Borrowed Proxy Abuse

Are Hedge Funds Subverting the Interests of Their Lenders?

Presentation to IMN's
18th Annual International Beneficial Owners' Securities Lending Summit
January 29-31, 2012
Phoenix, AZ

The Center for the Study of Financial Market Evolution (CSFME) is an independent, nonprofit organization whose mission is to improve transparency, reduce risks, support research, and promote sound regulation of financial markets through data-driven quantitative analysis.

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Panelists

- **Ed Blount**

  Executive Director
  Center for the Study of Financial Market Evolution (CSFME)

- **Philip Larrieu, CFA**

  Investment Officer/Corporate Governance
  California State Teachers' Retirement System

- **Dr. Robert A. Van Ness**

  Professor of Finance, Tom B. Scott Chair of Financial Institutions
  University of Mississippi
  Co-Editor of The Financial Review

The controversy …

www.csfme.org

April 16, 2006

STRATEGIES

One Borrowed Share, but One Very Real Vote

By MARK HULBERT

SOME investors seem to be taking advantage of a loophole in financial regulations to cast shareholder votes that are far out of proportion to the number of shares they actually own, a new academic study suggests.

The power brokers

Telegraph

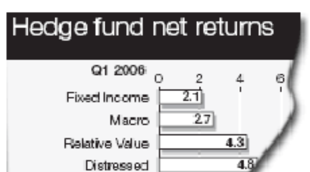
By Iain Dey
(Filed: 25/06/2006)

Hedge funds are playing a pivotal role in deciding the future of takeovers. Iain Dey examines their growing influence

With company takeovers running at record levels, hedge funds have emerged as the behind-the-scenes power brokers who hold the key to the independence of many of the UK's largest companies.

Within minutes of takeover talks being announced - and sometimes even before any public statement has been made - hedge funds snap up big stakes in the corporate combatants and often end up controlling about 30 per cent of the target company's shares, enough to decide the outcome of the battle for control.

Investment bankers working on mergers and acquisitions say the increasing presence of hedge funds on share registers is making it easier to push through deals.



Some even say that the rising power of

al one

contests.

When short sellers borrow stock, investor democracy can be a sham.

Corporate Voting Charade

Bloomberg Markets
April 2006

By Bob Drummond

The controversy …

THE WALL STREET JOURNAL. ONLINE
FORMAT FOR PRINTING sponsored by TOSHIBA Don't copy Lead.*

January 26, 2007

PAGE ONE

OUTSIDE INFLUENCE

How Borrowed Shares Swing Company Votes

SEC and Others Fear Hedge-Fund Strategy May Subvert Elections

By KARA SCANNELL
January 26, 2007; Page A1

Private investment firms have found a simple way to profit f
workings of public companies: Borrow their shares, and then

In some cases, the strategy has allowed speculators to gambl
and then vote for decisions that will ensure that it does -- wit
stock themselves. Some outside interests have used the strate
a company until the last moment. Often, individual sharehol
and their voting rights, have been borrowed from their broke

Fueling the practice -- dubbed "empty voting" in a study by two University of Texas professors -- is a booming business in lending shares. That business has nearly doubled in the past five years, according to one report, and now earns $8 billion a year for big brokerages and banks plus an unknown amount for institutional investors. Voting rights are lent along with the shares, and increasingly, that is leading to unintended consequences.

Vote counters often fail to keep track accurately and let the b
shares both cast votes. Four big banks paid the New York St

ON BORROWED TIME

- **The Issue:** Hedge funds can vote shares they don't own by borrowing them.
- **The Stakes:** Critics say shareholder elections are corrupted if investors who don't have an economic stake can vote.
- **The Bottom Line:** Regulators face difficulties if they try to curtail the practice.

regulatory response to ensure that investors' interests are protected," Securities and Exchange Commission Chairman Christopher Cox said in an interview. "This is already a serious issue and it is showing all signs of growing."

