



Broadridge®

Views From The US Market

CSCS Shareholder Democracy Summit

October, 2011

Similarities and Differences

- The Canadian and US proxy systems share common goals:
 - Accuracy and integrity of the process
 - Efficient and cost-effective processing
 - Universal enfranchisement
 - High levels of investor participation
- There are also structural similarities:
 - Most shares of public companies are now held in beneficial form due to investor preference and market efficiency
 - The proxy process is generally governed by a regulatory framework
- There are some key differences:
 - US generally requires 50.1% of shares for quorum
 - Canada allows issuers to use NOBO lists for proxy distribution
 - US requires issuers to pay for distribution to all shareholders – registered, NOBO and OBO

NOBO / OBO

- Both markets allow shareholders to elect to be Objecting Beneficial Owners
- US OBO's make up about 30% of the positions and 70% of the shares
- There seems to be general consensus that abolishing OBO status is not practical, as investors that could afford to do so would establish nominee name accounts or comparable
- US rules require disclosure in certain cases, e.g., 13d & f, shareholder proposals, etc.
 - These rules could be modified for more disclosure
- Communication with all shareholders is efficient and cost-effective, even when done through an intermediary or agent
- In the US, retail NOBO voting rates exceed retail registered voting rates

Pre- and Post-Reconciliation

- Both the US and Canada allow short selling which results in more shares owned in long positions than are outstanding
- In the US, voting rights go with the shares:
 - The borrower never has voting rights
 - US Reg T prohibits the borrowing of shares to establish a long position and thereby gaining voting rights
- US custodian banks and institutional brokers generally use pre-reconciliation
- US retail brokers generally use post-reconciliation
- Requiring pre-reconciliation would have two significant impacts:
 - Shareholders with legal ownership rights would lose voting rights
 - The impact would be greatest on retail share holders who generally vote as management recommends

Integrity and Accuracy

- All US issuers rely on the accuracy and integrity of the current process
 - Virtually all meeting results are unchallenged, approved by the Inspector of Elections, and filed with the SEC
- The US street process is uniquely subjected to rigorous third-party oversight:
 - Deloitte & Touche
 - Quarterly Vote Accuracy (1997)
 - Annual Compliance with NYSE and SEC regulations (1990)
 - Annual Accuracy of Steering Committee Measurement Criteria (1994)
 - Annual SAS 70 Type 2 (being replaced by the SSAE 16) (2005)
 - International Standards Organization
 - ISO 27001 – Information Security (2008)
 - ISO 9000 – Quality Process (1997)
 - Independent Steering Committee
 - Establishes and monitors Measurement Criteria, all of which meet or significantly exceed regulatory requirements (1993)
- This unmatched set of independent reviews is provided to all issuers for all meetings at no additional fee. The scope of these reviews is generally increased each year to encompass regulatory and functional changes.

Fees

- US nominees are required to distribute material to all beneficial shareholders, and issuers are required to pay for this distribution
 - These requirements extend to both OBO's and NOBO's
 - Nominees' fees are regulated as 'reasonable reimbursement'
 - Issuers pay all out of pockets, e.g., postage
 - The NYSE is currently reviewing fees
- Broadridge commissioned Compass Lexecon to perform an analysis of beneficial and registered fees:

	Registered	Beneficial	Δ
Processing Fee	\$ 1.37	\$ 0.47	\$ 0.89
Unit Cost Total (includes postage, printing and fees)	\$ 5.82	\$ 3.48	\$ 2.34

- This analysis included almost 900 registered invoices and over 11,000 beneficial invoices

Technology and Retail Participation

- Technology can drive increased retail participation:
 - Enhanced Broker Internet Platform – direct connections to proxy voting from account holder’s online brokerage account
 - Mobile Voting – secure voting on mobile devices
 - Advance Voting Instructions – standing voting instructions for retail investors
 - Virtual Shareholder Meetings – online participation and voting at the meeting
 - Shareholder Forum – online secure communication channel between issuers and validated investors
 - Vote Confirmation – true end-to-end confirmation for all investors: street (already in place for 5 years), registered, plan
- Most initiatives will be much more effective with the active participation of the banks and brokers whose clients are targeted by these initiatives