record date.

It is reported that this is common practice for shares that are held in margin accounts; however, there appears to be no systemic safeguards to prevent clients’ securities being used to settle obligations of the intermediary. As the securities are held at DTCC in a fungible bulk, DTCC cannot tell which securities in the fungible bulk position represent assets of clients or the firm. DTCC’s role in the settlement process is to debit securities from the intermediary’s fungible bulk whenever the intermediary has a settlement obligation. While intermediaries organize securities loans to cover short and arbitrage trading by their own firms or by their other clients, there appears nothing to prevent regular client securities from being used to cover the broker’s settlement obligation (whether or not these represent the firm’s own short positions or those of other clients). DTCC does not discriminate nor seek to understand who the intermediary’s clients are. As a settlement system operator, its role is to transfer positions between system participants in settlement of their obligations to one another.

In the context of proxy reform, as an absolute minimum, broker allocation policies should be explained to their clients, so clients (in their capacity as shareholders) have a clear understanding of their legal and contractual rights. We support the recommendation of the Shareholder Communications Coalition requiring banks and brokers to conduct pre-reconciliation procedures. We also support the delegation of proxy authority directly to all beneficial owners.

Improving systemic safeguards for investors

We are surprised that the Commission has not questioned the underlying cause of vote imbalances in the concept release, and whether the practice of maintaining a fungible bulk of client and firm securities is still an appropriate structure in today’s financial markets. The collapse of Lehman Brothers and the identification of fraud such as that conducted by Bernard Madoff gave greater visibility to some of the imperfections in the current “four-tiered”⁹ architecture of the US settlement system, and its lack of

⁹ The “four-tiered architecture” is the hierarchy of relationships between the register (tier 1); registered shareholders, including the registered holding of Cede & Co. (tier 2); the DTCC participants’ accounts (sometimes referred to as a “fungible bulk”), where DTCC records ownership rights of individual intermediaries (tier 3); and then the separate databases maintained by each intermediary of their respective client holdings (tier 4). Under

integrated and systemic safeguards. Safeguards that would better protect investors include: the segregation of client assets from firm assets; and the use of designated settlement accounts in the DTCC system to prevent client securities within the broker's fungible bulk from being used to cover the broker's settlement obligations, whether they are the firm's own trading obligations or obligations owed on behalf of other clients.

While we appreciate that this is a much bigger subject than proxy reform, we encourage the Commission to review this aspect of the settlement system as part of its review of market structure. Resolving this issue (i.e. separating out clients assets from broker settlement obligations, whether for the firm or other clients of the same firm) would immediately solve the over-voting situation, since the "four-tiered" architecture of the US settlement system would reconcile at all times. Under such architecture, securities could only be lent where the loan was recorded against the client's account, thus reducing the long position and ensuring that a proxy for a non-existent position would not be issued.

In other major international markets where we operate, such as the United Kingdom, there is a clear requirement to segregate client and firm assets in the central settlement system. The settlement system also enables intermediaries to segregate client and firm assets from its designated "settlement account", from which the central settlement system operator will debit or credit securities in the course of the settlement process. This is the converse to the operation of a single fungible bulk of securities, where DTCC will debit securities from the fungible bulk (without regard to who the underlying owner of the entitlement to those securities is) to effect settlement of a market transaction undertaken by the broker.

Investor protection can be enhanced by using such segregation processes. The reforms recommended to improve the proxy system will take one small step towards this, with proxies being issued by the agent of the issuer based on the pre-mailing reconciled eligible voter list. Under this arrangement, any shareholder that does not receive a proxy will have good reason to discuss the matter with their intermediary. Importantly, the integrity of the system will be beyond question. (This may be one reason why there is resistance to direct communications between issuers and their street-name investors, as it will create transparency in respect of an allocation process which today is completely opaque.)

While it has been argued by some commentators that the "pre reconciliation" approach would reduce the retail vote participation, and is expensive, we would strongly urge the Commission to consider the key policy considerations here. Integrity of the system demands that voting rights be allocated to the party that is entitled to exercise them. Inefficiencies in the voting process, and particularly situations such as over-voting, are at least partially created by an underlying lack of visibility and certainty in entitlement positions between investors and their intermediaries. Furthermore, any potential reduction in voting returns due to a "pre reconciliation" approach under our proposed reforms would be remediated by the benefits of direct communication with the issuer that we have detailed in this response, which we believe will increase retail street-name holder vote participation. These reforms will necessitate a general outreach and education strategy which will also facilitate re-engaging retail investors.

Intermediaries must be subjected to an affirmative obligation to reconcile their positions at record date to ensure integrity in the whole chain of security ownership; to ensure that the rights of share ownership are passed to, and able to be exercised by the relevant entitlement holder; and to enable the creation of a reconciled and auditable list of eligible voters. Voting is a key mechanism for investors to exercise their

this four tiered architecture, there are no independent systematic controls that ensure that the total assets held for clients collectively by all intermediaries reconciles vertically up and down the four tiers in the hierarchy of ownership. This lack of central control means that there can be more security entitlements recorded in the intermediaries' databases than exists within Cede & Co.'s holding of actual securities on the register of shareholders of the company. Various reasons for this imbalance were discussed in our section on "Pre and Post Reconciliation".

ownership rights over a public company, and is critical to effective and responsive corporate governance. It is wholly appropriate and necessary that intermediaries be required to reconcile their entitlement positions at record date, to ensure that the appropriate owner of securities is given the right to vote.

Recommended Reforms

The system of shareholder voting must support a robust process that is accurate and efficient. It is equally important that the integrity of the system is *evident* to all stakeholders, to ensure confidence in the outcomes of the voting process. In an environment of increasing investor activism and close vote outcomes, reform is essential to ensure that the system is significantly more transparent than at present and that it is subject to systemic controls to ensure accuracy in the complete vote process. All stakeholders, most particularly the issuers and their investors, require confidence that voting rights are being properly allocated, and that voting results are accurate. The current system does not deliver this.

