



NIRI Advocacy Issues Survey – 2016 Results

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Executive Summary

Methodology

All corporate and counselor investor relations member practitioners based in the United States with a valid email address on file (2,395) were invited to participate in this electronic survey through direct email invitation between May 2 and May 31, 2016. Total of three email invitations and reminders sent to 2,269 practitioners (126 email invitations bounced/did not reach the recipient).

A total of 342 individuals completed the survey (yielding a response rate of 15 percent); a sample of this size has a margin of error of plus or minus 4.9 percent at a 95 percent confidence level. This means that if the survey was repeated 100 times with different samples from the population of IROs, 95 out of 100 samples would yield a result within plus or minus 4.9 percent of each statistic reported in this study. For example, if an answer is offered by 50 percent of respondents, the results would range between a high of 55 percent (rounded) and a low of 45 percent for 95 out of 100 other samples from the same population.

Eighty-seven percent of respondents were corporate practitioners, 13 percent were counselors (this is similar to the ratio of NIRI's overall practitioner membership type, therefore, data were not post-survey weighted and responses can be considered representative of the total practitioner membership).

Findings

- Equity ownership transparency (more timely reporting of investors long positions and 5 percent activist stakes; rulemaking petitions to require short-selling disclosure) was rated the most important of all initiatives listed (average (mean or M) of 4.73 on a scale of 1 (Not at all important) to 5 (Extremely important). Eighty percent of practitioners rated it an 'Extremely important' initiative, and another 15 percent rated it as 'Important', for a total of 95 percent of practitioners.
 - All other initiatives followed at a modest distance. In order of importance the top five initiative averages are detailed in Figure 1:

4.73	Equity ownership transparency
3.76	Increased transparency and greater regulatory oversight of proxy advisory firms
3.75	Modernization and streamlining of corporate disclosure ruled to reduce reporting burdens on issuers
3.59	Modernization of U.S. proxy system to improve engagement between public companies and their shareholders
3.18	Impact of the universal proxy ballot rule that the SEC is expected to propose this year

Modernization of U.S. Proxy System

- On a scale of 1 (Strongly disagree) to 5 (Strongly agree), practitioners averaged a 4.20 rating of agreement (80% agreed/strongly agreed) with NIRI, the Business Roundtable, and the Society of Corporate Secretaries and Governance Professionals on urging the SEC to modernize the U.S. proxy system and remove barriers to the ability of companies to communicate with all their investors on proxy season matters, and asking the SEC to repeal its Objecting Beneficial Owner (OBO)/Non-Objecting Beneficial Owner (NOBO) classification.
- Since January 2014, when the SEC approved a new proxy distribution fee schedule (for beneficial owners), most (57%) IROs do not know what has happened to the proxy fees paid by their company. For the remaining practitioners, fees have either increased or stayed about the same at an almost even percentage (23% and 20%, respectively).
- On average (M=3.02, 46%), practitioners are 'Neutral' regarding their dissatisfaction or satisfaction level with the current process for distributing proxy materials to their investors. Twenty-five percent of practitioners were dissatisfied/very dissatisfied, while 29 percent were satisfied/very satisfied.

Equity Ownership Transparency

- On a scale of 1 (Strongly disagree) to 5 (Strongly agree), practitioners averaged a 4.73 rating of agreement (95% agreed/strongly agreed) with NIRI's position that a shorter reporting period (for example, two business days) would promote transparency and help companies better prioritize investor requests for meetings with C-suite executives.

