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Vote Trading and Information Aggregation

Finance Working Paper N°. 141/2007
January 2007

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Abstract

The standard analysis of corporate governance is that shareholders vote in the ratios that firms choose, such as one-share-one-vote. But if the cost of unbundling and trading votes is sufficiently low, then shareholders choose the ratios. We document an active market for votes within the equity-loan market, where the average vote sells for zero. We hypothesize that asymmetric information motivates this trade, and find support in the cross section of votes: there is more trade for higher-spread firms and more for poor performers, especially when the vote is close. Vote trading corresponds to support for shareholder proposals and opposition to management proposals. Similar results obtain in the U.K.

Keywords: information aggregation, voting rights, equity lending, vote trading

JEL Classifications: D82, G2, G39, K22

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"Within hours of a crucial vote, British Land attacked the credibility and methods of dissident shareholder Laxey Partners, revealing that it had borrowed 90% of the shares with which it will vote at today's annual meeting … British Land chairman John Ritblat is furious but will not be able to stop Laxey voting against him."[1]

"At least ward heelers used to pay real money for the votes they bought. Hedge fund Perry Corp. has figured out a way [to] buy votes to sway a takeover battle in which it has a stake – and then get a full refund. Lawyers say it all appears perfectly legal, but should it be?[2]

If shareholders could trade their voting rights, what would they do? The economic, legal and finance literatures all offer theoretical analyses of corporate vote trading, but aside from anecdotes, no empirical evidence on what actually occurs. The goals of this paper are to first provide such evidence, and then offer and test an explanation for what we find.

Votes are the direct control of public firms by the public, so the nature of this control can turn on whether votes trade. And while an additional trading opportunity might seem obviously beneficial, existing work is mixed on the benefits of the opportunity to trade votes. Because vote trading unties control rights from cash-flow rights, it jeopardizes the efficiency gains of tying one share to one vote (Grossman and Hart (1988) and Harris and Raviv (1988)). Similarly, an investor's desire to buy votes alone rather than votes plus cash-flow rights might signal an objective other than shareholder value (Cole (2001)). Also, the equilibrium market price of a vote may be small even if its value without trading is large, because if the buyer is expected to acquire enough votes to prevail even without a shareholder's vote, that vote is worth nothing to anybody (Grossman and Hart (1988)). On the positive side, vote trading can restore efficiency when capital-gains taxes discourage share trading (Blair, Golbe and Gerard (1989)) and may alleviate the free-rider problem of Grossman and Hart (1980) by allowing better management to buy control without paying their value-added by buying shares (Neeman and Orosel (2003)) rather than relying on large shareholders to monitor firms (Shleifer and Vishny (1986) and Maug (1998)).

As the above examples illustrate, analyses of vote trading focus on a particular scenario, one where shareholders choose between competing teams of firm managers whose public and private values are common knowledge. In this scenario, votes aggregate voters' preferences arising from their exposures to these values. This is a manifestly important scenario to understand, but votes can aggregate more than preferences. In particular, votes can aggregate dispersed information about the values of the competing outcomes, and this aggregation could also be important to the vote trade (Maug (1999)). Since the dispersion of information can be a poor match to the dispersion of shareholdings, vote trading can improve the aggregation of this information. The causes and consequences of vote trading are thus a key and open question.

The obstacle to addressing this question has been the lack of relevant data. We overcome this obstacle by turning, as suggested by Harris and Raviv (1988), to the equity-loan market. Since equity loans transfer ownership without economic exposure, and since votes accrue to record-date owners, record-date equity loans are well-suited for the vote trade. In two large databases from the equity-loan market we can observe vote trading for a wide cross section of firms. One database covers the U.S., showing prices and quantities of all loans by a major lender, and the other covers the U.K., showing quantities only, but by the whole market. To characterize the economic role of vote trades, we relate this data to the cross section of the proposals at stake and the circumstances of the firms, and for the U.S. stocks, the votes' outcomes as well.