To address these concerns, we urge the Commission to implement the following requirements:

- The categories of Non-Objecting Beneficial Owner (“NOBO”) and Objecting Beneficial Owner (“OBO”) should be eliminated. The impact of this on issues of confidentiality of investor information are addressed further in relation to shareholder communications, under our section on “Issuer Communications with Shareholders”;
- Brokers and other financial intermediaries should be required to produce an “eligible voters” list as of the record date for each shareholder meeting, to an independent hub which aggregates beneficial owner data. Reconciliation to their fungible bulk position at DTCC should occur before an intermediary transmits record date beneficial owner information to the data aggregator and before proxy forms are mailed to beneficial owners and registered shareholders.
- Proxy authority should be transferred by the intermediaries, who received authority from DTCC, to **each** beneficial owner, as of the record date established for a shareholder meeting, through the same omnibus proxy process that is currently employed by DTCC.
 - Transferring the proxy authority to the beneficial owners is consistent with state law requiring voting authority to be exercised by the registered holder, by creating the same chain of voting authority traceable to the legal holder (Cede & Co., controlled and managed by DTCC) currently accepted on a universal basis where the omnibus proxy is provided to the banks and brokers. Thus, the legal structure is the same; however the beneficial owner is directly enfranchised to exercise their voting right rather than continuing to be intermediated.
- The NYSE and Commission rules requiring intermediaries to disseminate proxy materials to their entitlement holders should be amended to instead permit the issuer to direct the distribution of proxy materials (through their selected service provider), to the entitlement holders identified on the eligible voters list.
- The issuer’s appointed agent should produce a certified “eligible voters” list, combining the beneficial owners and the registered investors in the issuer. In lieu of a VIF (which can only be executed through the custodian or their agent), all eligible voters should be sent a proxy card, containing the issuer’s branding to facilitate identification and the issuer’s content, that can be voted directly with the tabulator.
 - This method would provide for efficient tracking and auditing of individual voting instructions, and would ensure an accurate result.
- The beneficial owner should be permitted to delegate their voting authority to their intermediary, or another nominated third party such as a voting agent. This should occur at the election of the investor and through their contractual arrangements with their intermediary.
- The regulatory structure should incorporate a “deeming provision” for consents, such that e-communications consents (received by intermediaries for the provision of electronic

communications) and house-holding instructions are deemed to extend to the issuer *for the purposes only of shareholder communications*, allowing investors' email addresses and house-holding preferences to be included in the data provided to the data aggregator.

Vote Confirmation

A transparent system will also enable the provision of vote confirmations upon request, to any investor, as the tabulator will be able to verify the vote lodged against the "eligible voters" list. Institutional investors, who are subject to various compliance requirements regarding their proxy voting activities, have been keenly interested in a vote confirmation system for almost two decades. However, even in that situation, *there is no mechanism for an issuer to determine whether the votes submitted accurately reflect the actual instructions of their shareholders*. The opacity of the current system does not permit issuers to trace a beneficial owner's vote instruction, communicated to its intermediary's agent, to the vote lodged against the registered share position of Cede & Co.

In principle, we see no reason why vote confirmations cannot be made available to investors either in today's system or in the direct communication structure that we propose. However, under the current system, neither the issuer nor any beneficial owner will have access to the same transparent and independently verifiable confirmation that the beneficial owner's vote instruction has been lodged at the shareholder meeting as directed. This is an inevitable facet of the current structure where an investor's securities are generally held in the intermediary's fungible bulk at DTCC. The Cede & Co. position is recognized under state law as the registered shareholding eligible to vote at the shareholder meeting. A vote instruction provided by a beneficial owner follows the chain of intermediation. Neither the issuer nor the beneficial owner can therefore trace their instruction through these various pooling processes, from vote instruction through to the vote lodged on behalf of Cede & Co.

The present structure means inevitably that only Broadridge, with its connectivity to the substantial majority of all intermediaries' systems, can trace this voting chain. Moreover, Broadridge can only provide vote confirmations where it also acts as the tabulator for the issuer, and thus can confirm the final vote lodgment for Cede & Co. By contrast, under the direct communications structure that we propose the transparency of the system, the interposition of the data aggregation hub and delegation of proxy authority to the beneficial owner will enable any tabulation agent appointed by the issuer to provide confirmation back to investors that their vote instruction has been recorded¹⁰. This would be accomplished by assigning a unique identification number to each shareholder record processed by the hub. Investors could then utilize this number to query the tabulator and/or the hub to determine the status of their vote. Currently, any investor seeking confirmation from Broadridge would have to make their request through their custodian unless they are a subscriber to Broadridge's *ProxyEdge* service.

To require vote confirmation to be made available within the current structure will again simply provide further regulatory entrenchment of the monopolistic position of a commercial service provider, without making the voting process any more transparent or independently verifiable.

Proxy Distribution Fees

In the current monopolistic¹¹ environment, where Broadridge predominantly controls the data aggregation and distribution processes, no direct correlation exists between the fees charged and the actual costs of providing proxy services. The current fee structure no longer reflects reasonable

¹⁰ The vote confirmation will be available even if the beneficial owner elects to hold through a nominee to preserve anonymity from the issuer.

¹¹ We appreciate that a small number of entities, in addition to Broadridge, do offer proxy services to intermediaries. However, Broadridge processes over 99% of beneficial owner volumes, giving it a more than dominant market position and allowing it to exercise monopolistic control.

reimbursement of expenses borne by brokers, resulting in issuers being subjected to excessive costs that are specified by regulators.

The fee issue extends far beyond the basic question of what is the “appropriate” level of fees. We are strongly of the belief that the very concept of setting regulated fees for the provision of commercial services is highly inappropriate. Regulators should not be placed in a position of having to determine appropriate fees for the provision of commercial services, unless a market-based system cannot be established. The Commission has long called for the establishment of a competitive market for proxy distribution services¹².

There is an inherent tension in a structure where issuers bear responsibility to pay for the costs of communications, and intermediaries control the process of communications but outsource that process primarily to one service provider. This tension might be temporarily alleviated by periodic reviews of the fee structure, but it is never wholly removed. **The system must be reformed to allow competitive market forces to drive the fees that issuers pay, to the greatest extent possible.**

Although the current NYSE-regulated fees are expressed as a “maximum” rate, in reality the maximum fees have been implemented as prescribed fees. The theoretical ability for issuers to negotiate reduced fees with each intermediary is impractical, due to the number of market participants, and the revenue-sharing relationship between the intermediaries and Broadridge. Furthermore, issuers have no contractual relationships with banks and brokers or the agent(s) they employ to discharge their communication obligations. The Securities Transfer Association (“STA”) letter of June 2, 2010 examined in detail a number of concerns with the inappropriateness of current fees. We would direct the Commission’s attention again to that letter.

We note that it has been almost a decade since the NYSE reviewed its proxy fee schedule. In its June 2, 2010 letter to the Commission, the Securities Transfer Association outlined several practices that bring the interpretation and implementation of the current fee structure into question, including (without limitation): (i) the appropriateness of suppression fees; (ii) Notice & Access fees; (iii) the billing of transaction and suppression fees (and Notice & Access fees) for the consolidation of accounts representing managed accounts voted by money managers; and (iv) the practice of “fee-sharing” between Broadridge and its intermediary clients. The letter also cites the 2006 recommendations of the NYSE Proxy Working Group, in which they call for an independent third-party analysis to determine if the fees are “reasonable” based on Broadridge’s costs of providing service and their related revenues, and whether their broker rebates cover costs unrelated to beneficial owners. There is no evidence that these recommendations were ever implemented.