The SEC has no firm plans yet. Britain's securities regulator, the Financial Services Authority, has begun a study into whether to force greater disclosure of large investors' stakes in companies, regardless of whether they own stocks or are just borrowing them. One of the largest pension-fund managers there, Hermes, has called for regulators to outlaw voting altogether by borrowers of shares. In Hong Kong, the Securities and Futures Commission said it is studying "issues relating to borrowed shares and voting."

Taking Stock

Private investment firms are borrowing shares to sway shareholder votes:

Company announces the "record date" on which investors must hold stock to vote at the next shareholder meeting.

Hedge fund seeks to borrow stock in the company **before that date.**

Broker taps shares from institutional lender or an individual's account for the hedge fund.

Broker transfers the shares, along with voting rights, to the **hedge fund** in exchange for collateral and a fee.

Hedge fund votes with the borrowed stock. Institutions or individuals who own the shares lose their votes. **Hedge fund** can return the shares at any time after the record date.

The concern arises just as more companies are moving toward requiring a majority of all shares to elect directors, instead of simply a plurality of those casting votes. A recent U.S. federal appeals court decision opened the door to giving shareholders a greater say in the election and nomination of directors, and the SEC recently approved a rule to make it easier for investors to put up their own slates of directors. But the vulnerability of the voting system could set back such efforts.

"It seems in trying to perfect corporate governance, we were polishing an apple that had a lot of worms inside, and we didn't know it," says Carol Hayes, corporate secretary of Coca-Cola Co., and a member of the Society of Corporate Secretaries and Governance Professionals.

The opportunity for "empty voting" arises when brokerage firms or institutional fund managers lend the shares they manage to hedge funds or other firms, for a fee that can rise with how difficult the shares are to get. The value of securities borrowed on any given day has reached $1.6 trillion after several years of double-digit growth, according to Astec Marketing Research Group Inc., a New York capital-markets research firm.

The controversy …

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Council of Institutional Investors

Fall 2006 Meeting

Omni Shoreham Hotel
2500 Calvert Street, NW
Washington, DC
202.234.0700

Back to School: A,B,Cs of Corporate Governance

AGENDA
AS OF 09/08/06

Sunday, 17 September 2006

2:00 – 3:30 PM	**Activism Committee (Open to all interested general members)** Hampton Ballroom
3:30 – 4:30 PM	**Policies Committee (Open to all interested general members)** Governor's Boardroom
4:30 – 5:30 PM	**Board Meeting** Calvert Room
6:00 – 7:30 PM	**Welcome Reception** Empire Patio & Diplomat Terrace (Diplomat Ballroom—if rain)

Monday, 18 September 2006

8:45 – 9:30 AM	**Welcome & Scene-Setting** • Introduction: Jack Ehnes, CEO, California State Teachers' Retirement System • Keynote speaker: Harvey Pitt, Former SEC Chair and CEO, Kalorama Partners

4:15 – 5:00 PM	**Constituency Meetings**
4:15 – 5:00 PM	**International Ad Hoc Committee**
5:00 – 6:00 PM	**Reception**

Tuesday, 19 September 2006

8:00 – 9:30 AM	**General Members' Breakfast Meeting**
8:00 – 9:30 AM	**Continental Breakfast** All other attendees
9:45– 11:00 AM	**Wall Street Research: Perspectives on Reform** • Daniel Reingold, Co-Author, Confessions of a Wall Street Analyst: A True Story of Inside Information and Corruption in the Stock Market • Laura Unger, Former SEC Commissioner and Independent Consultant, JPMorgan Chase
11:30 AM – 12:00 PM	**Hedge Fund Activism and the New Vote Buying** • Henry T.C. Hu, Allan Shivers Chair in the Law of Banking and Finance, University of Texas Law School
12:15– 1:45 PM	**Luncheon** **Building Better Boards** • Michele J. Hooper, Managing Partner and Co-founder, The Directors' Council

The beginning …

Hedge Funds, Insiders, and the Decoupling of Econ
Empty Voting and Hidden (Morphab

Henry T.C. Hu
University of Texas Law Sch

Bernard Black
University of Texas, Law School and McComb

European Corporate Governanc
Finance Working Paper No.