Our first, basic, result is that the lending market does in fact host a vote market. This is readily apparent in Figure 2, which contrasts loan volume on voting record dates with volume on surrounding dates, showing a record-date spike. Considering this first result, our second

result is a surprise: the average vote sells for zero. This can be seen in Figure 3, which contrasts loan *pricing* on voting record dates with pricing on surrounding dates showing zero record-date movement. Thus, the lenders are not selling these votes, but rather allowing them to pass to others. Since shareholders are likely better off casting their votes in their interests rather than passing them on, we propose a hypothesis: vote trading is motivated by asymmetric information. Shareholders do not know *how* to vote their interests, and are taking their chances that the votes pass to investors who *do* know how and who share their preferences. This is similar in spirit to the "swing voter's curse" identified in the political context (Feddersen and Pesendorfer (1996)), but with the additional tactic of yielding available in the corporate context.

The asymmetric-information hypothesis makes testable predictions for the cross section of votes which we test against the predictions of a preference-aggregation hypothesis (see Table I). Most directly, vote trading should increase with asymmetric information. We take this to the data by proxying with the firm's bid/ask spread, and Figure 4 shows the result: as the spread goes up, so does vote trading. Also, the benefit from votes passing to better-informed investors *increases* with the importance of the proposal at stake, so vote trading should as well. By contrast, if information were symmetric and preferences differed then there would be *less* incentive to leave a share unvoted as it became important; there would be nothing to gain but, to the extent preferences differ, more to lose. What we find, with a variety of proxies, is a robust increase: vote trading is greater for poor performers, whether we look at accounting or market performance, and among these poor performers, it is greater when the voting outcome is closer. Also, as management becomes more entrenched, trading for

shareholder proposals goes up, whereas trading for management proposals goes down, a contrast we relate to recent findings on corporate governance.

The ultimate significance of the vote trade lies in how the votes are cast. We cannot observe this directly but we can observe how vote trading relates, in the cross section, to outcomes. We find that the relation is consistently against management: vote trading correlates with support for shareholder proposals and opposition to management proposals, both in the fraction of votes cast and in the likelihood that the proposal wins.

In the U.K., vote trading relates to asymmetric information and corporate governance the same as in the U.S. The other noteworthy finding points to an alternate mechanism at work for addressing information asymmetry. Among our U.K. data are warnings of votes that violate corporate-governance standards. We find that these warnings reduce vote trading, consistent with having reduced the need to trade by communicating how to vote.

The rest of the paper is in six sections. Sections I and II cover the institutional background and the theoretical framework for the paper. Section III describes the data. Section IV provides the basic results on prices and quantities of vote trades, Section V relates vote trading and specialness to the cross section of firms, proposals and outcomes, and Section VI summarizes and concludes.

I. Institutional Background

We start by outlining the institutional details which are particularly important for our empirical tests. This section starts off with a description of the rules surrounding how information is released to the market around voting record dates and then describes equity lending and how it relates to corporate voting.

I.A Arrival of information about proposals and record dates

In the U.S., there is a long gap between the record date of a vote and the meeting date, when the vote takes place. In our sample period, the median gap is 54 calendar days. Proxies arrive during this gap; in Young, Millar and Glezen (1993), they are seen to arrive an average of three weeks after the record date. Since proxies report the proposals to be voted on, specific information about proposals is presumably spotty as of the record date. Investors know to expect the usual – election of directors, approval of auditor – and the proposing shareholders know to expect their proposals, but beyond that they presumably know little. This view is supported by Young et al. (1993), which shows that management releases proxies earlier when it benefits from investors being informed about the content of votes earlier. Thus, as of the record date, information about the firm is abundant, but particulars about the votes to come are scarce.

Do investors know about the record date before it occurs, rather than after? Firms are not obliged to inform investors *directly* about upcoming record dates, but they are obliged by Federal law (Reg. §240.14c-7(a)(3)) to notify brokers, dealers, and similar entities at least 20 trading days in advance. So while investors are not directly informed, the information is nonetheless widely available.

Voting rules in the U.K. are different in two important respects. First, the gap between record and meeting dates is small, no more than 48 hours (Regulation 41 of the Uncertificated Securities Regulations 2001). Second, and potentially more important for our purposes, both the record date and the resolutions to be voted on are publicized *before* the record date in a "Notice of Meeting" (Section 376 of the Companies Act 1985). So advance notice of the record date is available in both countries, but advance notice of the votes to be held is generally available only in the U.K.

