

**MEMORANDUM**

**TO:** File #: S7-28-07: Enhanced Disclosure and New Prospectus Delivery  
Option for Registered Open-End Management Investment Companies

**FROM:** Christian L. Broadbent  
Counsel to Commissioner Walter

**DATE:** November 19, 2008

**RE:** Meeting with representatives of Broadridge Financial Solutions, Inc.

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On November 18, 2008, Christian Broadbent and Lesli Sheppard of Commissioner Walter's office spoke by telephone with Chuck Callan of Broadridge Financial Solutions, Inc. ("Broadridge") and Kier Gumbs of Covington & Burling LLP, regarding the above-referenced proposal. In conjunction with the telephone conversation, Mr. Gumbs provided a presentation regarding Broadridge that is attached to this Memorandum.



**Broadridge™**

**Introduction to Broadridge  
Samples of Data and Statistical Measurement**

November 18, 2008

# Broadridge

## Overview

- NYSE listed, \$2+ billion (Lake Success, NY)
- Investor communications, brokerage processing, and clearing services
- Business model: Efficiency and participation

## Advanced Technology, examples:

- Customized interfaces, connect 90m+ street accounts, through 900+ banks and broker-dealers
- We process approx. 14k shareholder meetings annually -- communications and voting
- ProxyEdge (3k+ institutional investors)
- ProxyVote.com (17m+ "Main Street" accounts)
- Investor Mailbox (portal for over 16m accounts, on brokers' websites)
- Direct mail to 90m+ investor accounts
- Also, trade confirmations, statements, retirement plans

## Private Sector Leadership in Implementing SEC and NYSE Rules, examples:

- Investor "preference databases" for e-delivery, householding, and Notice & Access
- Electronic shareowner forums -- soft launch 10/20
- XBRL taxonomy for the Proxy Statement (14A) -- donated to XBRL U.S.
- Suppression of 54% of all physical mailings, consistent with investor preferences ('08 proxy season)
- Numerous education initiatives for investors and issuers

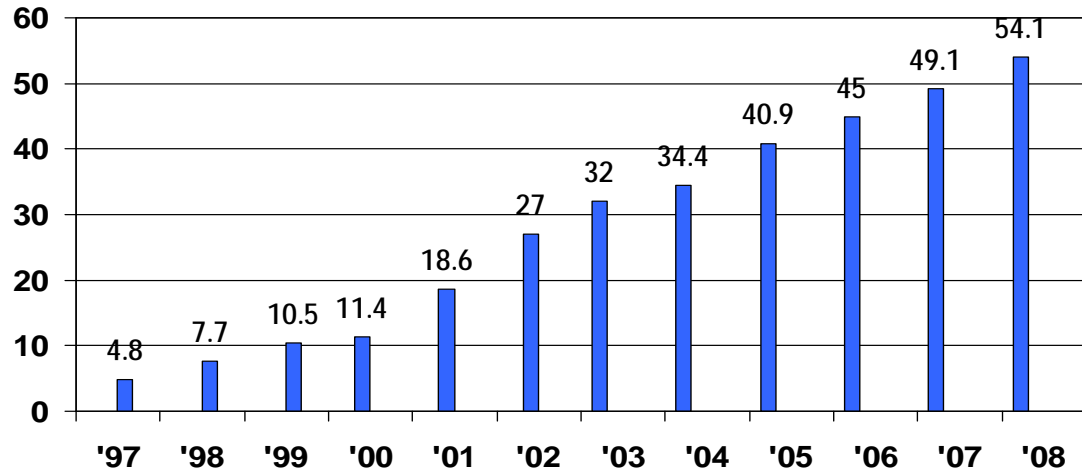
## Constructive Analyses for Policy Makers, examples:

- Extensive analysis of Notice & Access rules: pre- and post rulemaking
- Electronic shareowner forums - technical functionality for SEC Proxy Roundtable
- Proxy Roundtable - over voting analysis for SEC Division of Trading & Markets
- Mutual Fund Summary Prospectus delivery option - cost savings analysis, footnotes to proposed rules
- NYSE Proxy Working Group - analysis of proposed changes to broker vote rule, analysis of Canada's NI54-101
- Analytic support to Senate Banking, House Financial Services, Departments and Agencies
- Analytic support to third parties and associations (e.g., Chamber of Commerce, AARP, Council of Institutional Investors, Society of Corporate Secretaries, National Investor Relations Institute)

