

THE SHAREHOLDER FORUM

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October 8, 2010

By email

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: File Number S7-14-10
Concept Release on the U.S. Proxy System

Dear Secretary Murphy:

Responding to an SEC staff request, the accompanying October 6, 2010 report of the Shareholder Forum's "Survey of Investor Communication Priorities for Voting Decisions" is being submitted today so that it can be readily available for reference by anyone considering the SEC's "Concept Release on the U.S. Proxy System."

The investor views summarized in the report were sought in the course of the Forum's 2010 public interest program to define standards of fair conduct for electronic communications associated with shareholder meetings.* The survey shows that there is significant investor interest in direct communication with corporate managers for information relating to voting decisions, and also provides indications of the types of communication processes that may be appropriate to respond to investor information requirements. The viability of these means of information exchange will of course depend on the SEC's response to the issues raised in the Concept Release.

The survey report is being presented now without comments to avoid delaying its availability, but the Forum may submit observations later if asked to do so by its participants. I will in any event welcome questions about the survey results from the staff or from other readers, and can be reached by telephone at 212-605-0335 or by email at gl@shareholderforum.com.

Sincerely yours,



Gary Lutin, Chairman

* For information about the Forum's "E-Meetings" program, see: www.shareholderforum.com/e-mtg.

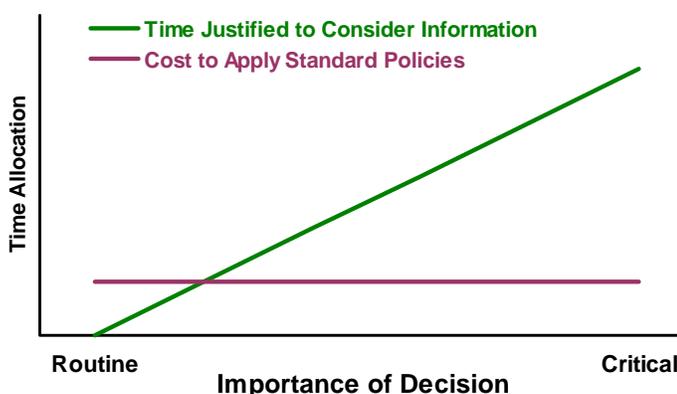
Survey of Investor Communication Priorities for Voting Decisions

[Time Allocations to Voting Decisions](#) [Preferences for Obtaining Information](#)

To support corporate planning of communication programs appropriate to company-specific voting decisions, including possible applications of the processes addressed in its “[E-Meetings](#)” public interest program, the Shareholder Forum conducted an independent survey of professional investors to determine (a) the situations that actually justify their attention, rather than their reliance on applications of standard policies, and (b) the means they prefer for access to the relevant information.¹

The survey sought more detailed views of the basic investor preference for direct corporate management sources of information on voting issues, as established by the Forum survey reported in December 2009.² It was also designed for quantitative analysis of the generally assumed investor inclination to allocate more time (cost) to voting issues in proportion to the importance (value) of a decision, as illustrated in the chart

Investor Attention to Voting Decisions



to the right showing a theoretical point of importance at which an investor considers the cost of attention justified as an alternative to simply relying upon proxy advisor recommendations or other standard policies.

The investor responses strongly supported these key foundations for shareholder communication:

- (1) a meaningful portion of professional fund managers can be expected to allocate time to considering information provided directly by corporate managers about voting decisions, as an alternative to simply applying a standard policy;***
- (2) the percentage of investors who will allocate time to considering voting issues increases significantly with the importance of the voting decision; and***
- (3) management responses to specifically expressed investor interests are the most highly valued means of providing information.***

¹ The survey was initiated on August 19, 2010, with Forum email invitations to its program participants and a list of approximately five thousand professional investor users of research. Copies of the invitations and the questionnaire are available from these links:

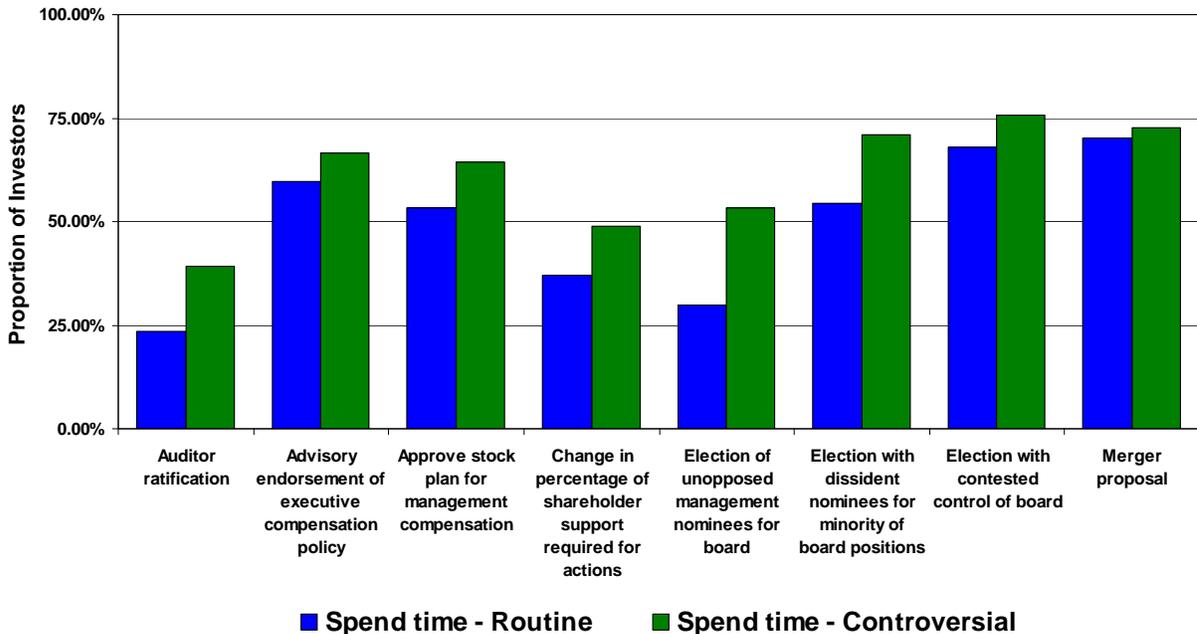
- [Shareholder Forum invitation to its program participants](#)
- [Shareholder Forum invitation to list of professional investors](#)
- [Questionnaire](#)

² See [December 14, 2009 Forum Report: Survey of Investor Voting Criteria for Compensation Issues](#).

Time Allocations to Voting Decisions

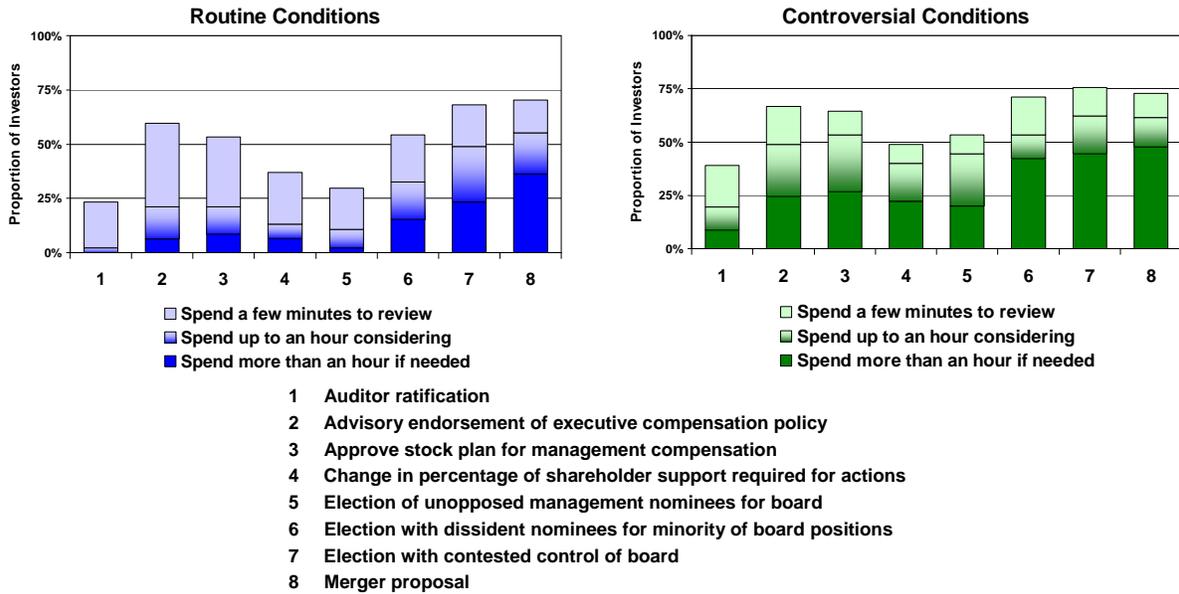
The charts below show that significant proportions of investors will spend time – either “a few minutes,” “up to an hour” or “more than an hour if needed” – to consider voting issues, as distinguished from applying standard policies or recommendations,³ according to the importance of the decision. Participants were asked to indicate how they would consider the same set of decisions first under conditions “assuming that you are generally satisfied with a company's performance and that there are no significant controversies about the voting issues,” and then again under different conditions assuming the investor has “significant concerns about a company's performance or that there is some meaningful controversy or dissident challenge.”

