



Lender-Directed Voting (LDV)

Proxy-recall Reduction with Lender Income Protection

Presentation to IMN's
18th Annual International Beneficial Owners'
Securities Lending Summit
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Phoenix, AZ

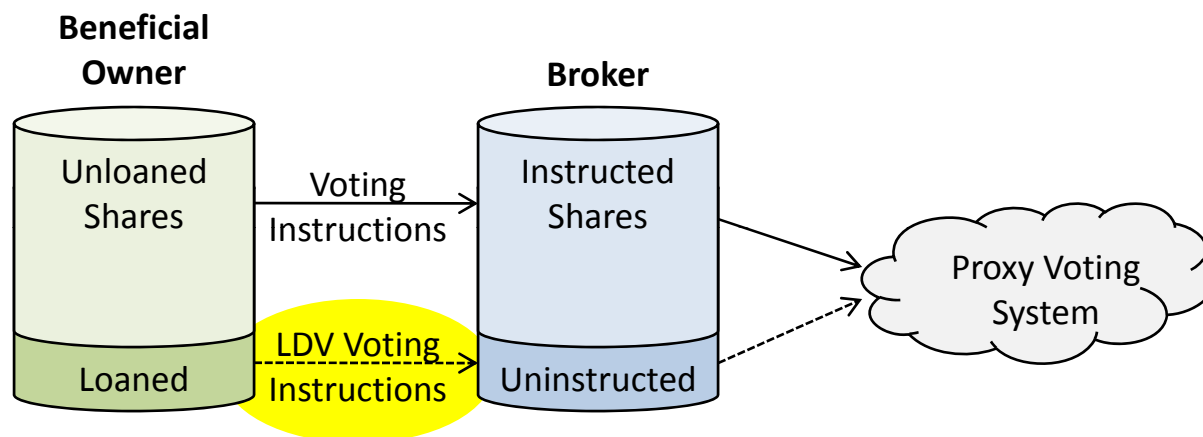
The Center for the Study of Financial Market Evolution (CSFME) is an independent, nonprofit organization whose mission is to improve transparency, reduce risks, support research, and promote sound regulation of financial markets through data-driven quantitative analysis.

1101 Pennsylvania Avenue, NW, Suite 600, Washington D.C. 20004
phone: 202 581 1188 • fax: 202 756 7323

LDV: Numerous benefits within proxy current processes

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- Lender-Directed Voting allows securities lenders and borrowers to optimize the voting of proxies for shares that would otherwise go uninstructed



- Benefits:
 - Securities lenders vote without recalling loans or losing income
 - Corporate issuers reach quorum faster at lower cost, receiving more votes from well-known, long-term investors
 - Agents & brokers gain more stable loan and collateral portfolios, increasing revenue and decreasing risk
 - Financial markets gain additional liquidity, stability, and price discovery, while proxy voting rights are synchronized for long-term and margin investors



Vote supply was 10x higher than demand in first pilot

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To test the LDV concept, we:

- Through 2010-11, collected confidential loan and uninstructed share data from beneficial owners and brokers
- In pilot, selected 25 sample CUSIPs that had highest overall loan volume or loan utilization rates (most stressing cases)
- Found that:
 - Sample brokers had on average 10x the number of discretionary shares as our sample lenders would have voted
 - LDV lenders would have been able to fully participate in 20 of 25 proxy events
 - Issuers would have received another 38 million votes from long-term investors