It is noteworthy that the NYSE sought to follow a “market forces” approach to pricing for the implementation of Notice & Access. However, Notice & Access communications still operate through the established system where materials for street-name holders must be distributed via the intermediaries. This enabled Broadridge to establish non-negotiable fees for dissemination of Notice and Access materials. With a monopolistic entity embedded within the system (supported by regulations that continue to place the primary obligation to communication on intermediaries), it is not possible to achieve competitive market pricing. The Broadridge pricing policy for Notice & Access specifies that all standard NYSE fees will continue to apply to Notice & Access, except for some minor modifications on certain fees.

¹² For example, we refer to the *Order Approving Proposed Rule Change and Amendment No. 1 Thereto by the New York Stock Exchange, Inc. Amending Its Rules Regarding the Transmission of Proxy and Other Shareholder Communication Material and the Proxy Reimbursement Guidelines Set Forth In Those Rules, and Requesting Permanent Approval of the Amended Proxy Reimbursement Guidelines, Exchange Act Release No. 45644, 67 Fed. Reg. 15,440, at 15,443-15,444 (Apr. 1, 2002)*

In addition, Broadridge applies what it refers to as an “incremental fee for all positions in an issuer’s... job when N&A is chosen”¹³.

These considerations reinforce the need to fundamentally reconfigure the approach to the aggregation and distribution processes. All aspects of the current system are interconnected and mutually reinforce the cost inefficiencies and quality concerns. These issues cannot be cured by simply adjusting the fees to reduce the cost burden on issuers; nor is it practicable to just remove the regulated fees to allow negotiated fees to be implemented. Competition will only be achieved by transferring the distribution obligation to the issuer and requiring the intermediaries to provide the client/shareholder information to enable the issuer to communicate with its shareholders directly. This aligns the obligation to pay for services with the contractual obligation to effect such communications, and will remove the most critical impediments to the development of a market-based solution. The technologies did not exist to facilitate this model when the communications system was first introduced. Today, we firmly contend, that is no longer the case.

The STA has recently released an analysis titled “*Estimated Cost Savings of a Market-Based Proxy Distribution Model*”¹⁴. The study compares the proposed pricing from six large providers of transfer agent services for three proxy jobs of different sizes with the actual fees charged by Broadridge. The results demonstrated savings ranging from 20.52% and 71.62% when compared to current billing practices.

The most effective solution to this inherent conflict is to separate out the two key functions that are involved in distributing proxy materials to beneficial owners: the process of aggregating data on the ownership positions; and the dissemination of proxy and other shareholder communication materials.

A. The Structure of the Data Aggregator “Hub”

The data aggregation process should be performed by an independent, not-for-profit regulated industry service-provider (the “Hub”) approved by the Commission and relevant Self-Regulatory Organizations such as the NYSE.

We believe that DTCC is the most logical entity to operate the Hub. DTCC is the central repository for the banks and brokers-dealers that separately hold and maintain the beneficial owner positions, which are the focal point of these recommendations. As a low cost provider of choice, it has built and maintained electronic connectivity to all of the industry members in the proxy process, including the proxy tabulator/distributor providers, such as Broadridge and Mediant. Issuers and their agents have direct communication links with DTCC.

DTCC has unprecedented experience as a hub provider. For example, its subsidiary, National Securities Clearing Corporation (NSCC)¹⁵ operates Networking, a mutual fund process under the Fund/SERV product line. Networking is a central record-keeping system through which all mutual fund investor account information can be exchanged and reconciled between the funds (issuers) and banks, brokers-dealers, and other designated distribution firms, allowing identical investor information to appear on all intermediary records. This model is similar in scope and functionality to the Hub that we are recommending.

Under DTCC’s depository services, its subsidiary, DTC, operates the Profile Modification System (“Profile”), another example of DTCC providing Hub-like services for the exchange of beneficial

¹³ See <http://www.broadridge.com/notice-and-access/basic.asp> Pricing Tools.

¹⁴ The STA White Paper is available at www.stai.org

¹⁵ DTCC’s subsidiary, National Securities Clearing Corporation (NSCC), established in 1976, provides clearing, settlement, risk management, central counterparty services and a guarantee of completion for certain transactions for virtually all broker-to-broker trades involving equities, corporate and municipal debt, American depository receipts, exchange-traded funds, and unit investment trusts.

owner contact information and positions. Through Profile, DTC provides an electronic interface to pass instructions to move beneficial and registered investor positions between DTC participants and issuers and transfer agents. Investor information, such as broker or transfer agent account numbers, addresses Social Security Numbers and Tax Identification Numbers, is exchanged on a daily basis.

DTCC has the ability to manage and store large volumes of data in a secure manner, alleviating any security or privacy issues. DTCC supports a comprehensive range of electronic connectivity methods, such as batch, file transfer, and secure online connections. DTCC's subsidiary already has the systems and processes in place to announce and track multiple record dates for an issuer.

The Hub will require Commission regulations to be enacted. The Commission, and Federal and New York Banking authorities, among others, already regulate DTCC and most of its subsidiaries.

The Hub entity would interface directly with the intermediaries to obtain record date shareholder data. Intermediaries would be required to reconcile their own entitlement holder records to the DTCC position. In addition to the shareholder's address (and email address if consent to e-communications is given) and share position, the list should also indicate the investor's delivery preferences (e.g., electronic delivery, delivery to a voting agent, etc.) if applicable.

Once the files have been received from all intermediaries, the Hub would also have a verification process to ensure that the reconciliation was performed and would match the aggregate numbers to the DTCC omnibus proxy, which is the record date position for each intermediary.

The Hub will compile and transmit the reconciled "qualified voters list" to a proxy distribution agent chosen by the issuer. Shareholder delivery preferences (e.g., electronic distribution, "wrap" accounts, "house-holding" accounts, etc.) would be stored by the intermediary or its agent. The issuer's agent would then load the accounts to the meeting file, similar to any other third party data file, such as an employee plan participant file.

The Hub should not store the investor information. The data in the files received from intermediaries is a snapshot at the record date only, which should be immediately purged at the conclusion of the event, and the enabling rules should specify that it cannot be used for any purpose other than shareholder communications.

We estimate that the total number of beneficial owner records that would need to be handled by issuer agents would be 250 million, based on data extrapolated from annual meetings handled on behalf of their clients in 2009. A discussion of the technical aspects of the proposed data aggregator Hub is provided in our "*Proxy Mechanics Discussion Paper*"¹⁶. We also note that we are preparing a detailed analysis of the Hub processes, including capacity analysis, which will be separately provided to the Commission to further substantiate this proposal.

While we believe DTCC is the logical "first choice" to act as the Hub operator, other major data management and processing organizations in the financial services space may also be able to fulfill this role effectively. In our view, there will be significant "time to market" and cost advantages if DTCC introduces what should be seen as modest incremental system changes to

¹⁶ *Proxy Mechanics Discussion Paper: Comparison of Existing and Proposed Market Mechanics*, dated May 3, 2010, and available at: http://shareholdercoalition.com/ComputershareDiscussionPaper_MarketMechanicsComparison5-3-2010.pdf

facilitate shareholder communications by issuer agents. There are international precedents for central settlement systems providing connectivity services between market participants and issuer agents to facilitate shareholder voting, e.g. the UK CREST system operated by Euroclear UK & Ireland. In the CREST environment, intermediaries may elect to either transmit votes electronically via CREST or lodge them directly with the issuer's agent.