McCombs School of Busi
Working Paper No. FIN-0

University of Texas School
Law and Economics Working Pa

Draft: December 200
(submitted to *Journal of Corpora*

This paper can be downloaded withou
Social Science Research Network elec
http://papers.ssrn.com/abstract

SOUTHERN CALIFORNIA
LAW REVIEW

THE NEW VOTE BUYING:
EMPTY VOTING AND HIDDEN
(MORPHABLE) OWNERSHIP

HENRY T. C. HU
BERNARD BLACK

Reprinted from
SOUTHERN CALIFORNIA LAW REVIEW
Volume 79, May 2006, Number 4

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LAW

The beginning …

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Financial Planning

Are Funds Loaning Shares Ahead of Proxies?

A new study looks at the lending of fund shares and the possible effects
votes.

By Hannah Glover, Money Management Executive

April 13, 2006- A recent report suggested that mutual funds' tendency to vote
management on proxies may be part of the reason for ballooning executive pay
study by four U.S. and Canadian professors, this time on loaning shares ahead
raises questions about whether mutual funds, and other large shareholders, vo
more than once.

"It's a very serious concern that nobody's paying attention to," said Nell Minow,
Corporate Library, a governance watchdog group with headquarters in Portland
Typically, borrowed shares are used for short sales and quick profits. But an in
in corporate governance in recent years has created both a rise in proxy partici
more aggressive marketplace with borrowers -- usually high-stakes investors, s
funds -- seeking greater say as resolutions approach. They may hold borrowed
little as 24 hours, according to the report.

"If everything is done right, the vote should go to the borrower," said Susan Ch
professor of management at McGill University in Montreal and co-author of the
Trading and Information Aggregation. But sometimes the issue in question is so
contested, both the borrower and the lender want to weigh in, and both lay cla
share. "That creates double counting," Christoffersen said. Sometimes, it's due
of communication, said Chris Wloszczyna, a spokesman for the Investment Co
in Washington. "Frequently, different persons or departments are responsible f
a fund's securities lending activity and its proxy activities," he said. "If this is th
may want to provide for regular communication between these individuals or d

Loaning securities and collecting transaction fees is not uncommon among mut

"It's free money," said Carl T. Hagberg, a shareholder communications consulta
of Carl T. Hagberg and Associates in Jackson, N.J. And although it's perhaps a f
per trade, securities lending is lucrative, raising hundreds of millions of dollars
funds.

Most fund prospectuses include fine print noting that the fund may engage in s
to raise revenue, and outline the risks. But few people read that closely or com
understand it, said Alyssa Ellsworth, a spokeswoman for the Council of Instituti
Washington, which represents mainly pension funds.

"There's a potential for mischief when mutual funds lend shares," Hagberg said
potential only grows during proxy season. Most cases of over-voting are anecd
attention to the issue increased in February, when the New York Stock Exchang
Deutsche Bank Securities in New York $1 million for sending duplicate and eve
for the same shares between 1998 and 2003. "The fund has a fiduciary duty to
in the best interest of its shareholders," said Mercer Bullard, founder of Fund D
shareholders rights activist organization in Oxford, Miss.

But after studying data for a large U.S. custodian bank between November 199
1999, Christoffersen and company found that the date shareholders need to be
order to vote also happened to be the day when borrowed shares are most in d
loans increasing nearly 24%. It's impossible to tell who is lending securities an
borrowing from this data, but the dynamics of the system force large investors,