CUSIP	Firm	Record Date	Coverage
054937107	BB&T CORP	2/24/2010	745%
060505104	Bank of America	1/7/2010	248%
112900105	Brookfield Properties Corp	3/8/2010	255%
150934503	Cell Therapeutics Inc	2/19/2010	486%
171779309	CIENA Corp	2/16/2010	198%
172967101	Citigroup Inc	2/25/2010	5873%
247916208	Denbury Resources	2/3/2010	133%
345370860	Ford Motor Co	3/17/2010	1604%
628530107	MYLAN, Inc	3/25/2010	94%
696643105	PALM Inc.	5/24/2010	1253%
742352107	Princeton Review	2/22/2010	163%
767754104	Rite Aid Corp	4/26/2010	499%
854616109	Stanley Black & Decker	1/11/2010	46%
984249102	YRC Worldwide Inc	1/4/2010	259%
984332106	Yahoo! Inc	4/27/2010	301%
01903Q108	Allied Capital Corp	2/2/2010	534%
25811P886	Doral Financial Corp	6/1/2010	838%
27579R104	East West Bankcorp	2/12/2010	64%
55261F104	M & T Bank Corp	2/26/2010	254%
62856H107	MYREXIS, Inc	3/8/2010	796%
71343P200	PepsiAmericas, Inc	1/4/2010	54%
71654V408	Petroleo Brasileiro SA	5/28/2010	1164%
87161C105	SYNOVUS Financial Corp	2/12/2010	799%
Y1505D102	China Telecom CP H	4/23/2010	1%
Y3990B112	Industrial & Commer	4/16/2010	257%
Overall			1026%



Beneficial owners have actively supported LDV

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	STATE BOARD OF ADMINISTRATION OF FLORIDA 1801 HERMITAGE BOULEVARD TALLAHASSEE, FLORIDA 32308 (850) 488-4406 POST OFFICE BOX 32317-3300	RICK SCOTT GOVERNOR AS CHAIRMAN JEFF ATWATER CHIEF FINANCIAL OFFICER AS TREASURER PAM BONDI ATTORNEY GENERAL AS SECRETARY
July 19, 2011 Elizabeth M. Murphy, Secretary Securities and Exchange Commission (SEC) 100 F Street, NE Washington, DC 20549-1090 Re: Rulemaking for Dodd-Frank Act Section 984 Loan or Borrowing of Securities/Securities Lending Dear Secretary Murphy: The State Board of Administration of Florida (the SBA) and the Securities and Exchange Commission's (the Commission) share the responsibility for the assets of the Florida Retirement System (FRS), the fund for 1.1 million beneficiaries and retirees. The SBA's governance is responsible and transparent practices that correspond to the Commission's. <u>The following comments address the issue of Lender-Directed Voting (LDV) as proposed by the Executive Director of the Center for the Study of Financial Markets (CFSME).</u> Voting Rights versus Lending Income As set forth in the SBA's Corporate Governance Principles, the SBA participates in securities lending in order to enhance the return on the securities, the legal rights attached to those securities during the period that the securities are on loan. As a result, the SBA is forfeited unless those affected shares have been recalled prior to the share's record date. The SBA has a fiduciary duty to the beneficiaries of the fund when it is in the best interest of our beneficiaries. The SBA's fund which needs to be weighed against the incremental	CALSTRS HOW WILL YOU SPEND YOUR FUTURE? September 30, 2011 Ms. Mary L. Shapiro Chairman Securities and Exchange Commission 100 F Street, NE Washington, DC 20549-1090 Dear Ms. Shapiro, We are writing to you on behalf of the members of the California State Teachers' Retirement System (CalSTRS). As you are probably aware, CalSTRS was established for the benefit of California's public school teachers over 95 years ago and is currently the largest teacher pension fund in the United States. The CalSTRS portfolio is currently valued at approximately \$140 billion and serves the investment and retirement interests of nearly 852,000 plan participants. The long-term nature of CalSTRS' liabilities, and our responsibilities as a fiduciary to our members, makes us keenly interested in the boards of directors that represent our interests as shareholders. We are writing this letter to encourage the SEC to consider Lender-Directed Voting (LDV) proposed by Edmon W. Blount, executive director of the Center for the Study of Financial Markets Evolution (CFSME). As a large institutional investor with mostly indexed holdings, share lending is a practical way to enhance returns for our beneficiaries. Additionally, CalSTRS is dedicated to pursuing good governance and actively votes its proxies and engages companies. Unfortunately, under the current voting rules CalSTRS cannot vote the proxies of shares we have on loan despite the fact we remain the long-term beneficial owner. In order to preserve our governance rights, CalSTRS has implemented a policy of recalling all shares prior to record date and forgoing lending income. Our lenders have become quite adept at recalling shares prior to annual meetings, which are generally the same time each year. However, the short window between announcement and record date and the random nature of special meetings makes it much more difficult to recall shares.	California State Teachers' Retirement System Investments 100 Waterfront Place, MS-04 West Sacramento, CA 95605-2807 (916) 414-7410 Fax (916) 414-7442 ashelha@calstrs.com