B. Fees for Proxy Distribution and Communications

Corporate issuers should have the right to choose their own service provider for proxy distribution and tabulation services in an open market where fees are determined by competitive forces. By separating the role of data aggregator of shareholder records from the distribution of proxy and other communications material to street-name shareholders, the distribution and tabulation function can be submitted for competitive bidding; allowing issuers to choose a distributor not only on the basis of price but also on the quality of service and innovative products.

The fees paid for proxy distribution and communication services, including Notice & Access, should be established through open competition among service providers handling these functions, based on value to end-users and not through a fee schedule established by regulators. Under a competitive system, the issuer's agents would have a vested commercial interest in providing innovative products that encourage increased use of technology (including electronic distribution) at fees that better reflect their costs and commercial margins.

Computershare's own internal analysis concluded that our clients could realize an average savings of at least 30% (and more where electronic communications are effected) in a competitive market environment. The STA White Paper on "*Estimated Cost Savings of a Market-Based Proxy Distribution Model*" showed savings ranging from 20.52% and 71.62% when compared to current billing practices. This clearly demonstrates the significant cost efficiencies that a market-driven pricing structure would provide to issuers, thus benefitting the shareholders.

Communications and Shareholder Participation

Issuer Communications with Shareholders

We continue to be very concerned that the current market structure inhibits issuers' ability to communicate with their shareholders. The structure of street-name holdings, particularly the NOBO/OBO distinction, imposes excessive costs and administrative burdens on issuers, and reduces their capacity to effectively communicate with investors. This is highly detrimental in an environment where corporate governance and the informed exercise of ownership rights are increasingly important and subject to widespread scrutiny.

The 2006 NYSE "Investor Attitude Survey" demonstrated a strong preference among investors for direct communication with the companies in which they have chosen to invest. An overwhelming 95% of investors indicated that they would elect to be NOBO and receive direct communications from the issuer if a nominal fee of \$50 per annum were charged to maintain their account as OBO. This strongly suggests that any privacy concerns are not deeply held by the vast majority of retail investors. It is also notable that very few investors recalled being asked whether they wanted to be NOBO or OBO, and widespread ignorance of the current proxy process was apparent.

As an example of the impact of the high costs of communicating to beneficial owners, we would draw the Commission's attention to the change in issuer practice in relation to quarterly reports. Prior to the mid 1990's, many issuers voluntarily disseminated their quarterly reports to all shareholders, registered and

beneficial. However, the excessive cost of distributing to beneficial owners has resulted in issuers ceasing to send out quarterly reports. In our view, reforming the system to deliver substantial cost savings to issuers will result in an increase in the types of informative shareholder communications that issuers will distribute. While the internet has been revolutionary in providing a means to achieve the highly cost-effective publication of information, it still generally requires users to search for the information they need. The direct communications model enables issuers to send (or “push”) the information directly to all their shareholders. The internet is a very effectively platform to complement direct communications protocols.

We do note that the recent amendments to Rule 452 have not resulted in appreciable reductions in quorum for the majority of issuers, although small and mid-cap issuers have tended to experience somewhat greater difficulty. In our experience, this is largely due to many issuers following the practice of including at least one ‘routine’ item on their ballot, to enable the intermediaries to vote¹⁷. Moreover, the institutional vote has enabled issuers to achieve quorum even in an environment where the retail vote participation has significantly declined.

Identifying Who is Entitled to Vote

The U.S. depository system operated by DTCC, with securities held in fungible bulk, has served the securities industry effectively with regard to the clearing and settlement of trades. However, it is an impediment to highly efficient interaction between a corporate issuer and its shareholders, and to the accurate tabulation and confirmation of votes, by increasing intermediation of share ownership coupled with a regulatory structure where the issuer is precluded from direct control over its communication with the vast majority of its shareholders.

The combination of new regulatory requirements (such as Proxy Access and “say on pay”) with dwindling retail voter participation make it essential for many, if not most, issuers to engage in active outreach campaigns to solicit votes. Solicitation efforts benefit investors by further educating them on the issuer’s strategy and the issues to be voted on, particularly given the unfriendly and sometimes uninformative content of the generic forms presently used to obtain votes from street-name holders. Solicitation costs under the current intermediated structure are often excessively high however, due to the difficulties experienced by issuers and their service providers in simply trying to determine who their investors are and who is entitled to vote. It is important to note that solicitation efforts are not simply a matter of an issuer attempting to obtain a preferred result; solicitation can be essential to achieving quorum.

While we generally refer to street-name holders as “shareholders” or “beneficial owners” in this response, we appreciate that, at law, investors that hold their securities through a broker or bank are defined as having a security entitlement which arises from the act of their intermediary creating a book entry indicating that securities have been credited to the investor’s account. In effect, that book entry determines who, under state law, is entitled to the securities, and entitled to the rights of ownership including the right to vote. As noted earlier, this is however complicated by market practices such as securities lending or the use of the fungible bulk position to cover settlement fails, where the intermediary’s bulk position at DTCC may be reduced but the positions of its entitlement holders are often not adjusted.

To identify those investors entitled to vote, an issuer will need to obtain a list of Non-Objecting Beneficial Owners (the so-called “NOBO list”) from Broadridge, hire a surveillance firm, or both. A typical NOBO list covers only approximately 30% of a company’s outstanding shares (primarily retail investors). Fees for the NOBO list are partially regulated, and are often a substantial burden on issuers with large retail populations. We note that the NYSE rules specify a fee of 6.5 cents per name for NOBOs, but allow the intermediary’s agent to determine the quantum of additional “reasonable” expenses in providing the

¹⁷ As suggested in our submission to the Commission on the Rule 452 changes, of March 27, 2009.

information. This structure again supports Broadridge in exercising its monopolistic power to dictate additional non-negotiable fees for the NOBO list¹⁸. We also note that the NOBO list provided, at some considerable expense, may be inaccurate and include beneficial owners who have sold out of their position some months prior to the date the list was created.

The cost impact of obtaining the NOBO list is exacerbated by Broadridge's unilateral "all or nothing" policy. That is, Broadridge requires an issuer to take the entire NOBO list, charging at the prescribed rate plus Broadridge's non-negotiable additional fees, even if the issuer is seeking only to identify a target group of investors; based on holding size, for example. An issuer will commonly seek to maximize its solicitation efforts for quorum by reaching out to its largest holders. As a significant majority of holders on a NOBO list have very small positions, being forced to obtain the whole NOBO list can at times be prohibitively expensive, in excess of \$100,000¹⁹. In any event, the current regulatory framework does not permit direct communications for proxy materials. NOBO lists cannot be used to facilitate the distribution of such materials. This is one reason why broader reforms to the proxy system are needed.

