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Transfer Agents to SEC: We Can Send Out Proxy Materials For Less

October 14, 2010

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A trade group representing recordkeeping professionals for registered U.S. shareholders Thursday said a study it had conducted showed corporations would pay less to send out proxy materials through transfer agents, than through Broadridge Financial Solutions, the largest distributor of shareholder documents.

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The Securities Transfer Association (STA) said companies would pay anywhere from 20.52 percent to 71.62 percent less, compared to what Broadridge charges.

The STA, which represents 150 U.S. and Canadian transfer agents with over 100 million shareholder accounts for equities and mutual funds, analyzed proxy distribution costs for three corporations using fees provided by six transfer agents for mailing proxy materials related to 2009 and 2010 annual meetings.

A spokesman for Broadridge in New York said that company officials were unavailable for comment.

The study did not identify either the corporations or the transfer agents surveyed. But the STA's goal is clear: to push the Securities and Exchange Commission to change the current proxy distribution system for beneficial shareholders to a "market-based model."

That means that issuers could choose who they want to distribute their proxy materials and not be forced into using Broadridge. That is because over 800 banks and brokerage firms which are responsible for sending proxy materials to beneficial shareholders outsource the work to Broadridge.

Although issuers pay the bill, they have no say in who the banks or brokerages choose. Currently, there are no rivals of size competing with Broadridge.

According to the STA, the recently conducted survey was based on a proposal made in August 2009 by the Shareholder Communications Coalition (SCC), a Washington, D.C.-based umbrella organization representing transfer agents and issuers. The final calculations were made by an STA employee .

Under the SCC's proposal, the prices for proxy distribution and communication services would be established by free market competition in the same way that service providers are selected for proxy services involving registered shareholders. That means that some sort of "central intermediary" would be responsible for sending issuers the names of their beneficial owners and issuers could then do the mailings to those shareholders on their own or through their transfer agents. Most of Broadridge's fees are set by the New York Stock Exchange.

The STA plans to submit its analysis to the SEC in a comment letter responding to the regulator's request for industry input on reforming the proxy plumbing issued in July. Comment letters are due by October 20.

Here is how the numbers stacked up, according to the STA:

In the case of an issuer with 6,000 beneficial positions Broadridge would charge \$10,100 while a transfer agent would charge an average of \$8,027.

For an issuer with 48,000 beneficial positions, Broadridge would charge \$50,000 while a transfer agent would an average of \$14,192. For an issuer with 88,000 beneficial positions, Broadridge would charge \$100,000, while a transfer agent would charge an average of \$40,434.

The STA attributes the difference in costs between the transfer agents and Broadridge to three factors: differences in processing fees; suppression fees and nominee coordination fees. For example, Broadridge charges a 50-cent processing fee per beneficial shareholder position, as allowed by the NYSE. "All of the participating transfer agents charge a smaller fee than this NYSE-approved fee for similar services, resulting in a lower cost to issuers in this category," writes the STA. "The processing fee charged by Broadridge by definition includes costs for print communication services and it appears that Broadridge does not reduce this fee for positions that do not require paper communication services."

The STA says that Broadridge charges 40 cents per position for suppressing certain beneficial owner positions—that means not mailing proxy materials."In the STA survey, the average transfer agent charge for all suppressed fees was substantially smaller, reflecting the fact that the transfer agents do not apply these fees in the same manner as Broadridge," says the STA.

Broadridge, the STA says, also charges a nominee coordination fee of \$20 per nominee – a cost which would typically not be charged by any of the transfer agents. The nominee coordination fee refers to the fee for the work involved in working with brokerage firms and banks to receive the names of the beneficial shareholders and their positions.

Registered shareholders are investors who hold their shares in their own name on the books of corporations. By contrast, beneficial shareholders—otherwise known as Street name shareholders—are those which hold their accounts in the name of their financial intermediary. That means that corporations really don't know who is holding their shares.

Under the current proxy distribution system, corporations can send proxy materials directly to their registered shareholders either themselves or through their transfer agents. However, only banks and brokerage firms which hold the accounts of Street name shareholders can send proxy materials to those shareholders. Those banks and brokerage firms have opted to outsource that process to Broadridge Financial, which has become the world's largest proxy distribution and voting firm.

Transfer agents have more than a passing interest in how the proxy distribution business works. As the percentage of shareholders holding their accounts in Street name rises, transfer agents face dwindling revenues and they do stand to earn more if they can also earn fees from mailing proxy materials to beneficial shareholders.

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