The first of these charts compares the proportions of investors who would spend any amount of time on each of the voting issues under routine (■) and controversial (■) conditions:



The next two charts, below, present time allocation details of the same responses, showing the proportion of investors who will spend either a few minutes, up to an hour, or more than an hour to personally read or discuss each type of decision, in both routine and controversial conditions:

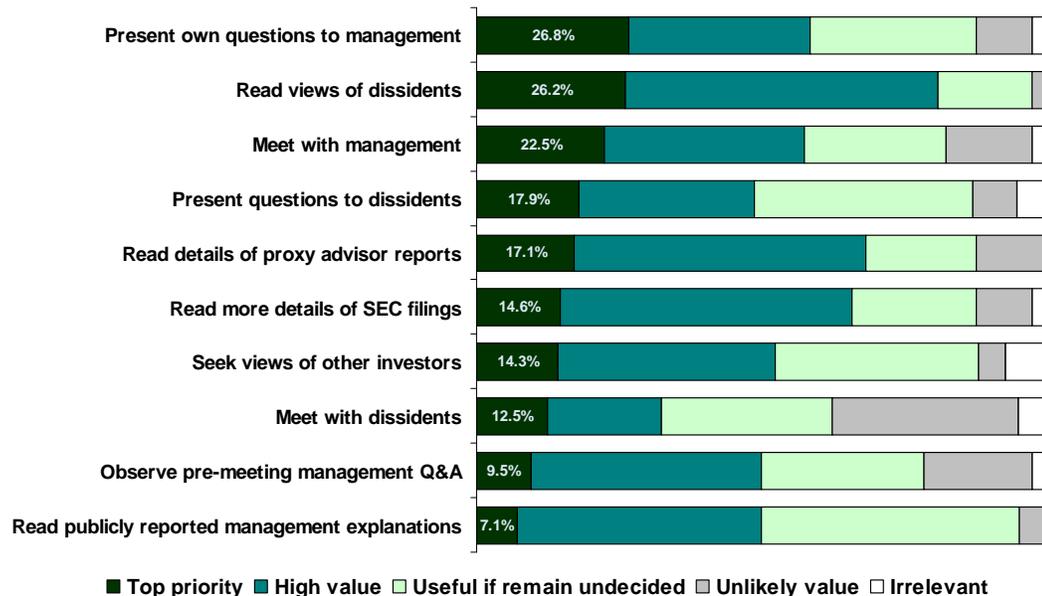
³ Asked how they would reach a voting decision on each of the listed subjects, participants were given choices that included the stated different levels of their time to consider the issues as well as the following alternatives: “support management position,” “follow proxy advisor recommendation,” “follow another investor's decision,” or “apply my own firm's standard policy.”



It should be noted that there was an observable difference in the response patterns for these questions between survey participants who reported being responsible primarily for proxy voting and those who reported being buy-sell decision-makers. Professionals with buy-sell responsibilities were significantly more likely to allocate time to voting decisions, with at least 70% of them reporting that under conditions of controversy they would spend up to an hour or more considering information about each of the listed issues other than auditor selection (#1) and change in voting support requirements (#4).