I.B Background on equity lending

The primary function of equity loans is to facilitate short selling. To deliver what they sold, short-sellers borrow the necessary shares and hand them over. The end recipient of the shares owns them unconditionally – that is, it is of no consequence to the buyer that the seller was shorting, because the buyer enjoys full ownership of the shares, precisely as she would if the seller had been selling his own shares. This means, among other things, that any votes with record dates during the buyer's ownership are the buyer's to cast. Meanwhile, the lender loses full ownership during the loan, and instead experiences synthetic ownership: the lender retains his exposure to the shares' value, since he gets them back at loan's end, and is reimbursed by the borrower for any dividends or other distributions.[3] The lender is not, however, reimbursed any votes, presumably because it is not practical for the borrower to do this. That is, the borrower can readily acquire cash to reimburse a cash dividend, or shares to reimburse a stock dividend, but cannot readily acquire votes. Therefore, the net effect of a record-date loan on the lender is that he loses his votes and he gains whatever cash the borrower pays him.

So the equity-loan market exists to facilitate short selling, but it also trades votes. Equity-loan data aggregate across both activities, so to analyze vote trading we must disaggregate. Sorting vote-motivated loans from shorting-motivated loans is likely not feasible loan-by-loan, but the time series presents an opportunity. Vote trading can occur only on voting record dates, which are sparse in the calendar, so vote trading should be apparent in the *difference* between loan volume and pricing on these dates and on surrounding dates. This contrast would be muddied if there were also some special reason to borrow shares for shorting on voting record dates, i.e. to be short a stock as it goes ex-votes, but it is hard to see what this reason would be. There is no particular uncertainty resolved at this point, as the vote is later, and information about the proposals is either later (U.S.) or earlier (U.K.), so there is no particular speculation that appears relevant. There may be a correlation between the demand for short exposure to a firm and interest in its votes – for example, investors may want both short exposure to, and better governance of, recent poor performers – but there is no apparent reason the record date should shift this demand. Therefore, the difference in loan volume and pricing on record dates should be an informative estimate of the vote trade.

Loan pricing occurs through the borrowers' interest rebates.[4] Borrowers provide collateral by handing over cash, generally 102% of the shares' value, for the duration of the loan, and lenders rebate some of the interest they earn on this cash. Thus, a high borrowing price manifests as a low rebate. On a given day, most stocks, around 90%, are not scarce on the lending market and trade at the same, high rebate rate known as the *General Collateral*, or *GC*, rate. The GC rate is very close to the prevailing overnight rate, maybe 10-20bp below it, so the consideration paid from borrower to lender is small. Stocks trading at lower rebates are called *specials*, and the difference between a special's rebate and the GC rate is known as its

specialness. Thus, specialness is the relevant measure of relative borrowing cost: a stock grows more expensive to borrow if and only if its specialness grows. Because it is derived from interest rebates, specialness is quoted in annual percentage terms.

Equity loans clear in a decentralized market. When an investor wishes to sell shares short, his broker may find the shares to loan within the brokerage, or may call around to other potential lenders such as other brokerages, mutual or pension funds, or custodian banks lending from their customers' accounts. Our U.S. equity-loan data come from a large custodian bank, and our U.K. equity loan data are quantities only, but they represent the entire U.K. lending market for stocks in the FTSE 350, as observed by the securities depository.

I.C Legal issues

An investor acquires votes by borrowing shares for the record date. This is simple but not necessarily legal in the U.S., because not everybody can borrow shares in order to be their temporary owner. Regulation T requires non-exempt traders to have a "permitted purpose" to borrow, where a permitted purpose is a short sale or failed delivery (12 CFR 220.10(a), and see also Fabozzi (1997), pp 104.5). A prospective vote-trader subject to this regulation would have to construct a permitted purpose, for example by shorting to herself. This is a minor consideration for our study, because before our sample period Regulation T was amended to exempt broker/dealers servicing large numbers of retail accounts from this permitted purpose rule.[5] The U.K. has no permitted purpose rule, and the practice of vote trading has been publicly acknowledged, at least anecdotally. The two salient cases are British Land, referenced in the press clipping at the top of this paper, and P&O Princess.[6] These events have provoked recent deliberation by the Bank of England's Stock Lending and Repo Committee.[7]