- 46 percent stated that if the SEC were to reduce the 45-day period for 13F long-position reporting, seven (7) business days would be the most appropriate deadline to ensure that companies receive useful ownership data while addressing the concern of some investment managers about safeguarding their trading strategies. Twenty-six percent stated fifteen (15) business days, 23 percent states two (2) business days, and five percent stated thirty (30) business days would be the most appropriate deadline.
- 52 percent of practitioners stated they need more information before deciding whether in exchange for timelier long-position reporting, they would prefer to receive confidential reports from investors sent from the SEC about their positions in their company, while 43 percent of practitioners said they would prefer to receive the confidential reports. Only five percent of practitioners stated they would not prefer to receive confidential reports.
- 45 percent of practitioners have definitely had experiences with investors who misrepresented their stock positions (or failed to tell you that they had sold all or most of their position) in order to obtain a meeting with senior management or board members, and another 31 percent are unsure, but suspect this may have happened with an investor. The remaining 24 percent report never having had this experience with an investor.
- 41 percent of practitioners have had experiences with activist investors who secretly accumulated a significant stake (i.e., between 1 and 4.99 percent) in your company (or a client's company) that they didn't learn about until they reviewed 13F filings, and another 41% have never had this experience. The remaining 18 percent are unsure, but suspect this may have happened with an activist investor.
- Almost 50 percent state that in exchange for a tighter 13F reporting deadline, they would not be willing to accept an increase in the current minimum reporting threshold for 13F filers from \$100 million (M) (in U.S. equities under management) to \$500 million, and that they prefer the current reporting threshold. Thirty-six percent stated they would favor a smaller increase in the reporting threshold (from \$100 M to \$250 M), and the remaining 14 percent stated they favor an increase in the reporting threshold from \$100 M to \$500 M.
- Practitioners overwhelmingly agreed/strongly agreed (M=4.63, 95%), with NIRI's position that the SEC should adopt rules to require improved short-position disclosure.
- Additionally, practitioners overwhelmingly agreed/strongly agreed (M=4.48, 92%) with the corporate law firm and the lawmakers call to modernize 13D rules by reducing reporting periods to two business days and broadening the definition of beneficial ownership under 13D to include derivatives, short positions, or other instruments.

Proxy Advisory Firms

- Inaccuracies (or misunderstandings about your company or a client) in proxy advisory reports, and Glass Lewis business practices (e.g., requiring issuers to pay to obtain a copy of their own company report; not providing a draft review process to any companies) were equally rated the most important of all proxy issues listed (average of 4.48 each, on a scale of 1 (Not at all important) to 5 (Extremely important)). Eighty-eight percent each rated both these issues as either ‘Extremely important’ or ‘Important’.
- All other issues followed at a slight distance. In order of importance the five issues and their averages are detailed in Figure 2:



- Since June 2014, when the SEC issued Staff Legal Bulletin 20, which placed a greater onus on investment advisors to oversee the work of proxy advisory firms, most (45%) IROs report that treatment their company (or your clients' companies) received (i.e., fewer errors in proxy reports, more responsiveness to concerns) from the proxy advisory firms has remained the same, and another 39 percent are unsure/don't know. Eleven percent report that treatment has not improved, and only five percent of practitioners report that treatment of their company or clients' companies has improved.
- On a scale of 1 (Strongly disagree) to 5 (Strongly agree), practitioners averaged a 4.42 rating of agreement (87% agreed/strongly agreed) with NIRI's position that a draft review process should be mandated by the SEC.

Disclosure Reform

- 62 percent of practitioners stated that the SEC should not change its rules regarding the frequency of financial reporting, and another 28% stated the SEC should make quarterly reporting voluntary for all public companies and require reporting just twice per year. The remaining 10 percent stated the SEC should make quarterly reporting voluntary only for emerging growth companies and smaller reporting companies.
- If the SEC proposes a political disclosure rule, 40 percent of practitioners stated they would support NIRI's submission of a comment letter expressing concern about such a rule, 35 percent would like more information, and 25 percent would not support the submission of a comment letter.
- On average (M=2.53) the largest percentage of practitioners (30%) take 'No position' regarding investor efforts to ask the SEC to mandate more ESG disclosure, however when combined, 45 percent stated they either 'agree' or 'strongly agree' with efforts to mandate. Another 25 percent disagree/strongly disagree with efforts to mandate more ESG disclosure.