Streamlining the Process and Improving Quality of Communications

The reforms that we have proposed to the proxy system would substantially improve the process of shareholder communications, delivering cost efficiencies. Combining the registered and beneficial owners in the same process will result in a more efficient and streamlined system. Both groups would be serviced by one proxy agent using one card and one set of rules. A customized proxy card with the company's logo, larger type and a plain-English description of the agenda items being voted on is more likely to attract the attention of the shareholder and could be used by any shareholder for admittance to an annual meeting.

It is widely acknowledged that retail voter participation has significantly declined. In our experience, working with both registered and street-name holders, this is at least partially attributable to factors relating to the quality of the communication provided to shareholders. Street-name holders receive VIFs that are designed by the intermediary's agent not the issuer. With its dominant market position, Broadridge therefore designs the vast majority of the VIFs. The VIFs are nearly identical for all issuers that a street-name holder may invest in, non-descript and not user friendly. No differentiation is apparent, to allow an investor to distinguish among the forms received for their various investments. For example, the proxy materials are enclosed in generic plastic wrap that makes it very difficult to identify the issuer.

The proposal descriptions are often highly uninformative and do not clearly explain the items to be voted on. For example, they may just cite "Shareholder Proposal #3" without any explanation of the subject matter for investors to consider and vote on. The VIF does not mirror the wording used by the issuer on its proxy card, which details the items to be voted on, thereby impeding investor comprehension of the matters subject to vote. In addition, the items may be presented in a different order from that on the proxy card, creating further difficulties in accurately tabulating voting results and increasing the risk of errors. Appendix 1 includes examples of situations where the VIF has not accurately reflected the actual proposals to be voted on.

This generic approach to street-name communications does not benefit investors. The poor quality of communication in the VIF, directed by entities that do not have any incentive to educate investors about the issues presented by a particular issuer²⁰ or to encourage voting, in our view contributes to declining retail vote participation. Such investors are disadvantaged by not receiving material directly from the

¹⁸ Similar to the unintended consequence of the NYSE's approach to fees for Notice & Access.

¹⁹ Appendix 3 provides an example of pricing for a NOBO list. It looks at a sample issuer that is representative of issuers with a large retail investor base, and uses Broadridge's published pricing schedule.

²⁰ Or by another shareholder, under the anticipated Proxy Access rules

issuer. Many issuers expend considerable efforts in the design of their proxy cards, to facilitate comprehension by their shareholders. By sending the same proxy card to all investors, rather than having beneficial owners receive a generic and uninformative VIF, issuers can ensure that critical information on the exercise of the investor's voting right is adequately conveyed.

We believe that this poses a real concern for corporate governance. Shareholders must be clearly advised of each proposal to be voted on, to enable them to measure and evaluate the proposals and make an informed voting decision.

Today, street-name holders wishing to attend annual meetings in person must go through additional steps to obtain a legal proxy from their intermediary proving ownership before gaining admittance to the meeting. If the proxy right is transferred directly to the street-name holder, this step will also become redundant.

Balancing Transparency and Confidentiality

The removal of the categorization of investors as NOBO or OBO will deliver transparency that will require intermediaries to reconcile their positions and clarify the allocation of voting rights. The process will be capable of "end-to-end" independent audit.

We note that the issue of investor anonymity or privacy is frequently raised as a reason for retaining the NOBO/OBO classifications. We would suggest that the Commission give consideration to the fact that banks and brokers already outsource the mailing of all shareholder communications to a third party, Broadridge, and thus are already turning over to a third party confidential information: their clients' names, addresses and the number of shares held by their clients in each company. We also note that the NYSE 2006 Shareholder Survey results indicate that anonymity from the issuer is not a significant concern for the vast majority of investors. We assert that regulations and other holding facilities (e.g. nominee or trust arrangements) can fully protect the interests of investors.

We believe that the NOBO/OBO distinction must be eliminated to better balance the privacy rights of investors with the interests of the issuer and other key stakeholders in a more transparent, accurate and cost-effective system. We would direct the Commission to the effective experience that flows from greater transparency in international markets. For example, the United Kingdom²¹ and Australia²² both provide a regulatory right for issuers to require intermediaries to disclose the beneficial owners that they represent. This right recognizes the mutuality of the relationship between an issuer and their investors, and the need for direct engagement and communication in the interests of better corporate governance. Such transparency is an accepted feature of those markets and exists without detriment to investors or intermediaries.

Many, though not all, institutional OBOs already have their names, addresses and shareholdings made public, when they file this information on their quarterly Form 13F filings with the SEC. Eliminating the NOBO/OBO distinction for these shareholders would only minimally decrease the time lag before which the details of their shareholdings become known to the companies whose shares they hold.

For investors that remain concerned about shielding their identity from the issuer, the investor can make arrangements with their intermediary to have their security entitlement recorded in a nominee name, and have the nominee's details included in the eligible voters list instead of the investor's details. The use of a nominee was common in the industry prior to the creation of the NOBO/OBO distinction and continues to offer a sensible and equitable solution. Issuers should only be obliged to distribute communications to the entity named on the eligible voters list. The intermediary may request the issuer to provide

²¹ UK Companies Act 2006 s.793

²² Australian Corporations Act 2001 ss. 672A & 672B

additional sets of materials to it, for the intermediary to distribute to the beneficial owners underlying a nominee. However, the issuer should not be required to pay for the costs of distribution to multiple beneficial owners that sit beneath the nominee.

It is imperative that *all* entitlement holders' positions be included in the list (including nominee names that have been substituted for investors that elect for privacy), to enable full reconciliation of the voting process. However, use of a nominee name will enable investors to continue to shield their identity, so far as they are otherwise permitted to do so by law.

Elimination of the NOBO/OBO distinction would also help to address the ongoing issues of stock lending, over-voting and empty voting. These issues can result in the potential disenfranchisement of shareholders in the voting process and, in the worst case scenario, compromised voting outcomes. As discussed earlier in this response, intermediaries would be required to produce a list of all of their record date beneficial owners and then tie the total number of votes held by each firm to the shares that each firm holds at DTCC on such record date. This would lead to further transparency and confidence in the entire voting process which is increasingly becoming more critical with the prospect of a substantial increase in the number of "close call" votes on director elections that are likely to occur as a result of Proxy Access, amended Rule 452 and the prevalence of issuers that have now adopted majority voting in the election of directors.

We support calls to make shareholder meetings more inclusive and effective²³. Specifically, we support enabling issuers to use virtual meetings to be more inclusive, facilitating a greater number of shareholders to view and participate in the business of the meeting (and potentially to move towards facilitating voting through this mechanism). These important innovations must be established in an open and competitive environment, allowing issuers to freely choose their service providers based on quality of service and competitive pricing. Efficient and cost effective access to beneficial owner information is critical to this policy objective.