Another way to avoid the regulatory issue is to simply buy shares on the open market at the close of the cum-votes date, and sell them at the next open. This also acquires votes, but the transactions costs of arms-length trades would likely be much larger. Buying and selling shares trades economic exposure, and market makers must charge for the possibility that trades of economic exposure are adversely selected (Bagehot (1971)). Similarly, buying shares and hedging with options incurs these adverse-selection costs.[8] But equity loans convey no economic exposure, thereby avoiding these costs, so as Harris and Raviv (1988) observe they are the logical instrument for vote trading.

Permitted purposes aside, is vote trading legal? Trading votes separately from their underlying interests has been regarded as illegal (Manne (1964) and Easterbrook and Fischel, (1983)). However, case law dating to *Schreiber v. Carney* (447 A.2d 17, Del. Ch. 1982) in 1982 has considerably narrowed the circumstances where it can be found illegal, and since then (as of 2001), "courts have not struck down a single instance of alleged vote buying," (Cole (2001) p. 798). Summarizing the courts' decisions, Cole (2001) concludes that a vote trade is legal unless 1) the vote-seller gets a legally-enforceable consideration, 2) the consideration is the main reason for how the vote-seller votes, and 3) the seller must cast his vote in a particular way. Since the record-date lender never possesses or casts the vote, it is unclear whether equity loans are at all susceptible to failing this test, but it could be a risk that traders consider.[9]

A related legal issue is that of double voting. This is where a broker loans a client's shares for the record date, but allows the client to vote all the same. Since clients generally do not exercise all their voting rights,[10] this can be harmless, in the sense that the number of votes cast by the broker's clients can fall within the number of votes actually possessed by the

brokerage. Indeed, as the SEC observes (and see also Apfel et al. (2002)), brokerage customers are not generally informed that a voting budget constraint even exists:

> Investors who hold shares in companies where such an expansion of beneficial ownership has occurred are not informed, however, of this potential constraint on their proxy voting. All customers of brokers and dealers generally receive proxy materials for the full amount of the shares in their accounts regardless of whether their broker or dealer will be able to honor and act on all proxy instructions received. (SEC (1991) p. 24)

If votes cast exceed votes held, the broker has discretion to disregard voting instructions:

> … there is no guidance in the rule (NYSE's Rule 452) itself or from the Exchange in any other form as to how a member firm is to handle a situation where it receives proxy voting instructions for more shares than it holds in record ownership. Thus a member firm apparently enjoys substantial flexibility when it cannot act on all the instructions received, and in particular it presumably may select at its own discretion which voting instructions it will disregard . . . (SEC (1991), p. 28)

Another possibility is that the broker simply ignores the budget constraint, and reports all the votes cast as if they are all valid. This apparently occurs frequently; one transfer agent investigated the 341 votes it had tabulated, and found attempted over-voting in every vote, and cited stock loans as one of the three major causes (Securities Transfer Association (2005)).

As our U.S. loan data come from a custodian bank lending as agent from its clients' holdings, and as pension funds are likely candidates to be such clients, it is potentially relevant that pension funds must, under ERISA, retain the right to terminate a loan for the vote or for anything else (D'Avolio, 2002), but they need not exercise this right. When the International Corporate Governance Network surveyed its members – large institutional accounts including pension funds – most respondents reported that a third party loans their shares, and 70% reported they rarely if ever recall shares just to vote them (Lintstock (2004)).

II. Theory of Vote Trading

In anticipation of our empirical tests, it is useful to consider theories of vote trading in terms of their predictions for shifts in supply and demand in the equity-loan market. It is also useful to bear in mind the shape of the supply curve for borrowable shares. We mention above that 90% of listings loan at the same, low price, and the remainder are on special. This implies a supply curve shaped like a hockey-stick: a long horizontal shaft, with a short upward blade on the far right.