Vote Trading and Information Aggregation

Susan E. K. Christoffersen
McGill University and CIRANO

Christopher C. Geczy
University of Pennsylvania

David K. Musto
University of Pennsylvania

Adam V. Reed*
The University of North Carolina

This Version: June 26, 2006

*Correspondence to Susan Christoffersen, Desautels Faculty of Management, McGill University, 1001 Sherbrooke St. West, Montreal, Quebec Canada, H3A 1G5; Tel 514-398-4012, E-mail susan.christoffersen@mcgill.ca. The authors thank the editor, associate editor, and an anonymous referee. We have greatly benefited from helpful advice and comments from Renée Adams, Bernard Black, Diane Del Guercio, Henry Hu, Jonathon Karpoff, Randall Meades, Felix Meschke, Micah Officer, Artur Raviv, Honorable Leo Strine Jr., Ralph Walkling, Lucy White, and other sources who prefer to remain anonymous, and seminar participants at the American Finance Association Meetings 2006, American University, CEPR-SITE Conference in Stockholm, Columbia University, Erasmus University, the Federal Reserve Bank of Atlanta, 15th Annual Finance Economics and Accounting Conference, Goldman Sachs Asset Management, INSEAD, Institute for Law and Economics Roundtable at the University of Pennsylvania, McGill University, McMaster University, Michigan State, Queen's University, Securities and Exchange Commission, 16th Annual Utah Winter Conference, Tilburg University, University of Alberta, University of Amsterdam, University of British Columbia, University of Houston, University of Illinois, University of Toronto, and Yale Law School Roundtable. We are grateful for financial support from SSHRC, FQRSC, IFM2 and the Rodney L. White Center for Financial Research and for research assistance from Jeff Ng, Eric Turner and Michelle Zhang.

The road travelled …

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Panel: Securities Lending Practices and
Their Impact on Voting Rights

Allegations of Borrowed Proxy Abuse

Have the Academics and Media Presented the Issues Fairly?

Ed Blount, Executive Director
SunGard ASTEC Analytics

Broadridge Annual Conference
November 15, 2007 Miami, FL

Beneficial Owners' Summit on Domestic & International Securities Lending & Repo

February 3 – 6, 2008

Panel Topic:

Re-Evaluating Your Securities Lending/Proxy Voting Policy

February 6, 2008

RMA/SIFMA Borrowed Proxy Abuse Study

Preliminary Findings: November 2009

Analytics by the
Center for the Study of Financial Market Evolution

Data sourced by the
Risk Management Association, member banks
and Broadridge Financial Solutions, Inc.

The Center for the Study of Financial Market Evolution • www.csfme.org
1101 Pennsylvania Avenue, NW Washington, DC 20004 202-581-1188

Page 1

Along the way …

CalPERS Goal:
Align Two Components of our Fiduciary Duty

- CalPERS' goal is to maximize returns while meeting our fiduciary responsibilities of voting our proxies.
- These activitie necessarily mu exclusive.
- This is a coord dance.

BGI's Policy on Recalling Loans to Vote

- Recall based on economic evaluation of lending revenue versus value of the vote
- Vote value derived from:
  - a) quantificatio and/or
  - b) qualification issue on whic
  - c) percentage o loan

OppenheimerFunds
Stock Loan Recall for Proxy Voting

Thoughts on the recall process

- Have the option to recall for all proxies, but this would leave significant income on the table, particularly for non-US securities. Is it wise to recall a highly profitable loan to vote for uncontested/noncontentious directors or ratification of the auditor?
- Some third party systems required manual matching or building internal systems to monitor all the moving parts.
- Some of the third party data was interesting from an overall perspective, but without back-testing it wasn't clear whether many of these data-points would be strongly correlative to the upcoming proposals. Would we be leaving money on the table over one firms view of relevant corporate governance factors, past events that are no longer material, or overly abstract scores/ratings that may be over or under inclusive for the upcoming meeting?

Considerations for a successful recall process

- **AUTOMATION/SPEED**: Automate the process as much as possible. To analyze all the factors manually required an inordinate amount of staff time. Moreover, the window to recall is often very short. *Time is of the essence.*
- **FLEXIBILITY/CUSTOMIZATION**: Can be tweaked to meet your specific, changing needs. **COMPREHENSIVE/RELEVANT**: Shows the full picture – holdings, restriction types, outstanding shares, trading volumes, rebate rates, etc. Focus on activities that have historically shown to be material as opposed to the abstract or low predictive value.
- **MAXIMIZE EARNINGS**: Narrow the recall window around the record date.
- **MINIMIZE RISK**: Monitor whether the lending agent is following your instructions *trust but verify.*

OppenheimerFunds® The Right Way to Invest 18

Along the way …

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"… the recall of loaned shares and the restriction of lending certain shares; all of which will diminish the income received from CalSTRS' securities lending efforts."

