

PROXY VOTING AUTOMATION

Web Builds Bridge To 'Street-Level'

The BRT says e-delivery improves communication

While the Business Roundtable and other corporate organizations ask the SEC to change rules prohibiting public companies from direct contact with street-level "objecting beneficial owners" (OBOs) of shares, intermediaries are making hay with slick new technology offerings.

In pushing for rule changes, BRT director of public policy Tom Lehner says "...the Internet, Web sites and so forth, companies and ultimately shareholders can save money on this process."

But the Securities Industry Association, an opponent last year of the proposed shareholder communications changes, argued that technology has already made enough significant changes, providing \$350 million in expense savings per year for issuers.

The yearlong impasse—which has prompted the BRT to formalize its coalition and add a corporate directors group to its cause—may not be settled anytime soon, but it has opened up an opportunity for intermediaries to hone their electronic offerings to institutional shareholders. Whether technology from firms such as ADP Brokerage Services and Institutional Shareholder Services (ISS), for example, will make the SEC conversion change moot has yet to play out.

With shareholder activism on the rise and a strong focus on proxy voting issues, a recent coalition letter says, public companies want the chance to communicate "directly" and "cost-effectively" on matters that share-

holders will be voting on. The proposal was first sent to the SEC more than a year ago by the BRT along with groups representing investor relations and corporate governance professionals, arguing that direct delivery of shareholder materials—electronically—to beneficial owners would bring tremendous cost savings.

ADP Brokerage Services, the Microsoft of the proxy materials delivery business, has reported converting 2 million institutional investors a year to electronic delivery in each of the past four years. In the 2005 proxy season, ADP sent shareholder communications volume to 10.1 million investors (out of 80 million whose issuers use ADP) through e-mail and Web channels, according to Chuck Callahan, vp at ADP's investor relations unit in Edgewood, NY. "With the exception of the pure plays in banking financial services, I'm sure there are a lot of banks out there that would love to say that they've been able to convert 12.5-13 percent of their clients into purely electronic delivery."

The proxy votes delivered via ADP's electronic channels were even higher: 85 percent of votes cast via ADP in this past spring's proxy season.

ISS processed between 90 and 95 percent of its shareholder votes electronically in 2005, according to ISS evp Diane Bourke. Upstart proxy management firm Swingvote can boast of a 100 percent electronic usage rate between both voting and proxy materials distribution, given that it is a solely Web-based platform since

launching over a year ago. Using Swingvote, companies can send out materials directly to institutional shareholders who opt in for the service. In turn, those investors can receive all of the analysis and recommendations of the client's proxy advisers, client and regulatory reporting tools and an electronic interface to deal with plan sponsors, custodians and transfer agents that includes the ability for audit trails and voting confirmation.

Swingvote chairman and CEO Anne Faulk believes services like hers can be the compromise between management's cost and PR concerns and the arms-length institutional investors. "Instead of having the shareholder process and shareholder material distribution be about processing, it's really about communication," says Faulk.

Swingvote gained major footing earlier year when it the SEC issued an interpretive letter that saw no restraints under shareholder communications rules against companies using more than one proxy delivery agent—in other words, to use someone other than ADP, which has evolved as the dominant firm in the shareholder communications delivery. Broker/dealers, despite the fee arrangements they receive from the current proxy mailing arrangements, are among the most enthusiastic supporters of electronic conversions, notes Financial Insights capital markets analyst Gene Kim.

The reticence of regulators to change the communications requirements that are governed by complex SEC and New York Stock

Exchange rules doesn't match the enthusiasm new SEC chairman Christopher Cox has toward communications modernization. Cox lamented in a September interview with the *Wall Street Journal* that the BRT/SIA argument over who should carry the costs of shareholder communications "when those costs could be reduced to near insignificance if we relied more thoroughly on electronic communication."

So could many problems associated with

voting issues on proxy, the electronic proxy supporters point out. The frequency of overvoting, when votes outnumber outstanding shares, can be diminished when audit trails can definitively cite the stock's owner of record. Institutional investors spread among several stocks can automate proxy policy guidelines across the portfolio to meet social responsibility or shareholder value standards, according to Bourke. "What's driving a lot of this is really making sure the

shareholder's voice is heard," Bourke says. "Unless a lot of this is automated, and unless we continue as an industry to drive to more standards with regard to time frames for materials being distributed, and more automation in terms of consistent ways of coding and distributing materials, it's going to be difficult to achieve the levels of accuracy and timeliness of reporting that institutions are being asked to deliver."

—Glen Fest