Shareholder votes can aggregate information and preferences. The literature focuses on preferences (Grossman and Hart (1988) and Harris and Raviv (1988)). The situation considered is one where voters are symmetrically informed about, but asymmetrically affected by, a vote's consequences. Examples include shareholders expecting private benefits, or invested in rivals. In this situation, shareholders know how to vote their preferences, and would thus require payment for their votes, and by the same token, would pay for more votes. Therefore, we should see the supply curve shift up and the demand curve shift out. So to the extent votes are aggregating preferences, we should see a positive price charged for votes, manifested as a higher price to borrow shares on the record date than on surrounding dates, while the quantity borrowed could increase or decrease, depending on relative supply and demand effects. The price increase should be greater when the vote is more consequential.

Alternatively, shareholder votes can aggregate information. That is, shareholders have the same preferences over consequences, but information about the consequences of a particular vote is asymmetrically distributed across them. For example, the consequences of a proposed compensation plan may be equal across shareholders, but some shareholders know those consequences more precisely than do others. In this case, all shareholders can benefit

when votes move from the less-informed to the more-informed. Therefore, the demand to borrow shares should shift out, as the temporary demand to borrow for voting combines with the ongoing demand to borrow for shorting, while the supply of shares could shift either out or in, depending on whether the arrival of less-informed investors as suppliers of borrowable shares is greater or less than the departure of more-informed investors. So to the extent votes aggregate information, we should see among non-specials that volume goes up but price does not, as the demand curve shifts out along a flat supply curve. Among specials, the supply curve is upward-sloping so the demand shift would increase quantity to a lesser extent but would also increase price. If the supply curve also shifts, this would have an additional effect, either lowering quantity and raising price by shifting in, or the reverse by shifting out. These effects should be more pronounced when the vote is more consequential, and also when asymmetry of relevant information is greater.

Thus, we have two hypotheses to test on the data: that vote trading aggregates preferences, and that it aggregates information. The predictions of the two hypotheses are gathered and contrasted in Table I. The sharpest distinction is between the predictions for the price of a vote among non-specials, as this price is positive when votes aggregate preferences, and zero when they aggregate information. The importance of votes has a significant (and opposite) effect in either hypothesis, but the asymmetry of information is relevant only if votes aggregate information.

[Insert Table I]

III. Data

We combine data from several sources. First, we have information on the pricing and quantity of loans from a proprietary database, which is described in more detail in Reed (2002) and Geczy, Musto and Reed (2002). The database contains the rebate rate, size, start and termination date and a few other statistics of all loans, about a quarter million, of U.S.-listed equities made by a large custodian bank, acting as lending agent for its custodial clients, between November 1998 (11/98) and 10/99. For our purposes here the important database-specific facts are that the specialness implicit in a loan is observable only if the data provider considers the loan to be Medium or Large, rather than Small[11], and that the rebates are wholesale rates charged to brokers, as opposed to the retail rates the brokers charge their customers. So we do not observe the complete cross section of specialness every day – on the typical day, we observe the specialness of about 3,200 stocks – and what we observe is a lower bound on the cost to the end-user, most representative of the cost to major investors such as large hedge funds. Similarly, it is an upper bound on the revenue accruing to the loaned shares' beneficial owner. Specialness is quoted as an annual interest rate. For example if the specialness of a stock is 3%, and an investor borrows $1MM worth of it for 5 days, then his specialness cost (with 102% collateral) is (3/100)(5/250)($1MM)(1.02) = $612.

We match the proprietary data with publicly available information from the CRSP, Compustat, TAQ, SDC Platinum, and IRRC (Investor Responsibility Research Center) databases. CRSP provides trading volume, shares outstanding, and stock performance relative to industry (equal-weighted index of firms with the same two-digit SIC code) for the year November 1997- October 1998. From Compustat we gather senior bond ratings as of September 1998, which we compare to the median senior bond ratings for the firms' respective

industries (two-digit SIC). And from TAQ we get closing bid/ask spreads: for each exchange-traded stock, *Spread* is the average October 1998 official closing spread, divided by the October 30, 1998 closing bid/ask midpoint. From SDC Platinum, we determine whether a vote was about a merger. We identify a merger vote as one where both the record and meeting date from IRRC fall between the announcement and effective date of the merger given in SDC.