Means to Facilitate Retail Investor Participation

Investor Education

We strongly believe that a system in which issuers have direct access to all of their shareholders will increase the level of engagement and improve participation rates. The use of issuer-controlled proxy forms for all investors that are eligible to vote will improve comprehension and increase vote returns. The restructuring of the proxy system that we have proposed will necessitate a coordinated education campaign at all levels of the proxy process; including issuers and their agents, the intermediaries, and the Commission at a national level. Other possible means of affecting the level of retail voting would be to convene retail investor focus groups.

Client Directed Voting

The issuance of standing instructions for proxy voting is a matter between the beneficial owner and their intermediary, and has always been available as a contractual service between investors and their agent/intermediaries. As such, it seems appropriate for developments in this area to be viewed as a value-added service provided by the broker and not something that should be developed at the expense of the issuer. If client directed voting is approved by the Commission and implemented by the brokerage community, there is no reason why it cannot sit comfortably within the direct communications model. These proposals are not mutually exclusive.

²³ For example, we refer to the "Survey of Investor Communication Priorities for Voting Decisions, October 6, 2010" undertaken by The Shareholder Forum.

Importantly, we do not view the initiative to introduce widespread standing instructions between brokers and their clients as a “cure-all” for the deficiencies in the current proxy system outlined in this comment letter.

The direct communications model will also support proposals by interested third parties to enable retail voting platforms to develop (e.g. MoxyVote).

Changes to Notice & Access

We recommend that the Commission undertake further changes to the rules relating to Notice & Access, to enhance this mechanism. We would again refer the Commission to our comment letter of November 20, 2009²⁴, in response to proposed Notice & Access rule changes, where we provided statistical analysis of our clients’ experience with Notice & Access, and detailed our recommended changes to eliminate

unnecessary issuer expenses, increase retail shareholder voting, create more efficient high quality end-to-end proxy processing, ensure a competitive market and increase the transparency of share ownership. We strongly believe Notice & Access helps achieve issuers’ corporate sustainability objectives by providing an environmentally friendly and cost effective alternative without a significant negative impact on the voting results.

Our view is that the Notice & Access model has provided issuers with a major opportunity to reduce the high expense of the proxy solicitation process and to further enhance the use of the Internet, resulting in a more effective and efficient method for proxy material distribution. With the proper changes (coupled with the deployment of a direct communications system), we believe that the Notice & Access model will also enhance shareholder voting and communication. As the analysis provided in our letter of November 20, 2009, showed, the then-current process was resulting in a decrease in shareholder voting. We believe proper shareholder educational efforts and more flexibility in the Notice, together with some operational changes identified in that letter, will result in the Notice & Access process becoming an effective tool for both investors and issuers.

We believe the following would assist in improving shareholder voting percentages:

- Shareholder education on the Notice & Access model and the importance of their vote
- Including alternative voting methods on the Notice:
 - Promoting the telephone voting number on the stand-alone notices would potentially increase voting participation without the cost of a second mailing with a proxy card. The telephone voting system would allow shareholders to confirm access to the materials prior to voting;
 - Allowing the enclosure of a proxy card, business reply envelope **and** a summary of proxy statement would also encourage shareholders to vote. Shareholders would understand which matters are being voted on and where they can get additional details regarding the meeting such as proxy statement, but would not be required to review additional materials prior to casting their vote;
- Reducing the 40-day rule to 30 days would allow issuers with very tight timelines to adopt Notice & Access.

²⁴ Computershare letter to the Commission, dated November 20, 2009, regarding “File Number S7-22-09, Amendments to Rules Requiring Internet Availability of Proxy Material”.

Notice & Access was implemented within the current structure whereby the notices to street-name holders must be disseminated through the holders' intermediaries (although the NYSE did not specify the fees for such dissemination). Further to the matters presented earlier in this response, we strongly believe that issuers should be able to direct communications to **all** shareholders, both registered and beneficial. We believe this will improve the voting response and allow issuers to have a choice of providers driving market price for the services elected. The current situation with Notice & Access is an unsuccessful hybrid, where the NYSE sought to allow market forces to determine pricing but left intact the current monopolistic environment, where issuers are "price-takers" for communications to street-name holders.

Data-Tagging Proxy-Related Materials

We understand that institutional investors and intermediaries would like a data-tagging system to be introduced for the disclosure of proxy-related information, in part to facilitate advanced notice of impending record dates. We are not yet convinced that any cost to issuers of implementing such a system is justified, as the benefits of data-tagging have yet to be proven. Further consideration needs to be given to this matter through dialogue between operational experts for the key stakeholders.

Relationship Between Voting Power and Economic Interest

Proxy Advisory Firms

We recognize that proxy advisory firms (such as Institutional Shareholder Services, Glass, Lewis & Co., and Proxy Governance, Inc.) serve a necessary and beneficial purpose for institutional investors who are faced with the challenge of analyzing proxy statements for hundreds, if not thousands of shareholder meetings on an annual basis. For that reason, these investors have needed to increasingly rely on these resources when making their voting decisions. Given the significant percentage of institutional ownership in most publicly traded companies in this country, the recommendations of proxy advisory firms have become a much greater factor in determining the vote outcome at those meetings.

We believe that the growing influence of the proxy advisory firms furthers our case for providing issuers with direct access to their shareholders and for the implementation of the other steps outlined in this letter. However, we do not propose to comment on the policy question of whether such advisors should be regulated, as this goes beyond our focus on proxy mechanics in this comment letter.

Dual Record Dates

The use of dual records dates could be a useful tool in aligning shareholders voting rights with their economic interest. Such a system would eliminate the possibility of empty voting, especially in those cases where an investor has either liquidated or reduced their position after the notice record date but prior to the meeting. Any increased costs related to a second distribution should be mitigated by the widespread use of electronic voting by Institutional investors, the group most likely to have actively traded the stock over a short period of time. This practice is the standard in some foreign markets (e.g. United Kingdom and Australia), where a high degree of system-wide transparency is a core and underlying feature of the market infrastructure and governing regulatory framework.

Brokers handling purchases and sales in the period between the record date for mailing purposes and the final qualification date for voting purposes (e.g. shortly before the meeting) should be required to make available proxy materials to new beneficial owners after settlement and the crediting of shares to the client's account. This could be achieved via electronic means or by a request to the company to produce materials for the investor "on demand". Use of dual record dates would necessitate a second data transmission of eligible voter positions via the Hub, to enable final voting positions to be made available

to the issuer's tabulation agent. Any votes previously submitted in respect of holdings sold between record dates would become ineligible immediately. Votes in respect of new positions (or increased positions for an existing shareholder) may need to be communicated using a special transaction number to enable the issuer's agent to identify the corresponding holding, since the issuer's agent will not have previously issued a voting control number to the purchaser.