# Efficiency and Participation Proxy Season Statistics

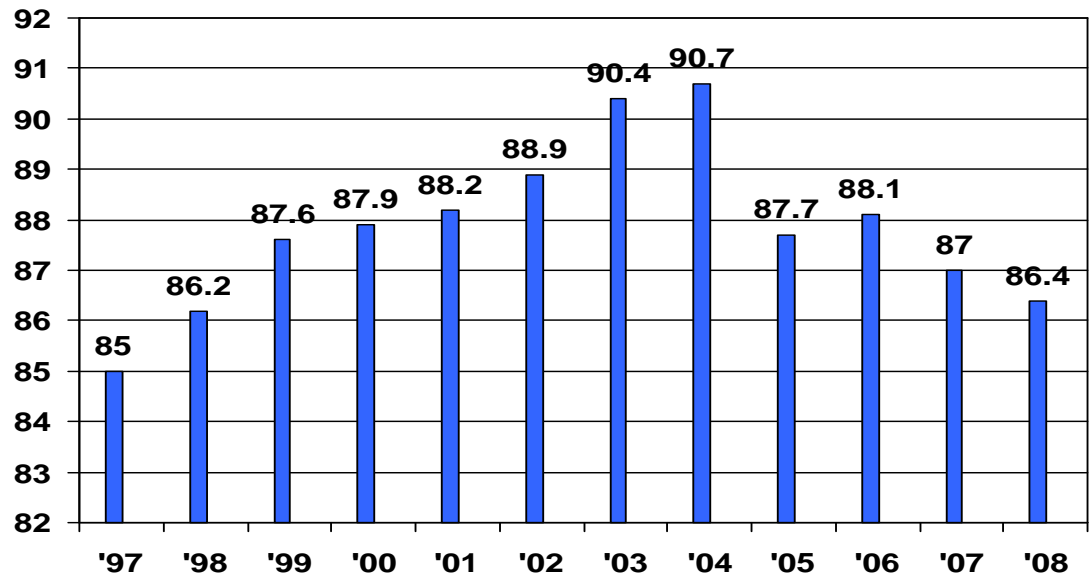
## Physical Mailings Eliminated (a measure of efficiency)

As a percent of all accounts processed by Broadridge



## Average Quorum (a measure of participation)

Of the total number of street shares processed by Broadridge, "Average Quorum" represents the percent that were voted. Includes "Broker Votes"

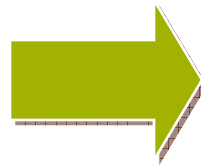
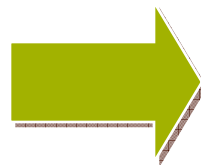


Note: "Proxy Season" covers 2/15 to 5/1.

# Notice & Access Provides Companies with Additional Savings Opportunity. Estimated First Year Net Savings: \$ 143 Million

Processes for beneficial shareholder communication and proxy voting become more efficient every year. In 2007, U.S. corporate issuers overall realized over \$900 Million in savings on print and postage.\*

By sending a Notice instead of a full set, Notice & Access provides an additional tool to save on printing and postage. To date, early adopters overall have realized estimated \$143 Million in savings with Notice & Access.\*\*