The most significant matching is with the IRRC data (see Maug and Rydqvist (2004) for further discussion of this data). From IRRC we have 16,518 pairs of CUSIPs and voting record dates from 11/98 through 10/99. Of these, 6,764 are both in the CRSP data and covered by 10 trading days before and after within the sample period of the custodian data. This sample of 6,764 reduces significantly when we match with the voting outcomes data associated with these record dates. From IRRC we have 1,886 firm and record date non-routine proposals of which 1,818 matched with our data. Note that because these proposals are non-routine, their outcomes do not include broker votes (Bethel and Gillan (2002)). Another 21 observations were removed because the vote was either incompletely recorded by the IRRC, or cancelled. The voting outcomes data includes a basic description of the proposal and an indicator of whether it is a management or shareholder proposal. It also lists the votes for, against, abstaining, and required for approval as a percent of either total votes cast or total shares outstanding as dictated in the proxy. A vote "for" is a vote in favor of the proposal. We use this data to flag close votes; if the vote for proposal *i* is within 5% (on either side) of the vote necessary, then $Close_i$ is 1, and otherwise it is 0. By this rule, 88 of the votes are close.

We also use the corporate governance index calculated by Gompers, Ishii, and Metrick (2003) from IRRC data, observed as of 1998. This index takes on integer values up to 16

where a higher number indicates a weaker corporate governance structure. The data reduces to 1,542 proposals when matched with this index (and we observe specialness for 1,064 of these).

Following Karpoff, Malatesta, and Walkling (1996) we group proposals by their descriptions into three subsets: External, Internal, and Compensation. External proposals refer to the company's interactions with other companies, such as mergers and acquisitions, poison pills, spin-offs, supermajority provisions and the sale of the firm. Internal proposals relate to the internal operations of the company, such as elections of directors or board members, amendments to governance procedures and changes to voting rights of directors/board members or to committee structure or composition. Compensation proposals are those related to payments to directors or executives, such as adopting a bonus plan or amending a stock option/award/bonus plan, excluding stock option plans for employees in general. The only difference between our classification and that used in Karpoff, Malatesta, and Walkling (1996) is the inclusion of spin-offs and firm sell-offs as external issues. This classification also reflects the factors Pozen (1994) highlights as influencing institutional activism: antitakeover measures, executive compensation, and governance structures. Proposals regarding name changes or changing authorized common stock were classified as "other."

Finally, for U.K. firms we have data on aggregate loan quantity from CRESTCO, the Central Securities Depository for the U.K. market. For each firm in the FTSE 250 and 100 we have the total number of shares in CRESTCO (generally the vast majority of the firm's shares outstanding), and the total number of shares loaned. These data run daily from September 1, 2003 through December 31, 2005. Meeting dates for U.K. firms come from the Institutional Voting Information Service (IVIS).. The official list of voters for a U.K. meeting derives from

ownership two days before (Regulation 41 of the Uncertificated Securities Regulations 2001), so we take the record date for a meeting to be the last trading date on or before two days prior.

We match the data from CRESTCO with data from three sources: (1) detailed proxy information about the vote from IVIS; (2) return information and bid-ask prices from Datastream and (3) a corporate governance index from Governance Metrics International (GMI), as retrieved from the Bloomberg. To calculate relative performance, *Relative Performance*, we take the average return over the year prior to the vote and subtract off the average return for the industry index for the same time period. The bid-ask spread, *UK Spread*, is the average percentage bid ask spread for the month before the vote divided by the price on the day before the record date. Our corporate governance index, *UK Governance*, is the Overall Rating assigned by GMI, and is observed as of 2006. The index ranges from 1 to 10 where 10 indicates superb corporate governance. It is important to note that this is the opposite of the ordering by the U.S. corporate governance index.

