



Jay S. Neuman
Direct Phone: 412-288-7496
Email: jneuman@reedsmith.com

Reed Smith LLP
1001 Liberty Avenue
12th Floor
Pittsburgh, PA 15222-3779
Fax 412-288-8141

March 30, 2007

Ms. Nancy M. Morris, Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

**Re: File No. S7-03-07,
Proposed Rule Regarding “Universal Internet Availability of Proxy Materials”**

Dear Ms. Morris:

This letter presents the comments of Federated Investors, Inc. and its subsidiaries (“Federated”)¹ on the recent issuance by the Securities and Exchange Commission (“SEC,” or “Commission”) of a Release proposing, and seeking comments on, amendments to the proxy rules under the Securities Exchange Act of 1934 that would *require* issuers and other soliciting persons to furnish proxy materials to shareholders by posting them on an Internet Web site and providing shareholders with notice of the availability of the proxy materials (the “Universal Proposal”).² Concurrent with issuance of the Release, the SEC adopted final rules that allow issuers and other soliciting persons to furnish proxy materials to shareholders in this manner *voluntarily* (the “Notice and Access Model”), effectively beginning July 1, 2007.

Federated is taking this opportunity to comment primarily to urge in the strongest possible terms that the Commission: defer any further action on the Universal Proposal until it has accumulated meaningful experience with operation of the Notice and Access Model; and, after gaining such experience, re-issue the Universal Proposal for public comment.

For the reasons set out below, we believe that for the Commission to proceed otherwise would be premature, unfortunate, unwise, and irresponsible.

¹ Federated Investors, Inc. is one of the largest investment management firms in the United States, managing \$237.4 billion in assets as of December 31, 2006. With 148 mutual funds and a variety of separately managed accounts options, Federated provides comprehensive investment management to more than 5,400 institutions and intermediaries including corporations, government entities, insurance companies, foundations and endowments, banks and broker/dealers.

² The amendments were published for comment in Release Nos. 34-55147 and IC-27672, January 22, 2007; 72 FR 4176, January 29, 2007 (“Release”).

Adoption of the voluntary Notice and Access Model affords the Commission a unique and valuable opportunity to make highly informed decisions regarding a compulsory “universal” model, *but only if the Commission defers action on the Universal Proposal until such time as it has accumulated meaningful experience with how the Notice and Access Model actually works.* Deferring action on the Universal Proposal, and then re-issuing it for informed public comment in light of actual experience (by the Commission, issuers, and intermediaries) with the Notice and Access Model would vastly improve the Commission’s rulemaking process in many respects, including the following:

- Better Cost-Benefit Analysis. The cost-benefit analysis set out in part VI of the Release is based entirely on “estimates” and “assumptions,” and concludes with a lengthy recital of specific related factors on which the Commission seeks “empirical data.” *Of course, no such data will exist by the March 30, 2007 deadline for submission of comments on the Universal Proposal,* because not a single issuer would have yet conducted a solicitation under the Notice and Access Model. For this reason, any comments or data submitted by that deadline with respect to costs/benefits will themselves be based on decidedly *un*-empirical estimates and assumptions.

However, if the Commission defers action on the Universal Proposal until it, issuers, and intermediaries have accumulated meaningful experience under the Notice and Access Model and *then* re-solicits public comment, the prospects for taking further action on the Universal Proposal based on reliable *data* (as opposed to unreliable assumptions) are much improved. In that regard, we suggest the Commission allow a *minimum* of two years from first implementation of the Notice and Access Model to better allow affected parties to ascertain both the start-up and the maintenance costs of using that model.

- More Informed Revisions to Notice and Access Model. The Release identifies several areas where the Commission believes the Universal Proposal should differ from the Notice and Access Model, and we agree that there are very significant differences between an optional model and a mandatory one. However, the Commission must surely acknowledge that before *any* of this has become operational, it is impossible for it, or any commentator, to identify all areas in which a mandatory model should differ from a voluntary model. Using the Notice and Access Model as a form of “trial run” for a mandatory model would help assure that, if the Commission were to proceed with the mandatory universal concept, it would “get it right” in the first instance.

- Avoidance of Unintended Consequences. As the Commission has no doubt learned, no matter how well-intentioned and thought-out regulatory actions might seem, they do not always work out entirely as planned. Part I of the SEC release announcing adoption of the voluntary Notice and Access Model³ noted “significant disagreement” among commentators regarding “key issues” raised by the SEC proposal on that matter. The areas of disagreement included:

³ Release Nos. 34-55146 and IC-27671, January 22, 2007; 72 FR 4148, January 29, 2007.

- The sufficiency of current Internet access among the U.S. population such that the proposed model would be desirable;
- The effect that the proposed notice and access model might have on levels of proxy voting by shareholders;
- The level of security and privacy on the Internet;
- The extent of potential savings to issuers and those conducting proxy contests that choose to rely on the proposed model; and
- Whether the proposed model may make the proxy delivery system, particularly as it relates to beneficial owners holding in street name through their brokers or other intermediaries, too complex.

What if these and other concerns expressed by those commentators are valid? The Commission is now on notice that the public has raised “red flags” about possible ill-effects that the voluntary model may have on conduct of shareholder meetings and corporate democracy. **The Commission cannot, in good faith, ignore these warning signs.** Accordingly, we believe the only responsible course for the Commission to take with respect to the Universal Proposal is to defer action while it monitors the implementation of the Notice and Access Model very closely to determine whether, in fact, it winds up doing more good than harm.

* * * * *

Please contact me at 412-288-7496 with any questions about this submission. Thank you.

Very truly yours,

Jay S. Neuman

cc: Matthew Maloney
Peter Germain