"Although the [FL] SBA shall reserve the right to recall … the circumstances required to recall loaned securities are expected to be atypical."

Corporate Governance Principles & Proxy Voting Guidelines – Florida State Board of Administration

January 1, 2011

II. PROXY VOTING GUIDELINES

Empirical Basis for Proxy Voting Guidelines

The SBA's voting guidelines are based on rigorous empirical research, industry studies, investment surveys, and other general corporate finance literature. We believe that sound proxy voting policies should be based on both market experience and balanced academic and industry studies, which aid in the application of specific policy criteria, quantitative thresholds, and other qualitative metrics. Empirical citations should provide evaluation of specific items over long time frames, in excess of 3 years. Studies should also be extensive in scope and analyze companies of various market capitalizations across U.S. and foreign markets.

Disclosure of Proxy Voting Decisions

The SBA discloses all proxy voting decisions once they have been made, approximately seven to 10 calendar days prior to the date of the shareowner meeting. Disclosing proxy votes prior to the meeting date improves the transparency of our voting decisions and supports widespread public disclosure of SBA investment decisions. Disclosing proxy votes in advance of their effective dates will fully emphasize the SBA's position on proper corporate governance practices. Historical proxy votes are also archived for a period of five years and available electronically on the SBA's website.[11]

Proxy Voting and Securities Lending

The SBA participates in securities lending in order to enhance the return on its investment portfolios. In the process of lending securities, the legal rights attached to those shares are transferred to the borrower of the securities during the period that the securities are on loan. As a result, the SBA's right to exercise proxy voting on loaned securities is forfeited unless those affected shares have been recalled from the borrower in a timely manner (i.e. on, or prior to, the share's record date). The SBA has a fiduciary duty to exercise its right to vo
vote in corporate meetings is
lending program.

Although the SBA shall reserv
voting rights for domestic as
be atypical. Circumstances th
voting items on the ballot suc

C. Corporate Governance

INTRODUCTION

The California State Teachers' Retirement System (CalSTRS) is committed to holding and managing equity investments and to exercising the shareholder rights appurtenant to those investments, all for the benefit of its participants and beneficiaries. It is the fiduciary responsibility of the Teachers' Retirement Board (TRB) to discharge its duty in the exclusive interest of the participants and beneficiaries and for the primary purpose of providing benefits to participants and their beneficiaries. The TRB should defray the reasonable expenses of administering the Fund; the investment policy of the Fund should reflect and reinforce this purpose. The TRB views its corporate governance role as that of a catalyst for enhanced management accountability, disclosure and performance. The objective of the TRB's corporate governance effort is to enhance long-term shareholder returns.

CalSTRS is a long-term investor; its long-term strategy is demonstrated through its significant commitment to passively managed portfolios in its three largest asset categories: Domestic Equities, Fixed Income, and non-U.S. Equities. CalSTRS' thrust in corporate governance is to maximize the longer-term value of the shares, consistent with its role as a significant capital allocator. CalSTRS recognizes that the lending of securities, especially equity common shares is an important practice in the investment world, improving market liquidity, reducing the risk of failed trades, and adds significant
est efforts to ensure that the
that are contrary to CalSTRS'
stor, CalSTRS believes that its
hen votes are cast by market
lying company. CalSTRS will
ties, including the investment
t to insure that under-voting or
hat this effort will result in the
tain shares; all of which will
s lending efforts; however as
is committed to exercising its

§ 220.10 Borrowing and lending securities.

