

## NYSE Proposes Exemption for Proxy Voting for Uncontested Election of Investment Company Directors

### Introduction

On May 23, 2007, the New York Stock Exchange (the "Exchange") proposed an amendment to its initial rule proposal to amend Exchange Rule 452. Under the proposed amendment, any company registered under the Investment Company Act of 1940 (the "1940 Act") would not be subject to the change to discretionary voting for uncontested election of directors.<sup>1</sup>

The initial rule proposal, filed with the U.S. Securities and Exchange Commission (the "SEC") on October 14, 2006, called for the amendment of Exchange Rule 452 (Giving Proxies by Member Organization) to eliminate broker discretionary voting for the uncontested election of directors.<sup>2</sup> The proposal followed recommendations of the Proxy Working Group, created in April 2005 by the Exchange, to review the proxy voting process.

### Discussion

Under current Exchange and SEC proxy rules, brokers must deliver proxy materials to beneficial owners and request voting instructions in return. If voting instructions have not been received by the tenth day preceding the meeting date, Exchange Rule 452 provides that brokers may vote on certain matters deemed "routine" by the Exchange. Among the matters still considered "routine," and thus eligible for broker-voting, is the uncontested election of directors.

If approved by the SEC, the initial rule proposal would apply to proxies relating to closed-end funds and mutual funds whose shares were held through Exchange member firms.

The Exchange proposes to amend Rule 452 to eliminate broker discretionary voting for the uncontested election of directors, but to except from the amendment companies registered under the 1940 Act. The proposal follows a decision by the Proxy Working Group to amend its initial recommendation to the Exchange and to recommend that such changes to Exchange Rule 452 not apply to investment companies.

The Proxy Working Group made its recommendation after reviewing materials submitted by the Investment Company Institute ("ICI") and other representatives of investment companies concerning the difficulties such companies would have faced if they were subject to the amendment to Exchange Rule 452 making director elections "non-routine." The Proxy Working Group relied on information submitted by the ICI, which included analyses about the additional costs that would be incurred by investment companies if such companies would not be allowed to count broker-votes in uncontested election for directors,<sup>3</sup> as well as the different shareholder profiles of investment companies and operating companies, and the differing regulatory regimes of investment companies.

<sup>1</sup> SR-NYSE-2006-92, Amendment No. 1.

<sup>2</sup> SR-NYSE-2006-92.

<sup>3</sup> Investment Company Institute, *Costs of Eliminating Discretionary Broker Voting on Uncontested Elections of Investment Company Directors* (December 18, 2006).

Specifically, the Proxy Working Group considered the heightened problems investment companies face because of their disproportionately large retail shareholder base and the fact that investment companies are subject to regulation under the 1940 Act. The Proxy Working Group concluded that the unique regulatory regime governing investment companies made them sufficiently different from operating companies that it was appropriate to treat investment companies differently.

At the time of drafting this update, NYSE has not filed, nor has the SEC acted on the amended rule proposal. Assuming that the SEC will approve the initial rule

proposal, it is scheduled to be applicable to proxy voting for shareholder meetings held on or after January 1, 2008. The status of the amended rule proposal remains uncertain.



This update was authored by Stephen H. Bier (+1 212 698 3889; [stephen.bier@dechert.com](mailto:stephen.bier@dechert.com)), Alan Rosenblat (+1 202 261 3332; [alan.rosenblat@dechert.com](mailto:alan.rosenblat@dechert.com)), and Joseph P. Kelly II (+1 949 442 6027; [joseph.kelly@dechert.com](mailto:joseph.kelly@dechert.com)).

## Practice group contacts

For more information, please contact the authors, one of the attorneys listed, or any Dechert attorney with whom you regularly work. Visit us at [www.dechert.com/financialservices](http://www.dechert.com/financialservices).

**Margaret A. Bancroft**  
New York  
+1 212 698 3590  
[margaret.bancroft@dechert.com](mailto:margaret.bancroft@dechert.com)

**Elliott R. Curzon**  
Washington, D.C.  
+1 202 261 3341  
[elliott.curzon@dechert.com](mailto:elliott.curzon@dechert.com)

**Wendy Robbins Fox**  
Washington, D.C.  
+1 202 261 3390  
[wendy.fox@dechert.com](mailto:wendy.fox@dechert.com)

**Allison R. Beakley**  
Boston  
+1 617 728 7124  
[allison.beakley@dechert.com](mailto:allison.beakley@dechert.com)

**Douglas P. Dick**  
Newport Beach  
+1 949 442 6060  
[douglas.dick@dechert.com](mailto:douglas.dick@dechert.com)

**David M. Geffen**  
Boston  
+1 617 728 7112  
[david.geffen@dechert.com](mailto:david.geffen@dechert.com)

**Sander M. Bieber**  
Washington, D.C.  
+1 202 261 3308  
[sander.bieber@dechert.com](mailto:sander.bieber@dechert.com)