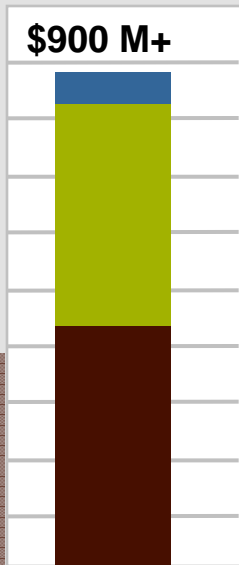


## Savings from the Elimination of Physical Mailings (2007) -- Excludes Notice & Access Savings

Est. Savings (2007): All Issuers Overall

- Householding
- E-delivery (ProxyEdge® & Internet)
- Managed Account Processing

\$900 M+



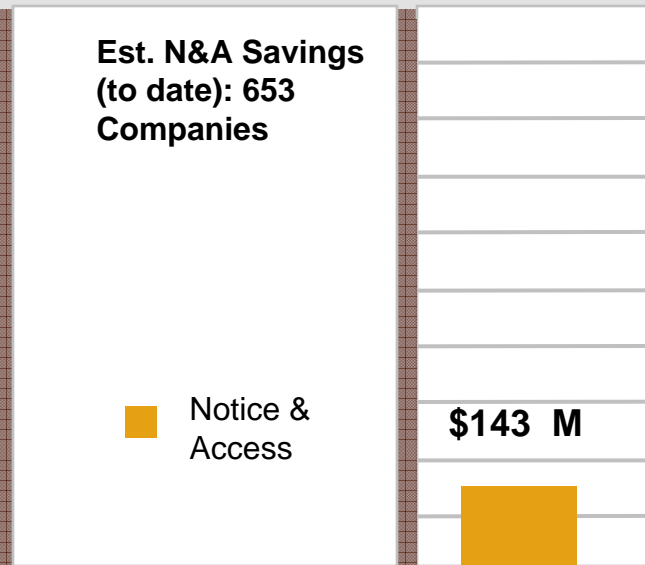
\* Approximately one-half of mailings are now being eliminated.

## Savings from Use of Notice & Access with Beneficial Shareholders

Est. N&A Savings (to date): 653 Companies

- Notice & Access

\$143 M



\*\* July 1, 2007 – June 30, 2008; net of service fees.

The unit savings estimate is based on information from NIRI and Broadridge internal data. It represents an average printed material cost of \$4.38 across all beneficial meetings. Postage is calculated at \$1.26 and is based on Broadridge actual data for the 2007 proxy season.

## But the Savings Have Come at the Expense of “Main Street” Participation “Matched” Account Participation: *Before and After* Notice & Access

Participation has decreased among the same account holders, especially among smaller investors.

Size of Account (share range)	Number of Accounts in Range	# that Voted Before N&A	# that Voted After N&A	Percent Change +/-
< 1000	5,982,606	868,027	343,941	(61)*
1,000 - 4,999	648,656	143,527	55,402	(61)
5,000 - 9,999	61,266	14,685	7,244	(51)
10,000 - 49,999	40,862	10,301	5,605	(46)
> 50,000	7,657	2,324	1,626	(30)
<b>Total</b>	<b>6,741,047</b>	<b>1,038,864</b>	<b>413,818</b>	<b>(60)</b>

“Matched” accounts denotes the same account. Comparison of voting at the same companies -- with N&A (current meeting) to without N&A (prior meeting, pre-N&A rules). Based on all 164 corporate shareholder meetings from July 1, 2007 - April 30, 2008.

\* Includes mailings of a 2<sup>nd</sup> Notice (with a ballot) and full packages as a result of ‘consents’ and issuer stratification.

## **Notice & Action Rules Changed the “Default” on Information Access. Few Account Holders Are Taking the Required Steps**

A Notice informs investors of the Internet availability of proxy information. Investors now need to take steps to obtain the information they automatically received prior to Notice & Access.

**Numerous studies on “defaults” by behavioral economists in varied applications (e.g., rebates for consumer electronics, 401(k) savings participation, no-fault insurance and other areas) all to point to the same conclusion; namely, opt-in rates are low, opt-out rates are low, and when there is a change in the underlying default, people typically take no action, even when it is in their economic to act.**

**By changing the underlying default, N&A reduced information access by over 96%. It has also resulted in voting without viewing proxy information.**

**Of 812,772 accounts that received Notices by mail\*:**

**Only 1.05% requested materials**

**Only 3.7% went to the specified URL to view the materials or vote**

\*Since the effective date of the rules (7/1/07), Broadridge has provided monthly statistics on adoption, voting rates, and cost savings. Since 5/1/08, Broadridge has also tracked statistics on web viewing. i.e., “eyeballs.”