In the detailed proxy information from IVIS, we have data from January 1, 2004 to December 31, 2005 indicating the key issue to be voted on at the meeting. We calculate indicator variables for vote topics common in the U.K.: *Compensation* denotes a remuneration report or incentive arrangement; *Committee* is any vote for a committee such as the audit committee, remuneration committee, or Board; *Internal* denotes a vote on issues of internal corporate governance such as the election of independent directors (NEDs) or changes to the Articles of Association; and finally, as with the U.S. data, *External* denotes any issues such as a spin-off, merger, or demerger.

In addition to describing the vote, IVIS also reports the vote's compliance with the guidelines of the Association of British Insurers (ABI). This is accomplished through color-

coding. *Blue* indicates that all issues on the ballot comply with ABI guidelines. *Green* signals that there was a non-compliance previously reported which is now resolved. *Amber* indicates that a key issue is currently the subject of discussion because of apparent non-compliance. *Red* indicates confirmed non-compliance. In case of confirmed or apparent non-compliance (i.e. Red or Amber), IVIS provides a star to indicate which key issue is of concern. We denote these non-compliant issues as *Compensation*Star, Committee*Star, Internal*Star,* and *External*Star*.

The IVIS data do not break out shareholder resolutions from the sample, likely because shareholder resolutions are extremely rare in the U.K. For example, the Co-operative Insurance Society, a U.K. insurer with £26.9BB in assets (as of 1/14/06) reports that in 2004, among its U.K. holdings, it voted on 8,223 management resolutions and 12 shareholder resolutions.[12] Given this tiny incidence of shareholder resolutions, we will take as a close approximation that all resolutions in our U.K. database are management resolutions.

IV. The market for votes

This section presents empirical tests for the existence and purpose of vote trading, focusing on the hypotheses and empirical predictions in Table I. The first questions are basic: do investors trade votes, and if so, at what price? We start with the spot market, and then move on to the lending market.

IV.A Trading Votes in the Spot Market

The spot market trades economic exposure along with votes, but traders who want just votes might still transact there. They must pay the spread but the only economic exposure they

need to bear is overnight; they could buy at the close of the cum-date and sell at the open of the ex-date. We cannot address the question of whether such trades *ever* occur but we *can* address whether their incidence is high enough to boost the stock's trading volume above its prevailing level.

Our method is to compare trading volume on the cum-date to the twenty days on either side. To be consistent with the lending results below, our sample is all cum-dates in the IRRC data from 11/11/98 to 10/12/99 (this way, the settlement dates for trades 10 days before or after fall between 11/01/98 and 10/31/99, our custodian-data sample period). This yields 6,764 record dates. For every record date *i*, let $V_{i,t}$ be the relevant stock's percentage trading volume on date *t*, where date 0 is defined as the cum-vote date, i.e., 3 trading days before the record date, and percentage trading volume is shares traded divided by shares outstanding. For every *t* we average $V_{i,t}$ across *i*; the result is presented as Figure 1.

[Insert Figure 1]

Figure 1 shows no sign of a relation between trading volume and voting rights. The average is 0.565% across all 21 days, and is 0.56% on the cum-vote date and 0.553% on the ex-vote date. We cannot rule out that some traders find the spot market economical for exchanging votes but the incidence of such exchanges must be small.

IV.B Trading Votes in the Lending Market

We can easily change venue to the lending market by repeating the above procedure on the same 6,764 record dates, replacing percentage trading volume in the spot market with percentage lending-volume by our data provider, while offsetting three days to align the markets. That is, we replace $V_{i,t}$ with $L_{i,t}$, the number of shares loaned by the custodian,

divided by shares outstanding, on trading date *t*, where date 0 is now the record date, *not* the cum-date. We again average across *i* for each *t*, and the result is the middle line in Figure 2.

[Insert Figure 2]

The connection between voting and lending is clear and strong. Loans that convey votes are in much greater quantity than loans in general; loaned shares spike from 0.22% on average to 0.275% on the record date, a difference that is far beyond the prevailing volatility with a t-stat of 18.25 reported in Table II. And since this sample of 6,764 stocks available in CRSP includes many small firms that are rarely or never loaned by our data provider, this 0.055% increase is likely to be a low estimate, since there are many stocks that are zero for every day. Accordingly, we break the sample into those stocks which are in the Russell 3000 (essentially the 3,000 largest stocks) and those shares in CRSP but not the Russell 3000. This gives us the highest and lowest lines on Figure 2. The spike for those in the Russell 3000 is almost twice as big at 0.1%, with a t-stat of 17.95.