(a) Without regard to the other provisions of this part, a creditor may borrow or lend securities for the purpose of making delivery of the securities in the case of short sales, failure to receive securities required to be delivered, or other similar situations. If a creditor reasonably anticipates a short sale or fail transaction, such borrowing may be made up to one standard settlement cycle in advance of trade date.

(b) A creditor may lend foreign securities to a foreign person (or borrow such securities for the purpose of relending them to a foreign person) for any purpose lawful in the country in which they are to be used.

(c) A creditor that is an exempted borrower may lend securities without regard to the other provisions of this part and a creditor may borrow securities from an exempted borrower without regard to the other provisions of this part.

Along the way …

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SECURITIES AND EXCHANGE COMMISSION

17 CFR Parts 240, 270, 274, and 275

[Release Nos. 34-62495; IA-3052; IC-29340; File No. S7-14-10]

RIN 3235-AK43

CONCEPT RELEASE ON THE U.S. PROXY SYSTEM

AGENCY: Securities and Exchange Commission.

ACTION: Concept release; request for comments.

SUMMARY: The Commission is publishing this concept release to

various aspects of the U.S. proxy system. It has been many years sin

broad review of the system, and we are aware of industry and investo

Commission's consideration of an update to its rules to promote grea

transparency in the system and enhance the accuracy and integrity of

vote. Therefore, we seek comment on the proxy system in general, i

issues raised in this release involving the U.S. proxy system and certa

"We find no strong evidence to conclude that securities lending programs have been used to any great extent to manipulate proxy votes or exercise undue influence on Corporate Governance issues."

CSFME Comments on
Securities and Exchange Commission's
Concept Release on the U.S. Proxy System
File No. S7-14-101

Washington, DC, October 20, 2010

Submission by:

The Center For the Study of Financial Market Evolution
1101 Pennsylvania Avenue NW
Suite 600
Washington, DC 20004

Contact:

Ed Blount
Executive Director
202-581-1188 ext.101
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1. **The CSFME welcomes this opportunity to comment on The Securities and Exchange Commission's Concept Release on the U.S. Proxy System.** Given that shareholder suffrage (proxy) is fundamental to investor rights, the proxy voting system should be transparent, efficient and accurate to insure the trust of shareholders and issuers. The SEC's Concept Release and request for response are important steps in helping to create such transparency and accuracy within the proxy system.

Main Points:

2. The core conclusion in the CSFME's study of *Corporate Governance in Stock Loan Programs* is that " empty voting" is not as prevalent in the financial markets as suggested by academic studies. However, without sufficient data compilation and analysis in non-lending markets, the prevalence of market-wide abuse is difficult to ascertain.
3. **We find no strong evidence to conclude that securities lending programs have been used to any great extent to manipulate proxy votes or exercise undue influence on Corporate Governance issues.** The Risk Management Association (RMA) and the Center for the Study of Financial Evolution (CSFME) recently

The promised land …

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A Report to Market Participants and Regulators
Regarding Proxy Voting Practices and Issues

Borrowed Proxy Abuse: Real or Not?

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Does Proxy Voting Affect the Supply and/or Demand for Securities Lending?

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October 2010

Securities Lending around Proxies: Is the increase in lending due to proxy abuse, or a result of dividends?

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Abstract

The notion of empty voting, or borrowing shares of stock in order to
economic interest, has captured the attention of both the financial
investigate the securities lending market around proxy record dates
find that the significance of share capture at the proxy has diminishe
statistical standpoint. In fact, after controlling for dividend record d
activity occurs), incremental equity lending activity at the proxy is in
addition, contrary to prior research, we find evidence that lending a
fees on proxy record dates, potentially dampening equity lending activity.

"We find statistically significant evidence of increase in demand however this increase in demand is economically small relative to the reduction in supply."

- Georgetown

"In fact, after controlling for dividend record dates (when more stock lending activity occurs), incremental equity lending activity at the proxy is indistinguishable from zero."

- University of Mississippi

Corporate governance still under review

Lenders cannot effectively exercise corporate governance duties while shares are on loan, which is gaining regulatory attention and working counter to leading investors' corporate governance initiatives.