“Even with early scrutiny of meetings of interest, many proxy votes cannot be anticipated and shares recalled in advance of the record date ... [FL] SBA staff believes that LDV has the potential to address these and other inefficiencies associated with the securities lending process.”

“We are writing this letter to encourage the SEC to consider Lender-Directed Voting ... Unfortunately, under the current voting rules CalSTRS cannot vote the proxies of shares we have on loan despite the fact we remain the long-term beneficial owner.”



Regulators have reviewed LDV

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“In particular, we find that recent systemic and technological advances have enabled modifications to existing practices, which could permit broker-dealers to vote proxies at the direction of currently disenfranchised, institutional, beneficial owners of lent securities.”

July 5, 2011

Ms. Elizabeth Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C.

Re: Rulemaking for

Dear Ms. Murphy:

The Center for the Commission's request regarding lending markets.² follow-up to our recent Short Selling Roundtable on technological advances that could permit broker-dealers to vote proxies at the direction of currently disenfranchised, institutional, beneficial owners of lent securities. Full range of market

- Institutional responsibility to prioritize vote proxies

September 2, 2011

Ms. Claudia Crowley
Chief Executive Officer & Chief Regulatory Officer
NYSE Regulation, Inc.
20 Broad Street, 24th Floor
New York, NY 10005

Re: Stabilizing Corporate Governance and Stock Lending

Dear Ms. Crowley:

I am writing to follow up with you on our August 1 initiative to stabilize corporate governance and stock lending. We have permitted to allocate otherwise-uninstructed proxy voting their loaned shares. As a result, lenders and Bank agents would no longer be forced to recall loaned reinvestments in order to permit lenders to cast their alternative sources of loans to return recalled securities still covering their customers' trading positions. More votes and fewer shares would remain uninstructed together, we believe the results of LDV facilitation reduce systemic volatility in the stock loan markets.

CENTER FOR THE STUDY OF FINANCIAL MARKET EVOLUTION
1101 Pennsylvania Avenue, Suite 600
Washington, D.C. 20004
202-581-1188



Lender-Directed Voting (LDV)

Improving Corporate Governance while Aiding Securities Lenders

May, 2011 Presentation to:

The U.S. Securities and Exchange Commission
Divisions of Corporate Finance, Investment Management, and Trading and Markets

Special appreciation to:

California State Teachers' Retirement System
Colorado Public Employees' Retirement System
Florida State Board of Administration
State of Wisconsin Investment Board

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Some key processes needed to ensure equitability

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➤ Basic U.S. proxy timeline (calendar days)



1. Need to forecast before record date how many votes will eventually be uninstructed so lenders can make loan recall decisions
2. Loans can be reallocated to better match vote demand and supply
3. A vote assignment algorithm needs to ensure equitable access to voting opportunities

➤ Constraints

- Lenders can only receive the number votes as shares they had on loan as of record date
- New loans need to be validated to ensure no exchange for other value
- Controls can be implemented to preclude inappropriately increasing lender voting power
- LDV will always be “best effort” due to changes in broker share inventory



Ready to conduct live pilot ...

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- Small-medium group of lenders/agent/brokers
- Small sample of securities
- Various markets with differing proxy mechanics
- Execute contracts/amendments
- Work with CII / ICGN to engage issuers
- Goal: Work out operations prior to full launch