

Shareholder Communications Coalition  
November 4, 2009

SEC Chairman Mary Schapiro spoke this morning before the Practising Law Institute in New York. She reviewed several of the SEC's accomplishments this year, and spent the balance of her remarks discussing the shareholder voting process. Pasted below is what she had to say about the SEC's review of the proxy voting and shareholder communications rules.

In her remarks, Chairman Schapiro confirmed that the Commission will be first issuing a Concept Release "in the coming months." It looks like many, if not all, of the issues that the Coalition has raised will be contained in that Concept Release.

Chairman Schapiro also discussed several other related proxy issues in her remarks. Click on this link if you want to review her entire speech:

<http://www.sec.gov/news/speech/2009/spch110409mls.htm>

Thank you for your interest in the Shareholder Communications Coalition.

Niels Holch  
Executive Director

## **Proxy Mechanics**

In addition to all these reforms, I have asked the staff to conduct a comprehensive review of the mechanics by which proxies are voted and the way in which information to shareholders is conveyed.

We're not just looking into the disclosures that make it into a company's proxy materials — we're also looking at the entire process through which proxies are distributed and votes are tabulated. And, I have asked the staff to draft a "concept release" in the coming months through which we would seek public comment on areas of interest to us.

We want to ensure that the U.S. proxy voting system as a whole operates with the degree of reliability, accuracy, transparency and integrity that shareholders and companies have the right to expect.

The review, which is well underway, is being conducted by staff throughout the agency — and involves outreach to market participants to ensure that a broad range of views is considered. As a result, the concept release to be voted on by the Commission is expected to probe a variety of areas:

We'll be asking about ways to ensure accuracy in vote tabulation, given that voting results on many items are becoming increasingly close and many companies have adopted majority voting for directors.

We'll be asking about whether our rules adequately address whether votes are cast by those with an economic interest in the securities. In some cases, for instance, a broker's customers may cast more votes than the broker is actually entitled to vote on their behalf — something called "overvoting". And in other cases, individuals are able to vote shares even though they lack the full economic interest that goes along with share ownership — known as "empty voting."

We'll also be asking about ways to address the voting rate by retail investors. Retail investors have a history of low participation rates, but notice and access distribution of proxy materials may contribute to a further reduction in participation rates. This poses a special challenge for companies with broad retail investor bases. That is why some have proposed client-directed voting — where brokers would be allowed to solicit voting instructions from their shareholder clients in advance of the company proxy materials. Additionally, the concept release will ask about the need to allow beneficial owners of a company's securities to object to having their names and addresses disclosed to the company. Some have advocated that we abolish this system and instead permit companies to learn the identities of all of their shareholders so that companies can communicate more directly and cost-effectively with them.

Further, we'll be asking about the role of proxy advisory firms in corporate voting. Given the influence that these firms' recommendations have on corporate voting outcomes, we'll probe the need for rules to ensure that advisory firms are basing their research and recommendations on accurate and reliable information. And, that they are providing adequate disclosure of any conflicts of interest they may have in providing voting recommendations.

We'll be asking about whether shareholders should be more easily able to communicate with one another. And, finally, we'll be asking whether any rule amendments are necessary to ensure that our federal proxy rules are flexible enough to adapt to changing legal developments at the state level, such as dual record dates for annual meetings.