Corporate Governance Issues

- One-half (50%) of practitioners stated they need more information before deciding whether or not they would support a rule the SEC plans to propose that would require the use of "universal proxy" ballots (that would list both management and dissident candidates) in proxy contests, another 35 percent stated they would support such a rule, and the remaining 15 percent stated they would not support such a rule.
- If the SEC were to exempt companies from quarterly reporting, almost 50 percent of IR practitioners stated they would advise their company (or clients) to continue filing quarterly reports on a voluntary basis. Twenty-two percent stated they would consult with their largest investors and follow their recommendation, 19 percent were unsure/didn't know, and 9 percent would cease quarterly reporting all together.
- A majority (72%) of practitioners support efforts by the Chamber of Commerce and other entities to increase the resubmission requirements for shareholder proposals. Twenty-three percent of practitioners have no opinion, and only 5 percent do not support efforts to increase resubmission requirements for shareholder proposals.

Qualitative Highlights

- The vast majority (82%) of practitioners responded that their company's senior executives would be either 'not at all willing' or 'probably not willing' to participate in advocacy activities in support of NIRI (such as writing a letter, making a phone call, etc.)
- Candidates were asked to provide suggestions for what NIRI can do to help practitioners and their companies participate in investor relations advocacy:
 - Overwhelmingly, practitioners recommended provision of sample letters, the contact information of lawmakers, and briefing papers.
- Additional open-ended suggestions for other regulatory issues NIRI should take a position on:
 - *The transparency of investment banking in areas including policing of Chinese Walls, book-building practices and market-making practices, ADR corporate governance and transparency. Off-exchange trading Pre-issuance/JOBS Act marketing practices.* – Counselor practitioner
 - *Lange Ventures, LLC - Notify members when public/SEC panels occur to determine proxy issues so members may attend and weigh in (electronic or physical meetings).* – Counselor practitioner
 - *Shareholder transparency is the key issue.* – Corporate practitioner
 - *Most important issue is to require foreign holders to file their holding positions when investing in stocks traded on major US markets (NYSE, NASDAQ).* – Corporate practitioner
 - *My Executives used to be willing to help NIRI National, but now see no value. Would be willing to help the local chapters, as that is where the relationships exist.* – Corporate practitioner
 - *Investors have the right to profit from their research/strategies. However, it is much harder today than it was 20 years ago to hide/obscure trading strategies. In my opinion, both sides (issuers and investors) should acknowledge the others' perspective. A rolling period of disclosure seems to be the best way, to me anyway, of balancing these two items. I think a fair point lies in-between 20-45 days. The market benefits from additional information regarding meaningful short selling positions - level and entities. Similar logic to why it is important to know about holders (13-Fs) applies to shorts. Similar time frames seem logical. In my discussions buysiders claim that they would be locked out from talking to management if the positions were to be disclosed. I understand their point, but don't think that is the case in many situations (but likely in*

some). In addition to market efficiency, it seems to me that issuers have a right to know who is both long and short their securities (but admittedly there is little to support an inalienable concept). – Corporate practitioner

- *I feel very strongly about shortening the time required for institutional stockholders to report ownership. Issuers are at a huge disadvantage having to wait 45 days to know who their shareholders were/are. That an issuer can't know who its owners are in nearly real time (even if that information is not publicly disseminated) is almost unbelievable. – Corporate practitioner*
- *Disclosure requirements from FASB. – Counselor practitioner*
- *Continue to alert members of known activists who continuously target issuers without cause. – Counselor practitioner*
- *Continue to stay involved in regulatory advocacy. Jeff Morgan made a lot of progress that we should be building upon. It was disappointing to see NASDAQ testify recently and NOT mention 13-F reform. – Corporate practitioner*
- *Continue the flow of information to educate NIRI members on the issues for which we are advocating. The better that effort, the higher the probability of success for NIRI. This is a new but important issue that members need to be educated on--constantly. – Corporate practitioner*