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SEC to Review Shareholder Voting

By FAWN JOHNSON

WASHINGTON -- The Securities and Exchange Commission is launching a comprehensive review of the mechanics of shareholder voting, including how and by whom proxy votes are cast, whether vote tabulations are accurate and why voting participation of retail investors is down, SEC Chairman Mary Schapiro said Wednesday.



Mary Schapiro

The SEC also is examining the line item disclosure requirements that companies are required to provide in their quarterly and annual reports, Ms. Schapiro said in a speech before the Practising Law Institute.

"Our goal is to determine if some information we already require should be omitted, and if some information we don't require should be added," according to Ms. Schapiro's prepared remarks. "Our efforts will be targeted at making sure that investors are

receiving the right information, and not just more information."

The SEC already has launched a rule-making proposal to empower shareholders in certain cases to nominate directors to corporate boards. One of Ms. Schapiro's top priorities, the proposal aims to give shareholders a more direct way to address concerns they may have about things such as executive compensation or a company's risk-management practices.

Those rules will be finalized early next year, which means they won't be in effect for the 2010 proxy season. Ms. Schapiro said Wednesday it is far more important for the commission to take its time and adopt the right rules rather than to "act rashly."

In addition, Ms. Schapiro said the SEC staff also has begun examining whether proxy votes are cast by "those with an economic interest in the securities."

In some cases, a broker's customers may cast more votes than the broker is entitled to, called "overvoting," she said.

"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."

The SEC also will look at voting rates by retail investors, which have a history of low participation, Ms. Schapiro said. The SEC's move in 2007 to allow companies' proxy materials to be posted on the Internet may have

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contributed to low retail investment participation rates, Ms. Schapiro said.

"There may be other reasons why shareholder participation is lower, so we have sought public comment on why this may be the case," she said.

When it comes to vote tabulation, Ms. Schapiro said, "voting results on many items are becoming increasingly close," which means the SEC needs to look into the accuracy of the counts.

The SEC also is asking whether it makes sense to allow companies to learn the identities of all of their shareholders so they can communicate more directly with them, she said.

Finally, the SEC will analyze the role of proxy advisory firms in corporate voting. "We'll probe the need for rules to ensure that advisory firms are basing their research and recommendations on accurate and reliable information" as well as adequate disclosure of conflicts of interest.

Write to Fawn Johnson at fawn.johnson@dowjones.com