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Leveling the Playing Field of Corporate and Shareholder Transparency



A Call to Action from Joseph Caruso, CEO, Alliance Advisors

JOE CARUSO: Over the past few years, there's been a growing call for greater corporate transparency, especially from government agencies, institutional investors, and proxy advisory firms. But are we really creating a level playing field when it comes to shareholder transparency?

OPTIMIZER: It seems that we're still far from that. You've highlighted a key issue: not all shareholders are playing by the same rules of transparency, particularly when it comes to the OBO classification. Can you explain what that is and why it's a problem?

JOE: Absolutely. First, let's understand what an OBO is. Shareholders can hold their shares in one of two ways: directly with a company, making them "registered" or "record" holders, or indirectly through a brokerage or custodian—these are called "beneficial owners" or "street name shareholders." The SEC established a framework in the 1980s to classify beneficial owners into two groups: Objecting Beneficial Owners (**OBOs**) and Non-Objecting Beneficial Owners (**NOBOs**).

OBOs are shareholders who do not want their identity, share position, or contact information disclosed to the company. On the other hand, NOBOs agree to share that information. This classification system gives OBOs a distinct advantage—they can hold a meaningful number of shares without the company knowing who they are or being able to communicate with them directly. This creates an uneven playing field and undermines the transparency we're striving for.

OPTIMIZER: That's a huge problem, especially when companies are striving for more transparency and open communication with their shareholders. Can you give us an example of how OBOs disrupt shareholder engagement?

JOE: Sure. Let's say a hedge fund or large individual investor owns 100,000 shares in a company as an OBO. Typically, higher net worth investors or institutional investors hold larger positions in OBO form than average beneficial NOBO holders. These investors hold sizable positions per account, but because the company can't directly engage with these holders, management is forced to reach out to potentially hundreds or even thousands of smaller shareholders who

own fewer shares to make up the difference. This outreach process is inefficient, time-consuming, and expensive.

If management knew who owned those 100,000 shares, they could contact the OBO holder directly, streamlining the process and saving significant resources.

OPTIMIZER: So, it's not just an issue for large companies, but for smaller issuers as well. Could you elaborate on the impact OBOs have on small companies?

JOE: Exactly. Smaller companies, often majority-owned by individual retail investors, bear much of the cost of shareholder outreach. Retail investors tend to vote less frequently than institutional investors, which means smaller companies often must spend much more to ensure they get the votes they need to pass key proposals. In some cases, a sizable OBO population can prevent these companies from reaching quorum or securing a vital vote, such as for a financing or bylaw amendment.

The impact is even more pronounced in the mutual fund and ETF industry. These funds are mostly held by retail investors, and the costs associated with soliciting proxies from OBOs can run into the millions. In fact, the Investment Company Institute has advocated for lower quorum requirements for mutual fund meetings to address this. But, in my opinion, that's just a band-aid solution—it doesn't address the root problem.

OPTIMIZER: It sounds like the costs associated with OBOs are not just a nuisance—they're a significant barrier to shareholder democracy and engagement. What's the solution?

JOE: The solution is simple: eliminate the OBO classification. If management could communicate directly with all beneficial owners, whether they're OBOs or NOBOs, the entire shareholder engagement process would be more transparent, efficient, and cost-effective. The SEC's current shareholder communication framework, which hasn't been updated in more than four decades, simply doesn't reflect the modern business environment.

By eliminating OBOs, companies could drastically reduce costs related to proxy solicitations, reach shareholders more directly and efficiently, and enhance overall transparency. This would be a win-win for both companies and their shareholders.

OPTIMIZER: You've mentioned Alliance Advisors' work in handling shareholder meetings. How has the OBO problem affected your day-to-day work?

JOE: At Alliance Advisors, we manage over 750 shareholder meetings annually, and we see firsthand how disruptive and costly the OBO classification can be. In many cases, it forces companies to spend more time and money trying to engage with shareholders who are effectively "hidden" from them. We've had situations where, due to the large percentage of shares held by OBO holders, companies didn't pursue a shareholder vote on a critical measure for fear they couldn't get the necessary votes or absorb the potential cost of achieving success. This dissuades management and can potentially harm the company and its investors.

That's why we formed the Shareholder Ownership Transparency Alliance (SOTA). SOTA's sole mission is to eliminate the OBO classification and give companies equal access to all their shareholders. We're asking executives of publicly traded companies, mutual funds, and their respective industry trade groups to support our petition, which we'll eventually present to Congress and the SEC.

OPTIMIZER: That's a major initiative! What's next for SOTA?

JOE: We're working to gather as many signatures as possible from executives and industry groups who understand the need for change. We believe that when we present a united front with enough support, Congress and the SEC will have no choice but to act.

We're not asking for money—just for people to sign the petition and show their support for leveling the playing field. Once we feel we have the necessary backing, we'll bring this issue to policymakers in Washington and push for the elimination of the OBO classification.

OPTIMIZER: So, eliminating the OBO classification is about more than just reducing costs—it's about restoring fairness and shareholder democracy, right?

JOE: Exactly. The current system is outdated and creates an unfair advantage for certain shareholders, at the expense of others. Transparency is supposed to be a two-way street—companies need to be able to communicate directly with all their shareholders, and shareholders deserve to have their voices heard. Eliminating the OBO rule would restore balance and ensure that companies and their shareholders are all playing by the same rules. This is a common-sense solution that's long overdue.

OPTIMIZER: Joe, what else should we know about leveling the playing field with beneficial ownership disclosure?

JOE: Back in 2021, Congress passed the bipartisan Corporate Transparency Act (CTA) to combat illicit activities such as tax fraud, tax evasion, money laundering, and terrorism financing. The goal was to get more transparency on who owns U.S. private companies, LLCs, and S corporations that operate in or have access to the U.S. market. This law doesn't

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apply to public companies, though.

Under the CTA, most businesses now have to file a Beneficial Ownership Information (BOI) Report with the U.S. Department of Treasury's FinCEN, which lists the individuals behind the company. The idea is to stop people with malicious intentions from hiding their ownership in U.S. companies to run illegal operations—something that threatens national security and the economy.

As a result, banks and brokers must know their customers, and private companies must report their beneficial owners to FinCEN. However, the largest companies in the world are still not permitted to know who their actual owners are. We believe it's time for this to change.

OPTIMIZER: Yes, it certainly sounds like it's time for a change. How can people get involved?

JOE: People can get involved by visiting our website and signing the petition at Sotanow.org. We need as much support as possible to make this happen. The more people we have backing this effort, the stronger our case will be when we present it to Congress and the SEC.

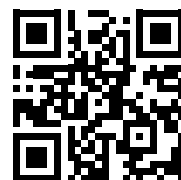
OPTIMIZER: Thank you, Joe. It's clear that eliminating the OBO classification would benefit both companies and shareholders, and we're excited to see how SOTA moves this important issue forward.

JOE: Thank you! It's time to level the playing field and ensure that transparency is truly a two-way street for everyone involved.

WHY ELIMINATE OBOs?

- Reduce the cost of Shareholder Solicitation
- Improve Shareholder Democracy and Engagement
- Level the Playing Field
- Uncover Disruptive Shareholders

Visit **SOTA** now
to learn more, show
your support, and
sign the Petition!





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