State of Michigan Retirement System Proxy Voting Policy

Company meeting dates and lending activity will be monitored to the extent practicable in order to allow shares to be removed from the lending pool or be recalled if the SMRS believes that the exercise of voting rights may be necessary to maximize the long-term value of the investment.

SEC CONCEPT RELEASE ON THE U.S. PROXY SYSTEM

b. Potential Regulatory Responses

We seek to examine whether Form N-PX should be amended to require disclosure of the actual number of votes cast by funds.

c. Request for Comment

- Should Form N-PX require disclosure of the actual number of shares voted? Should Form N-PX require disclosure of the number of portfolio securities for which a fund did not vote proxies because the securities were on loan or for other reasons?

Fink Leverages BlackRock's $3.3 Trillion in Shareholder Push

Christopher Condon and Sree Vidya Bhaktavatsalam, ©2012 Bloomberg News
Bloomberg January 25, 2012 04:00 AM

Jan. 19 (Bloomberg) -- BlackRock Inc., the world's biggest money manager, is looking to leverage its $3.3 trillion of client assets by embarking on an unprecedented campaign to urge corporations to adopt shareholder-friendly practices.

Laurence D. Fink, BlackRock's chief executive officer, said in a letter yesterday to 600 of its biggest holdings, including Apple Inc., Coca-Cola Co., BNP Paribas SA and Deutsche Telekom AG, that his firm "seeks to engage in dialogue" with management to address issues that will be raised this year at shareholder meetings.

Shares are recalled even though proxies aren't voted

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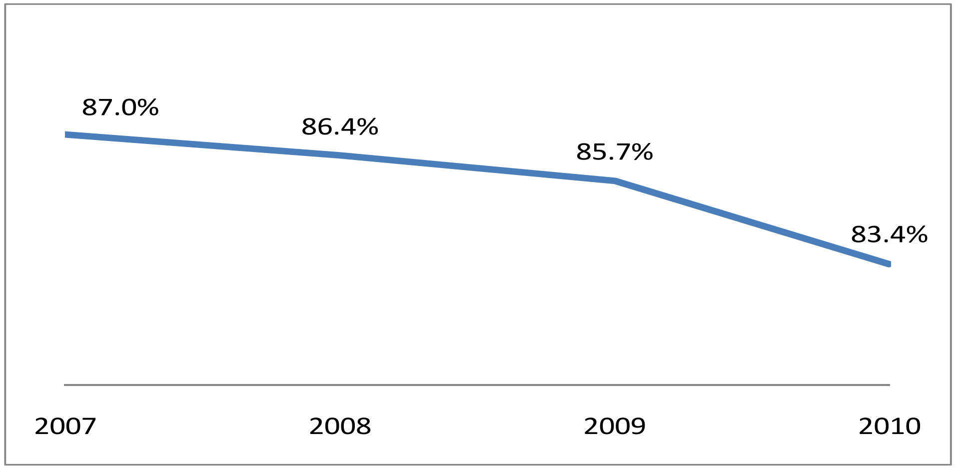
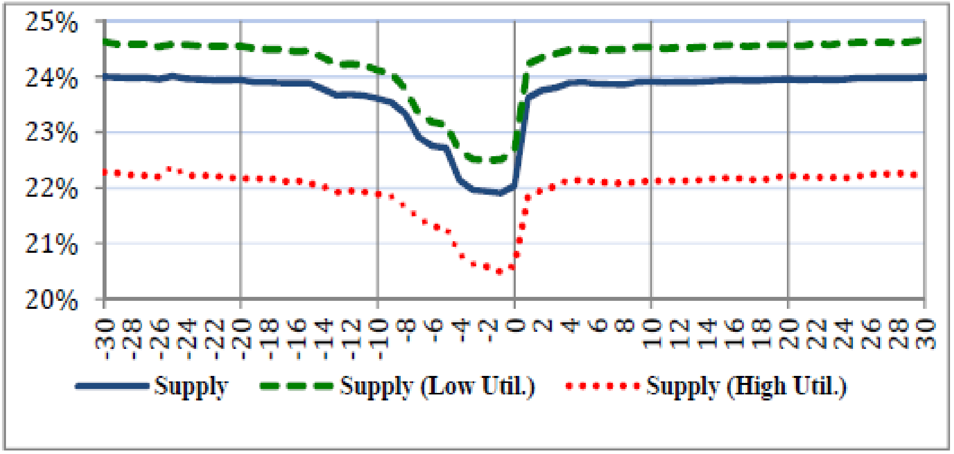
- The share of proxies voted has declined
  - Longer timelines for issuers to reach quorum
  - Higher costs to soliciting votes (e.g., 2nd mailings)
  - Skewed composition of investors casing votes