Conclusion

In summary, we applaud the Commission for its efforts in bringing these critical issues to the forefront and facilitating a public policy debate. We strongly submit that the public policy for shareholder communications and proxy would be best served if the system for ownership, shareholder communications and voting were made more transparent and competitive. These objectives can be achieved by implementing the recommendations of the Shareholder Communications Coalition.

Specifically, we recommend that:

- The NOBO and OBO distinction should be abolished. A street-name investor should have the option for their intermediary to record their securities entitlement either directly in their own name (where their holding will be visible to the company, permitting direct communications between the parties); or through a nominee or custodian arrangement (in which case the company will deal with the investor's chosen nominee or custodian).
 - The SEC should also consider whether separate regulations should be introduced to enable companies to identify beneficial owners through tracing mechanisms. Arguably, this process could significantly reduce the cost of requiring certain institutions to file 13F filings more frequently. This is a distinct though somewhat related issue to shareholder communications;
- Intermediaries should be required to provide names and addresses (and other pertinent client information) for the purposes of facilitating efficient communications to their client, recognizing the client's separate and parallel context as an owner of the company;
 - The legal and regulatory framework should be amended to afford investors this right and to require intermediaries to provide this information.
 - The only exception to this would be in relation to clients whose preference is to hold securities in a nominee or custodian holding (in such cases the issuer's obligation would be to deal only with the nominee or custodian for its entire holding, leaving the nominee or custodian and the investor to make their own arrangements about such matters);
- Companies should have the right to select their trusted and qualified service provider to conduct their shareholder communications and proxy distributions and tabulation requirements.

We are strongly of the view that introducing transparency and competitive forces to such a critical part of our corporate environment is a win-win for issuers and investors alike. The Commission has long stated its objective to introduce a competitive market model for proxy services. The infrastructure to support an open and competitive model exists and, in our view, can be introduced within 12 months of a policy decision being taken to reform the current system.

Any steps to reduce NYSE-regulated fees without a change to the underlying infrastructure and intermediary system will simply be another stop-gap measure. As occurred with previous fee modifications (e.g. in the early 2000's), the stakeholders will be forced back to the negotiating table at some point in the near future to again press for system-wide reform if the regulated rates and market rates again get out of kilter. As technology continues to offer new communication opportunities and the cost of communication falls, the question of "reasonableness" of fees will inevitably arise again.

A committee is no substitute for a competitive and open market that facilitates the needs of principal stakeholders in the system. Given the time it takes all stakeholders in the market (regulators and market users) to conduct such market wide reviews (i.e. approximately 2 years), this approach seems highly

inefficient, dysfunctional and very costly. Conversely, any move to increase the transparency of the market infrastructure (and its governing regulatory framework), without affording issuers the right to use that ownership information to directly communicate with their owners through a competitive market-based solution for proxy and other shareholder communications purposes, is only going to be of partial value.

With the exception of enabling rules, the core ingredients for a robust, competitive and innovative shareholder communications and proxy voting system that meets the critical needs of the principal stakeholders in corporate governance matters (i.e. issuers and their owners), are either in place or are, in our view, capable of being put in place. The "system" simply needs to be reconfigured to allow these policy outcomes to occur. The time for change is now. The lessons of the past decade (even when viewed narrowly in the context of proxy reform) have shown that the market cannot waste or defer this opportunity to modernize proxy mechanics, to better serve the needs of its principal users in the future. We firmly believe this modernization program can be achieved without negatively impacting the efficiency of the secondary markets, which we all have an interest in preserving. In fact the opposite should be true. Good governance outcomes should enhance the positioning and competitiveness of the US market.

We truly appreciate the opportunity to comment on Proxy Reform and trust these comments are of value to the Commission in its policy considerations. If you would like additional input or clarification on these points, please feel free to contact the undersigned at (212) 805-7154 or Charles Rossi at (781) 575-4067.

Yours sincerely,



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cc: The Honorable Mary L. Schapiro
The Honorable Kathleen L. Casey
The Honorable Elisse B. Walter
The Honorable Troy A. Paredes
Kayla Gillan, Deputy Chief of Staff
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Appendix 1- Proxy Integrity Issues

Category 1: Accuracy in Tabulation/Recordkeeping

Bungled vote requires court hearing to remedy

An asset management firm faced a shareholder proposal that was close to passing. Management expected a large vote against the proposal from a proxy advisory firm's client. The proxy solicitation firm informed the company that it appeared the expected "against" vote had not been cast, based on the numbers reported for the investor's custodian via the street-side proxy service provider. The meeting took place, and the company announced that the preliminary results showed that the proposal had passed. Subsequently, the proxy advisory firm discovered that there had been a system error that had prevented the expected "against" vote from being cast, and that timely and accurate processing of the vote would have caused the proposal to fail. The company petitioned the Delaware Chancery Court to re-open the polls to accept the missing votes and was ultimately successful in defeating the proposal.

Sources: Publicly reported in:

- *Pensions and Investments article:*
<http://www.pionline.com/article/20090810/PRINTSUB/308109996>
- *Richards, Layton & Finger (law firm) newsletter:*
<http://www.rlf.com/portaresource/lookup/poid/Z1tOI9NPluKPtDNIqLMRVPMQiLsSw4ZCmW3!/document.name=/corpNewsletter073009pf.pdf>

Glitch mars director election results

An investment firm questioned the reported results of the 2008 director vote at a major technology company, suspecting that the numbers were too low. An inquiry with the street-side proxy service provider revealed that, due to a truncation error, the director "withhold" votes were significantly under-reported.

Sources: Publicly reported in:

- *Bloomberg article:*
<http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aHKBTuxOPjec&refer=home>
 - *Yahoo Finance article:*
<http://finance.yahoo.com/tech-ticker/article/44823/Broadridge-to-Yahoo:-Oops,-We-Added-Wrong>
- BusinessInsider article:***
<http://www.businessinsider.com/2008/8/latest-boneheaded-yahoo-move-miscounted-proxy-votes>

Institutional investor claims irregularities in proxy fight

An institutional investor filed an investigation request with the SEC (<http://www.sec.gov/comments/s7-14-10/s71410-6.pdf>) claiming irregularities in a proxy fight they conducted against a French company. In the request, the firm claimed that a) numerous electronic votes had not been taken into consideration due to "technical problems involving US custodians and that b) their solicitor was told by the street-side proxy service provider that they could not distribute the investor's fight letters due to an exclusive arrangement between the street-side provider and the company.

