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Proxy-Services Upstart Cuts Distribution Fees

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By Chris Kentouris

Mediant Communications, a New York-based provider of proxy services, has reduced the fee its corporate clients pay for distribution of proxy materials to beneficial shareholders.

The price cut, from 40 cents per mailing to 30 cents, comes two months after Mediant announced that it has launched a proxy mailing and voting service for brokers and signed correspondent clearing firm Legent Clearing as its first customer, breaking into a market where Broadridge Financial Systems has long been the leader. Broadridge, which spun off from Automatic Data Processing in 2007, services over 800 banks and brokerages representing 90 million shareholder accounts.



The New York Stock Exchange sets the schedule for fees that brokers can charge corporations for proxy mailings. However, those fees "are a ceiling and not a requirement," said Arthur Rosenzweig, co-founder and president of Mediant. "We believe competition will lower these fees and we are the first of Broadridge's competitors to do so." Mediant, which has 250 issuer clients, has been doing electronic voting and proxy mailing work for registered shareholders since 2006.

Stockholders either have registered shares, bought directly from the corporation or its transfer agent, or "beneficially owned" shares purchased through a broker and held in street name--the name of the financial intermediary. In both cases the corporation pays for proxy distribution, which is often outsourced to a third party. While the proxy fees for registered shares are competitive, charges for beneficial shares have been overseen by NYSE, subject to the approval of the Securities and Exchange Commission, which has not intervened.

A spokesperson said that NYSE is aware of Mediant's decision but had no further comment. In June 2006, an industrywide proxy committee with representatives from some of the largest U.S. corporations recommended that a third party review the proxy fee structure. The 40 cent fee has been in place since 2002, when it was reduced from 50 cents.

"The proxy industry is not a natural monopoly and the fees do not have to be regulated by exchanges and the SEC," asserted Rosenzweig. "Instead, proxy fees should be negotiated between corporations and the brokers or their intermediaries. Web-based technology has lowered processing costs, and corporations can share the benefit in terms of lower fees."

Geoff Loftus, a member of Broadridge's steering committee on proxy issues and VP of the New York-based Society of Corporate Secretaries & Governance Professionals, which represents 2,500 public companies, said that the trade group's members are eager to see proxy charges decline. "Broadridge has excellent service and makes an effort to listen to its customers' needs, but fees remain a sticking point," said Loftus. "There has always been a belief that if a viable competitor were to emerge, or a regulatory body did a thorough analysis of proxy fees, they would ultimately decline."

Chuck Callan, SVP of regulatory affairs at Broadridge in New York, declined to comment on the Mediant price cuts but said his company is "committed to this business and providing world-class services and to making the investments necessary to continuously improve and advance the process in terms of providing state-of-the-art technology." Noting that Broadridge "evaluates its fees to broker-dealers for their proxy services when a contract is up for renewal," Callan would not say whether NYSE should continue in its fee-setting role.

Broadridge last year eliminated more than 50 percent of proxy material mailings, due largely to electronic delivery and processing of managed accounts, according to Callan. In doing so, Broadridge saved the issuer community \$1 billion in printing and postage costs, he added.

Another Broadridge competitor, Atlanta-based Inveshare, formerly known as Swingvote, has long touted its Web-based technology. Previously focused on institutional investors, Inveshare--which in December said it received \$10 million in a series B round of financing from venture capital

firm Gilo Ventures and Goldman Sachs--will soon introduce its first retail brokerage customer, according to president Diana Bourke. About three years ago, the company announced a cash infusion of undisclosed size from Goldman and Morgan Stanley and said that RR Donnelly would be handling its proxy mailings.

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