

January 28, 2000

Via Federal Express

Jonathan G. Katz, Secretary
Securities & Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-0609

Re: File No. S7-26-99;SEC Proxy Householding Release

Dear Mr. Katz,

The Securities Industry Association ("SIA")¹ welcomes the opportunity to comment on the proposal of the Securities and Exchange Commission ("SEC" or "Commission") to amend the rules governing the delivery of proxy and information statements to households. SIA is committed to furthering investor trust and confidence in securities markets, securities firms and securities ownership, and believes effective communication with customers is fundamental to that mission.

As a result, SIA encourages its member firms to provide the best possible service to their clients, the majority of whom own shares as beneficial owners. SIA is mindful that a customer of a securities firm is also a shareholder of an issuer and that an efficient mechanism for the transmission of proxy and other communications between issuers and customers is in the best interests of all parties. SIA believes that an effective mechanism for shareholder communications depends on the cooperation of securities firms and issuers, in which each share the goals of high standards and efficiency in serving the customer/shareholder.

SIA is particularly pleased to see the Commission's initiative to encourage the "householding" of proxy materials. Effective householding can save issuers and their shareholders significant time and expense without adversely impacting shareholder communications. SIA member firms report receiving many complaints from clients about wasteful and duplicative mailings of shareholder materials and have long supported householding in an effort to be responsive to these customers.

¹ The Securities Industry Association brings together the shared interests of more than 740 securities firms to accomplish common goals. SIA member-firms (including investment banks, broker-dealers, and mutual fund companies) are active in all U.S. and foreign markets and in all phases of corporate and public finance. The U.S. securities industry manages the accounts of more than 50-million investors directly and tens of millions of investors indirectly through corporate, thrift and pension plans. The industry generates more than \$300 billion of revenues yearly in the U.S. economy and employs more than 700,000 individuals.

GENERAL COMMENTS

SIA strongly believes that an effective householding program will result in lower costs, increased efficiencies and less confusion for customers. We welcome a discussion with issuers on how to realize further cost savings and performance improvements from householding and electronic communications.

For the past four years SIA has been engaged in discussions with issuers, the NYSE, the Commission and others with respect to expense reimbursement fees paid by issuers for the delivery of proxy materials and the return of votes from beneficial shareholders. Discussions between securities firms and issuers resulted in an agreement on a three-year pilot for proxy reimbursement fees, reached in good faith, which was filed by the New York Stock Exchange in February 1998. The SEC approved the proposed fee schedule for one year in March of 1999, while rejecting a three-year pilot. With respect to fees after 1999, the SEC has requested a further reduction of approximately \$15 million, equivalent to about 12.5%, below the agreement reached by securities firms and issuers. Good faith efforts to resolve the dispute have thus far been unsuccessful.

A great deal of progress has been made in developing a partnership between securities firms and issuers with respect to shareholder communications and we are committed to helping resolve the issues that remain open. SIA believes that a parallel discussion between issuers and securities firms to address electronic and telephonic shareholder communications programs could also yield significant cost savings to issuers. The pace and degree of productivity improvements in shareholder communications are in part related to investments in new processes and technology by securities firms and their agent (ADP). The ability and incentive to make such investments is influenced by the opportunity to achieve a fair return on investment, which in turn depends on the level of revenues derived from expense reimbursement fees. This opportunity for all parties to benefit is what motivated SIA firms and issuers to agree to a three-year pilot program in February 1998. SIA looks forward to working with issuers and the Commission to develop an effective householding program and other effective electronic communications programs as quickly as possible.

SIA strongly supports the principal of implied consent and believes the SEC should consider allowing implied customer consent to the receipt of prospectus materials via electronic means. SIA notes that the SEC's recent order approving householding of prospectuses and shareholder reports also permits delivery on an implied consent basis. SIA previously expressed support for this provision and the SEC proposal in general in its 1998 comment letter.² Just as householding of these documents promises lower costs, increased efficiencies and better customer service, the expanded use of electronic delivery will speed the flow of information to customers and reduce the operational costs of capital raising for issuers and underwriters. The SEC should continue to allow regulation to evolve along with technology by allowing investors who have indicated a clear preference for electronic communication to receive the kind of customer service that respects that preference.

² See comment letter from Lawrence H. Kaplan, Chairman, Investment Company Committee, SIA to Jonathan D. Katz, Secretary, Securities and Exchange Commission (dated February 2, 1998)

SPECIFIC COMMENTS

SIA endorses the comment letters submitted by SIA's Corporate Action Division (attached) and ADP. The Corporate Action Division is made up of over 400 professionals who are employed by more than 150 SIA member firms and who have direct responsibility for proxy distribution and shareholder communications. ADP is the agent for most SIA member firms in the processing of proxy materials and, as such, is most familiar with the operational and technical aspects of householding. In addition to these two comment letters, SIA would like to highlight the following:

- (1) The householding of proxy materials by securities firms cannot be effected until certain operational issues are addressed. Both securities firms and their third party processor (i.e., ADP) will have to reprogram customer account processing systems to implement effective householding. Securities firms will bear the cost of these changes, however, the benefits will inure mostly to issuers. In view of the sensitivity of expense reimbursement fees and the present unresolved dispute over those fees, it is critical that the incentive fees for efficient householding be thoroughly reviewed, understood and agreed upon between securities firms, ADP and issuers, as well as by the NYSE and the Commission.
- (2) Because issuers perceive householding on an issue-by-issue basis and securities firms perceive householding on an account-by-account basis, a number of operational and reimbursement questions arise which will need to be addressed by the various parties. For examples, to achieve the cost and efficiency gains from economies of scale, it would be better if firms had sufficient flexibility in determining how householding will work. For this reason, SIA would oppose any provision that makes householding contingent on approval by each issuer. Requiring specific procedures for certain individual accounts or individual holdings within an account will result in less efficiency and higher costs.
- (3) Given the competing demands for scarce operations/IT resources within securities firms, reprogramming for householding will need to be prioritized against many other projects.

CONCLUSION

SIA recommends that a Householding Steering Committee, made up of representatives of securities firms, ADP, and issuers be created to address these issues and others that are sure to arise. An effective householding program will only be successful if each of the parties involved invests the effort to implement the necessary changes, solve problems and monitor progress on an ongoing basis.

If we can provide any further information or clarification of the points made in this letter, please contact the undersigned at 212-618-0526 or Scott Kursman, SIA Assistant General Counsel, at 212-618-0508.

Respectfully submitted,

Donald D. Kittell
Executive Vice President