Source: Publicly reported on onwallstreet.com <http://www.onwallstreet.com/news/sec-broadridge-wysere-pratte-2668434-1.html?zkPrintable=1&nopagination=1>

Category 2: Consistent Shareholder Communication

Faulty instructions for two proxy ballots

An activist investor launched a solicitation at an annual meeting for a major retail chain, putting a shareholder proposal up for a vote. Because it was submitted later than usual, the activist's proposal was not included in the mailed proxy statements. The street-side proxy service provider issued separate electronic ballots containing only the shareholder proposal with instructions stating "Should you vote both meetings, only your latest dated instruction will be counted." These instructions could have been construed to mean that if a holder voted both the management ballot and the electronic ballot, only the latest-dated ballot would be counted. Since the activist's proxy contained only the one proposal and no management proposals, shareholders should have been able to cast a vote on both ballots. In addition, the street-side proxy service provider's disclosure documentation erroneously advised that the company's management was in favor of the shareholder proposal.

Source: Publicly reported in Council of Institutional Investors newsletter.

<http://www.cii.org/UserFiles/file/resource%20center/council%20governance%20alert/2007%20Archive/2007%20Alert%2020.pdf>

Elimination of broker discretionary voting leads to tighter results

According to data compiled for Georgeson's 2010 Annual Corporate Governance Review, there were nine instances in which director nominees received between 45% and 49.99% of the votes cast in favor. In each of these cases, there were also significant broker non-votes in the range of 11% to 20%. Systemic changes to the proxy system that enable full disclosure of shareholder positions would enable issuers to solicit votes directly from a wider range of investors, without relying on the broker vote.

Source: Georgeson 2010 Annual Corporate Governance Review

Voting instruction form excluded key information on matter of corporate social responsibility

According to [Investors Against Genocide](#), proxies issued directly by a mutual fund met the SEC standard by clearly stating in the voting instructions the subject of the proposal: not investing in companies that substantially contribute to genocide. However, according to the fund, 50% to 60% of its shareholders held their shares in street name and received proxy materials through the street-side proxy service provider. Online and hard-copy voting instructions issued by the street-side service provider referred to the proposal only as "a shareholder proposal described in the proxy statement." The remaining seven questions on the ballot were clearly described in the service provider's voting instructions. Because genocide was not clearly flagged to voters as an issue, shareholders may not have realized that they had an opportunity to vote on it.

Source: Publicly reported on corpgov.net <http://corpgov.net/wordpress/?p=365>

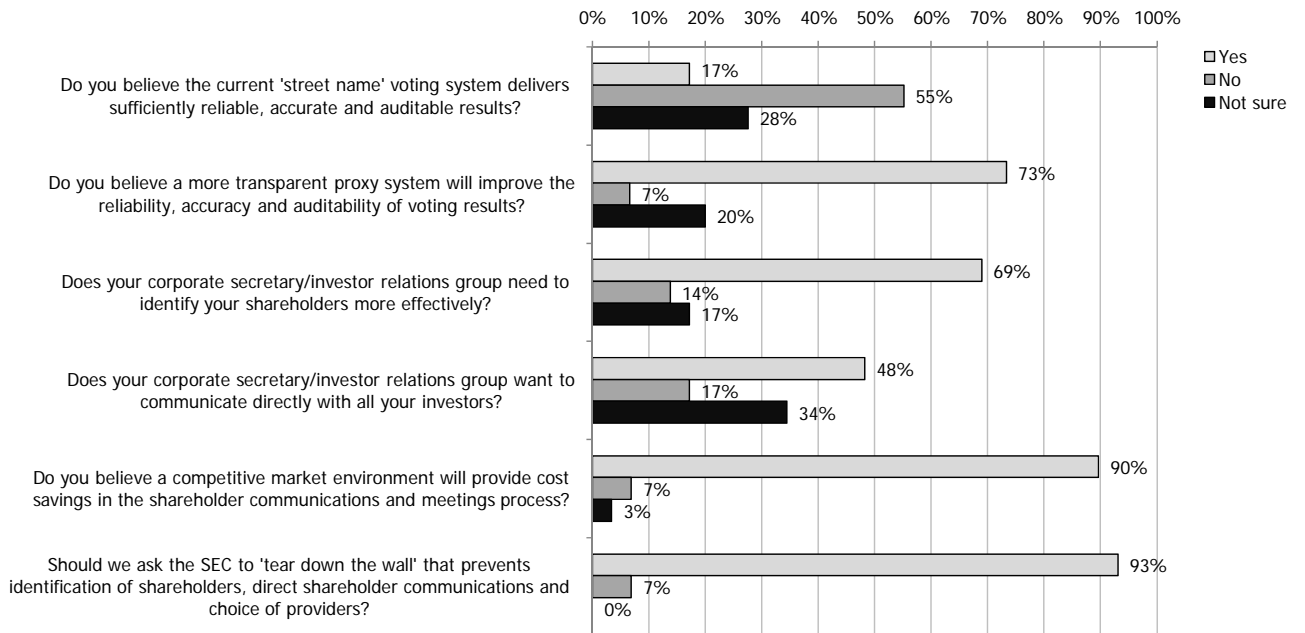
VIF did not reflect actual proposal

An activist investor filed a shareholder proposal calling for a company to eliminate supermajority voting requirements in the company's by-laws. According to the activist, the description contained on the VIF did not adequately explain the nature of the proposal. The proponent sent a letter to the company and the SEC to complain and the street-side proxy service provider subsequently issued a revised VIF.

Source: Publicly reported on corpgov.net <http://corpgov.net/wordpress/?p=1372>

Appendix 2 – Client Poll

Computershare Client Poll: Proxy Reform



- › Data from poll of major Computershare clients, taken October 6, 2010.
- › 31 companies represented, including 25 Fortune 500 companies.

Appendix 3 - Example NOBO List Pricing

Based on assumed shareholder numbers and using the published Broadridge pricing schedule for NOBO lists, located at:

https://materials.proxyvote.com/Approved/EPLST1/20100208/OTHER_51850/HTML2/broadridge-cis2010_0055.htm

NOBO COST ESTIMATE

Company Name: XYZ Corporation

Record Date: January 1, 2010

Cusip Number: 999999 10 9

| | |
|---|------------------|
| Total Positions Processed (Broadridge) | 1,500,000 |
|---|------------------|

| | |
|----------------------|-----------|
| Estimated NOBO Count | 1,095,000 |
|----------------------|-----------|

| NOBO Fees | Quantity | Rate | Cost per Unit |
|---|-----------------|-------------|----------------------|
| Bank/Broker Reimbursement (.065) | 1,095,000 | \$ 0.065 | \$ 71,175.00 |
| Broadridge Fees 1-10,000 accounts (.10) | 10,000 | \$ 0.10 | \$ 1,000.00 |
| Broadridge Fees 10,000-100,000 accounts (.05) | 90,000 | \$ 0.05 | \$ 4,500.00 |
| Broadridge Fees 100,000 accounts and up (.04) | 995,000 | \$ 0.04 | \$ 39,800.00 |
| CD ROM and Overnight Delivery | 1 | \$ 40.00 | \$ 40.00 |
| Estimated Cost | | | \$ 116,515.00 |