## Responses to Notice Mailing

### Few Individual Investors View the Disclosures on the Specified URL.

Number of Notice Recipients	Number of Notice Recipients that Visited the Specified URL and Selected "Read Materials"	%	Number of Notice Recipients that Visited the Specified URL and Selected "Vote"	%
812,772	2,593	0.47	21,115	3.25

#### Notes

- Includes all 40 registrants that used Notice & Access (meetings from 6/1/08 to 9/26/08).
- A total of 812,772 account holders received a Notice by mail.
- Going to the URL and clicking on the "Vote" option opens a voting ballot and provides a link to view detailed information.
- The "Read Materials" option presents the materials and includes the option to vote.



## Investor Response Rates: Methods of Information Receipt vs. Method of Voting Investors' Existing Preferences Matter

Investors who receive proxy information (mail or email) are more likely to use the Internet to vote than are investors who receive a Notice only.

<b>Voting Methods</b> <b>Receipt of Info</b>	<b>Total Items Sent (#)</b>	<b>Voting by Paper Ballot (#)</b>	<b>Voting by Paper Ballot (%)</b>	<b>Voting by Internet Ballot (#)</b>	<b>Voting by Internet Ballot (%)</b>
<b>Full Set Sent by Mail</b>	<b>110,118</b>	<b>34,787</b>	<b>31.8</b>	<b>26,626</b>	<b>23.0</b>
<b>Notice Sent by Mail</b>	<b>812,772</b>	<b>1,677</b>	<b>0.4</b>	<b>21,115</b>	<b>3.3</b>
<b>Email Including Links</b>	<b>328,651</b>	<b>65</b>	<b>0.1</b>	<b>37,351</b>	<b>12.5</b>

### Notes

- All 40 Notice & Access corporate issuers with meetings 6/1/08 to 9/26/08.
- Distributions ranged from 1,226 to 966,578 accounts/issuer.
- Total of 1,875,021 account holders. ProxyEdge (624,080 accounts) is a proprietary platform for institutional investors and financial advisors, and it is excluded.
- Response rates represent an average of averages, i.e., on average for a given issuer. Differences due to rounding.
- "Full Set by Mail" includes prior consents and issuer stratification of mailings.
- "Email" delivery provides essentially the same experience for an account holder, with or without Notice & Access, and is based on prior consent.
- Prior "Consents" on file for 2.5 million account holders. Processing of prior consents and issuer stratification (e.g., full package to larger accounts) resulted in 11% of items mailed by full package (7/1/07 to 6/30/08).

## Investor Mailbox

- Integrated web-based presentation of investor information, with execution capability, e.g., proxy, corporate actions, statements, tax forms, and prospectuses.
- Integrated with the proprietary websites of banks and brokers
- Over 16 million accounts
- “Enhanced” online information experience
- Provides information to investors in their natural online task environment.

# Investor Mailbox

The screenshot shows the XYZ Investor Mailbox interface. At the top left is the XYZ logo. Below it is the title "Investor Mailbox" and a navigation bar with links: Home, Investor Information, Global Services, Stock Quote & Graphs, Investor Mailbox, View XML, and Logoff. On the right side of the page, the text "Investor Mailbox" is repeated. Below the navigation bar, there are tabs for "Investor Mailbox", "Confirms", "Statements", and "Taxes". The main content is a table with the following columns: Received, Account, Symbol, Description, Type, Action, Due Date, and Status & Date. The table contains six rows of data, each with a "Select Material" dropdown menu. A red arrow points from the "Proxy Analysis" link in the last row to the text below.

