

CSCS Shareholder  
Democracy Summit  
Presentation

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# Securities Transfer Association

- Industry trade association established in 1911
- Includes over 150 members that service over 12,000 large and small public companies, providing record-keeping and other services to over 100 million shareholders
- STA members play a large role in the proxy voting and shareholder communications system on behalf of clients
  - Distribute proxy materials, host websites for annual meeting materials and proxy voting, tabulate votes, and serve as inspectors of election at meetings
- The STA has been actively involved with the SEC, NYSE and other interested organizations on proxy reform issues for many years.

# US Proxy System Review

- Integrity of current process
- Transparency of the process
- Communication - Inability of Issuers to communicate directly and cost effectively with shareholders
- Open market competition to drive innovation, increase quality and decrease costs
- Action to address the decrease in shareholder voting

# Integrity

“Corporations and shareholders alike expressed the need for Shareholder elections to be unimpeachably accurate\*”

- No regulatory requirement for banks & brokers to reconcile eligible voting positions
- Over-voting/over-reporting – 2004 study
- Pre vs. Post Reconciliation
  - Margin Accounts, Securities Lending , Fails to deliver
- Lack of Uniform depository Omnibus process
  - DTCC – SPR
  - Clearstream (CITI)
  - Euroclear (JPM)
- Inconsistent respondent bank process & manual
- Broadridge over-reporting service

*\*Report of Roundtable on Proxy Governance University of Delaware*

# Integrity (continued)

- STA's position: SEC should mandate pre reconciliation of record date position
  - Accurate Record Date eligible voter list
  - VIFs should reflect actual shares entitled to vote
  - Eliminates wrong voting
  - Auditable – accurate end-to-end vote confirmation (pro rate possibility if over vote occurs)
- Economic interest vs. voting entitlement (legal contracts)
  - Margin account holder
  - Borrower
- Disclosure of reconciliation methodology is not a reasonable solution to STA due to complexity of process

# Transparency

- Increased shareholder activism/Dodd Frank regulations
- Most issuers want to know who their shareholders are
- NYSE survey showed many shareholders are confused by NOBO/OBO classification
  - A majority preferred the NOBO classification when differences were explained
- Alternatives to NOBO/OBO
  - Provide nominee/custodial facility
  - Do not call flag

# Communication

- Issuers want to communicate with all shareholders directly - registered and beneficial
  - Communications for corporate purposes only
- Issuers currently prohibited from communicating directly with beneficial holders for proxy purposes
  - May communicate with NOBOs on other items
- Current system is outdated and cost prohibitive

# Open Market Competition

- Will drive innovation, increase quality and decrease costs
- Currently a regulated monopoly, with fees set by NYSE Committee
  - Fee schedule has not been reviewed in 10+ years and no longer reflects actual expenses
  - STA sponsored studies show huge potential to reduce Issuer costs
  - Some fees, such as managed account fees, should be eliminated

# Open Market Competition

## ➤ How to open the market?

- Modify SEC Regulation 240.14B-1 to allow issuers to distribute proxy material directly to shareholders
- Eliminate regulated pricing with the exception of the costs to retrieve the eligible voter details from an approved data aggregator or hub
  - Lessons learned from 54-101
- Provide Issuer's the ability to choose their service provider for communication services at prevailing market rates

# Addressing the Decrease in Shareholder Voting

- More frequent communication by Issuers
  - Need cost effective options
  - Take advantage of latest technology
- Encourage shareholders to participate in the voting process
  - Remind shareholders to vote via multiple touch points (web, phone) when contacting company or agent
- Issuer programs to improve voter participation
  - Engaging shareholders
  - Prudential shareholder experience
- NYSE educational campaigns

# US Proxy System Review

➤ Q&A

➤ Thank you!

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