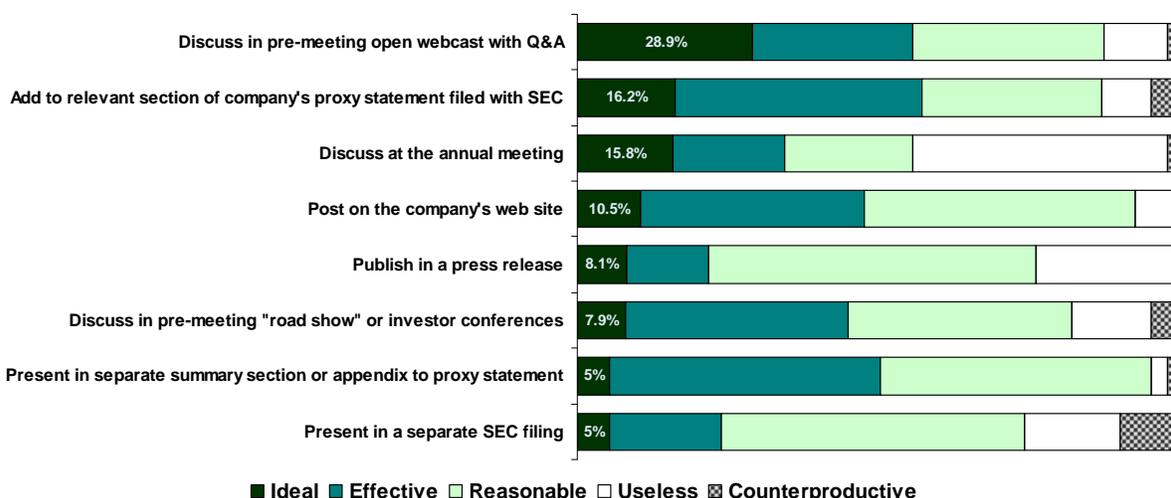
Preferences for Obtaining Information

Asked how they would be likely to allocate their time, survey participants placed high values on presenting their own questions, both to company managers and to others:



These responses also showed that investors will be likely to allocate time to learning what issues are raised by others, including dissidents and proxy advisors as well as other investors. There is an apparent distinction, though, between seeking observers' views to define issues and seeking management's responses to resolve those issues, evidenced by the relatively high value attributed to simply reading the views of dissidents (the second highest "top priority" rating, at 26%) and the low value attributed to meeting with dissidents (the eighth of ten, with only 12% rating it "top priority").

Focusing on how companies could most effectively respond to these investor interests in supplemental information, beyond the regulated disclosure filings, survey participants expressed strong preferences for open, direct exchanges with corporate managers:



It should be noted that there were significant differences between responses from investors who were participating in the Shareholder Forum's program and the broader sampling of marketplace investors in their "ideal" rating for "Discuss in pre-meeting open webcast with Q&A." Among Forum participants, who were more likely to have been aware of the "E-Meetings" program's discussions and reports about advantages of pre-meeting and continuum communications,⁴ more than 39% rated the pre-meeting webcast exchange as "ideal," and their second highest level of "ideal" ranking was 20% for adding the supplemental information to a relevant section of the company's proxy statement. The broader investor sampling, most of whom are assumed not to have followed the Forum's "E-Meetings" discussions, responded with only a 22% "ideal" rating of pre-meeting webcast exchanges – still the top choice – with the second highest "ideal" rating being 17% for discussion at the annual meeting.

Addressing the annual meeting itself as an opportunity for management response to investor questions, a remarkable 42% of participants considered this traditional process for shareholder communication to be "useless." It is important to observe, though, that while getting twice as many "useless" ratings as any other process, the annual meeting discussion

⁴ See [July 30, 2010 E-Meetings Review, Focus Report: "Corporate Competition for Investor Support."](#)

also received a relatively high, third-ranking 16% level of “ideal” ratings. This suggests strong investor support for any form of direct management question-and-answer exchange, even after decisions have been made.

Finally, it may be useful to compare the investor ratings of the various open discussion processes with their ratings of the various written means of providing information. While open discussion processes generally received more “ideal” ratings, the written responses such as SEC filings received the highest proportions of “effective” or “reasonable” ratings. The highest combined “effective” and “reasonable” rating, in fact, was for the alternative of presenting information in a separate summary section or appendix to a company’s proxy statement, even though that process received a barely second-to-last 5% “ideal” rating. However this pattern of preferences is interpreted, theoretically or as refined in company-specific surveys, it suggests a need to develop communication plans using both discussion and written processes to effectively reach all of company’s shareholder decision-makers.

* * *

Questions and requests for more detailed analyses of investor responses will of course be welcomed.

We thank all the survey participants who offered their views, and all of the Forum participants who contributed their time and expertise to guide this project.

GL – October 6, 2010

Gary Lutin, Chairman

Program Panel:

Hye-Won Choi, TIAA-CREF

Margaret M. Foran, Prudential Financial, Inc.

Mary Beth Kissane, Walek & Associates and National Investor Relations Institute (NIRI)

Cary I. Klafter, Intel Corporation

Alvin P. Kressler, III, Bloomberg

James Kristie, Directors & Boards

Eric Nowak, Swiss Finance Institute and European Group for Investor Protection (egip)

David A. Silverman, Blue Harbour Group and New York Society of Security Analysts
(NYSSA)

Timothy Smith, Walden Asset Management

Frank G. Zarb, Jr., Katten Muchin Rosenman LLP