Received	Account	Symbol	Description	Type	Action	Due Date	Status & Date
04/23/07	01234	<a href="#">SHMR</a>	SHAMIR OPTICAL INDUSTRY LTD. Material: Sent via Postal Mail	Vote	<a href="#">Proxy Analysis</a>	Annual meeting	12/28/07
04/23/07	01234	624758108	MUELLER WATER PRODUCTS INC. Select Material	Vote	<a href="#">Proxy Analysis</a>	<a href="#">Annual meeting</a>	12/28/07
04/16/07	01234	<a href="#">TYCO</a>	TAYCO DEVELOPMENTS, INC. Select Material	Regulatory			
04/16/07	01234	<a href="#">PPR</a>	ING PRIME RATE TRUST Select Material	Regulatory			
04/16/07	01234	<a href="#">PNBC</a>	PRINCETON NATIONAL BANCORP, INC. Select Material	Regulatory			
04/03/07	01234	<a href="#">RTSX</a>	RADIATION THERAPY SERVICES, INC. Select Material	Vote	<a href="#">Proxy Analysis</a>	<a href="#">Annual meeting</a>	12/28/07

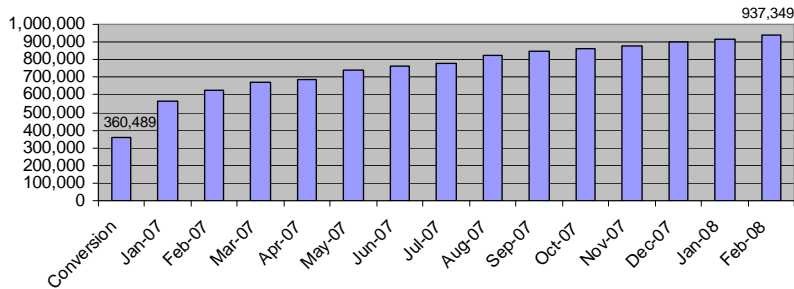
\*\*\* Click on the Symbol to view the company summary

Access to data, information and analysis-XBRL based, data feeds, etc.

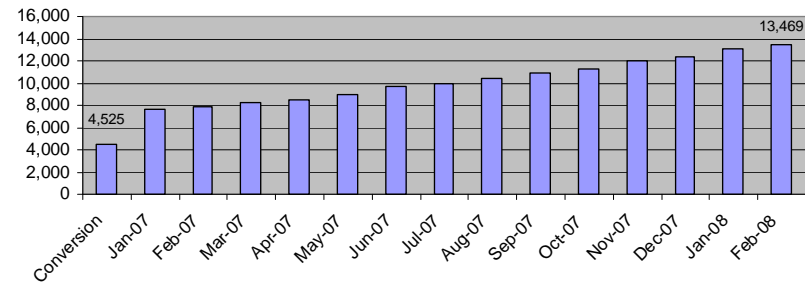
# Investor Mailbox – E-mail Consent Growth

Clients of brokers that have implemented the Investor Mailbox are consenting for e-delivery at increasing rates. It is providing an enhanced online delivery experience.

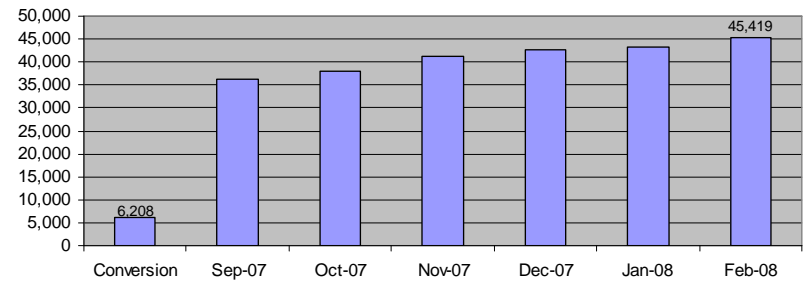
**Broker 1**



**Broker 2**



**Broker 3**



## Some Practical Implications - for Discussion

### 21<sup>st</sup> Century Disclosure Initiative -- SEC Roundtable on October 8

- Efficiency and participation = provide more access points, consistent with current preferences and defaults
- When it comes to millions of individual investors, Internet “access” is not a replacement for information delivery.
- Mandating changes to current “defaults” for disclosure delivery has been shown to negatively impact participation of millions of investors.

### Mutual Fund Summary Prospectus Delivery

- Broad consensus on the need to create a more user-friendly prospectus document.
- Significant savings on printing and postage