**Steven S. Drachman**  
New York  
+1 212 698 5627  
[steven.drachman@dechert.com](mailto:steven.drachman@dechert.com)

**David J. Harris**  
Washington, D.C.  
+1 202 261 3385  
[david.harris@dechert.com](mailto:david.harris@dechert.com)

**Stephen H. Bier**  
New York  
+1 212 698 3889  
[stephen.bier@dechert.com](mailto:stephen.bier@dechert.com)

**Ruth S. Epstein**  
Washington, D.C.  
+1 202 261 3322  
[ruth.epstein@dechert.com](mailto:ruth.epstein@dechert.com)

**Robert W. Helm**  
Washington, D.C.  
+1 202 261 3356  
[robert.helm@dechert.com](mailto:robert.helm@dechert.com)

**Daphne T. Chisolm**  
Charlotte  
+1 704 339 3153  
[daphne.chisolm@dechert.com](mailto:daphne.chisolm@dechert.com)

**Susan C. Ervin**  
Washington, D.C.  
+1 202 261 3325  
[susan.ervin@dechert.com](mailto:susan.ervin@dechert.com)

**Jane A. Kanter**  
Washington, D.C.  
+1 202 261 3302  
[jane.kanter@dechert.com](mailto:jane.kanter@dechert.com)

**Christopher D. Christian**  
Boston  
+1 617 728 7173  
[christopher.christian@dechert.com](mailto:christopher.christian@dechert.com)

**Joseph R. Fleming**  
Boston  
+1 617 728 7161  
[joseph.fleming@dechert.com](mailto:joseph.fleming@dechert.com)

**Stuart J. Kaswell**  
Washington, D.C.  
+1 202 261 3314  
[stuart.kaswell@dechert.com](mailto:stuart.kaswell@dechert.com)

**Timothy M. Clark**  
New York  
+1 212 698 3652  
[timothy.clark@dechert.com](mailto:timothy.clark@dechert.com)

**Brendan C. Fox**  
Washington, D.C.  
+1 202 261 3381  
[brendan.fox@dechert.com](mailto:brendan.fox@dechert.com)

**George J. Mazin**  
New York  
+1 212 698 3570  
[george.mazin@dechert.com](mailto:george.mazin@dechert.com)

**Jack W. Murphy**  
Washington, D.C.  
+1 202 261 3303  
jack.murphy@dechert.com

**John V. O'Hanlon**  
Boston  
+1 617 728 7111  
john.ohanlon@dechert.com

**Fran Pollack-Matz**  
Washington, D.C.  
+1 202 261 3442  
fran.pollack-matz@dechert.com

**Jeffrey S. Puretz**  
Washington, D.C.  
+1 202 261 3358  
jeffrey.puretz@dechert.com

**Jon S. Rand**  
New York  
+1 212 698 3634  
jon.rand@dechert.com

**Robert A. Robertson**  
Newport Beach  
+1 949 442 6037  
robert.robertson@dechert.com

**Keith T. Robinson**  
Washington, D.C.  
+1 202 261 3386  
keith.robinson@dechert.com

**Alan Rosenblat**  
Washington, D.C.  
+1 202 261 3332  
alan.rosenblat@dechert.com

**Frederick H. Sherley**  
Charlotte  
+1 704 339 3100  
frederick.sherley@dechert.com

**Patrick W. D. Turley**  
Washington, D.C.  
+1 202 261 3364  
patrick.turley@dechert.com

**Brian S. Vargo**  
Philadelphia  
+1 215 994 2880  
brian.vargo@dechert.com

**David A. Vaughan**  
Washington, D.C.  
+1 202 261 3355  
david.vaughan@dechert.com

**Anthony H. Zacharski**  
Hartford  
+1 860 524 3937  
anthony.zacharski@dechert.com

---

Dechert  
LLP

www.dechert.com

**U.S.**

Austin  
Boston  
Charlotte  
Hartford  
New York  
Newport Beach

Philadelphia  
Princeton  
San Francisco  
Silicon Valley  
Washington, D.C.

**UK/Europe**

Brussels  
London  
Luxembourg  
Munich  
Paris

---

© 2007 Dechert LLP. All rights reserved. Materials have been abridged from laws, court decisions, and administrative rulings and should not be considered as legal opinions on specific facts or as a substitute for legal counsel. This publication, provided by Dechert LLP as a general informational service, may be considered attorney advertising in some jurisdictions. Prior results do not guarantee a similar outcome.