Share of Proxies Voted[1]



- Lending supply is restricted over proxy record dates
  - Churn in loan allocations
  - Volatility in collateral pools
  - Higher liquidity requirements
  - Unavailability/close-outs of prime brokerage trades

Loan Supply around Proxy Record Dates[2]



1. www.broadridge.com/investor-communications/us/Broadridge_Proxy_Stats_2010.pdf
2. http://faculty.msb.edu/aggarwal/lending.pdf

Lenders forgo income, even with many unused proxies

www.csfme.org

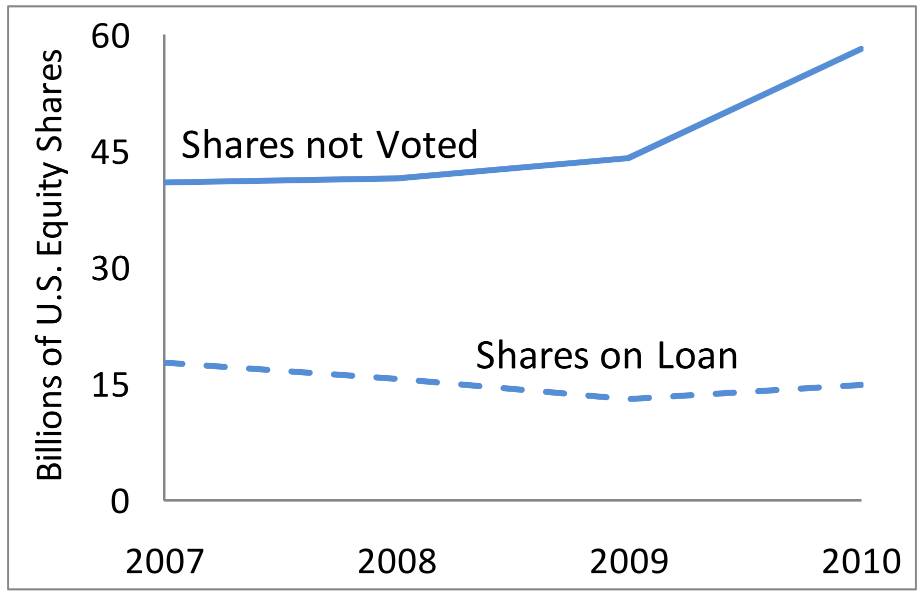
- Loan recalls cost lenders millions last year…
  - Data is U.S.-centric … global revenue lost is even higher
  - Does not include lost earnings on prime brokerage business

- … while many more shares go unvoted than are loaned
  - On average, 4x coverage of loaned shares
  - First pilot showed much higher coverage in individual securities

Lenders could avoid revenue lost by instructing shares that would otherwise go unvoted

For Year Ended 3Q11 ($M)

Annual equity lending revenue[1]	**$3,959**
Share from specials[2]	**68%**
Share recalled over record date[3]	**8%**
Days out of market[3]	**10**
Annual revenue loss	**$6.0**



1. Lending data from RMA quarterly composites. Shares on loan assumes an average stock price of $20
2. Sungard ASTEC presentation at 2011 IMN Beneficial Owners' Securities Lending Summit
3. http://faculty.msb.edu/aggarwal/lending.pdf