James J. Angel, Ph.D., CFA
Associate Professor of Finance
McDonough School of Business
Georgetown University
Room G4 Old North
Washington DC 20057
angelj@georgetown.edu
1.202.687.3765

Mr. Jonathan G. Katz, Secretary
Securities and Exchange Commission
100 F St. NW
Washington, DC 20549-9303

April 12, 2006

File No. S7-10-05: Internet Availability of Proxy Materials

Dear Mr. Katz:

I have some additional comments on this proposed rule regarding internet availability of proxy materials. Although electronic delivery makes good sense, I am concerned that the form of electronic delivery may make it easier for shareholders to overlook important communications and thus lead to a lower rate of shareholder voting. This could cause problems to issuers by making it more difficult to get quorums and force postponements of shareholder meetings. As a result, firms may have to spend more money on proxy solicitations, offsetting the savings from less direct mail.

The Commission has taken several actions in recent years to improve the quality of corporate governance and the quality of shareholder participation in corporate actions. It would be ironic indeed if this regulation had the unintended consequence of decreasing shareholder participation.

One of the things that the Commission has done very well is the pilot experiment for Regulation SHO. Rather than base rulemaking on gut instinct, the Commission instituted a controlled experiment to determine the precise impact of proposed rule changes. I think that the Commission should follow this precedent in the present situation and conduct a pilot experiment. In particular, the pilot should examine whether the rate of shareholder voting changes based on how the shareholders are notified.

One possible form of such a pilot would be to assign firms to different categories based on different forms of the proposed rule, along with suitable controls for which the old rules would apply. Then the SEC would gather data on voting rates across the different treatments. Such a pilot plan would also help the industry to identify transition issues before the new rule is rolled out for all firms.

Another type of pilot would be to use each pilot firm as its own control and notify different portions of the shareholder base under different forms of the proposed rule. For example, suppose that there are two candidate rules for examination. Then for the pilot firms, shareholders would be notified in the following manner: The shareholder list would be alphabetized, and the first name on the list would be notified according to candidate rule #1, the second name according to candidate rule #2, and the third name according to the existing rule. Then the fourth name would be notified according to candidate rule #1 and so forth. Data would be collected on the voter participation rates for the different groups of shareholders.

In addition to gathering data useful for updating this particular rule, such a pilot would generate much better knowledge of actual shareholder voting behavior that will be useful in future rulemaking proceedings as well.

The SEC's Office of Economic Analysis did an excellent job of designing the Regulation SHO pilot and I am highly confident that they could do a similar job in designing a pilot for this rule as well.

Sincerely,

James J. Angel
Associate Professor of Finance
Georgetown University