[Insert Table 2]

If investors preferred to exercise their voting rights, rather than pass them to others, we would expect to see less lending on voting record dates, compared to the days surrounding. But we find *more* lending, moving control *away* from one-share-one-vote. And while one might not expect small retail investors to exercise any authority over lending of their shares, including lending on record dates, this does not apply to the large institutional accounts of custodian banks which have the authority to recall shares for the vote. Thus, we conclude that the lending market houses a voting market, where lenders make available votes they could have retained, and borrowers acquire them.

IV.C The Price of a Vote

What price do the borrowers pay for the votes? We can find out by replacing loan quantity L with loan pricing P, which as discussed above is in units of specialness. We let $P_{i,t}$ be the average specialness of the loans that comprise $L_{i,t}$, and analogously to before we take the average of $P_{i,t}$ across i for each t and plot the time series. This is somewhat noisy, compared to the time series above, because some stocks loan on some of the days but not others, so the sample changes slightly as t goes from -10 to 10. The result is in Figure 3.

[Insert Figure 3]

The figure shows no price increase at all, but because the comparison across t is not exactly apples-to-apples, it is worth constructing a comparison that is. We identify all the record dates such that we observe specialness on the record date *and* on at least one of the twenty surrounding dates. There are 2,318 such dates. For each record date we then subtract the average non-record-date specialness from the record-date specialness, and find the average difference to be 0.64bp, reported in Table II. That is, the extra cost of borrowing a share when it conveys a vote, compared to when it does not, is a 0.64bp decrease in the interest received on the collateral used to borrow the share. The t-statistic of the 0.64bp is 1.66, so statistical significance is marginal (p-value is 9.7%), but more importantly, the economic significance is trivial, in that we can reject that the true difference is greater than 2bp, which itself would be trivial (note that these are annualized rates, so a 2bp interest-rate reduction for one day implies \$0.56 less income on \$1MM of collateral). This is the incremental cost of borrowing on the voting record date, relative to the cost of borrowing the stock to short it, but even if we add this to the average cost of borrowing, the cost is still small. For instance, the average specialness

for the CRSP sample is around 20bp which would translate to (0.2%)(1/250)(1MM)(1.02) = $8.16 per trading day for $1MM worth of shares.

So unconditionally, the price of a vote is essentially zero, meaning that, in the case of the average vote, lenders are not selling it but rather just letting it go. Thus the hypothesis that describes the data is that vote trading aggregates information, rather than preferences (see H1 in Table I). This is not to say that heterogeneous preferences are never important to vote trading, but the predictions of that hypothesis are not in significant evidence in the data.

As Zingales (1995) observes, an active market for corporate control should boost the value of a vote. Does the zero-price result hold even in an active market for corporate control? We can address this question by restricting to the subset of stocks currently involved in merger activity (i.e. the record date comes after the merger announcement, and before the merger is either completed or called off). As Table II documents, this is 354 record dates, including 166 where we observe loan pricing, and 22 where the stock is on special in the surrounding days. Our definition of being on special is the same as in Geczy, Musto and Reed (2002), that average specialness is at least 25bp. On the right side of Panel B of Table II we see that, at the point estimate, the prices of the votes are considerably higher, whether or not the stock is on special, but the confidence intervals around these estimates all include zero.

Is the vote trading driven by the borrowers or the lenders? If the increase in quantity of loaned shares reflects an increase in demand from borrowers, rather than supply by lenders, we would normally expect an increase in price as well, but the hockey-stick supply curve means this would only happen among the specials. We report two tests. First, we test for a price increase among the stocks on special; this is the bottom half of Panel B of Table II. The point estimates are higher but there is no statistical significance. The second test is a regression: the

price increase is on the left-hand side, and average specialness in the surrounding days is on the right. The question is whether the coefficient on specialness is significantly positive. We run this regression with and without a separate intercept and slope for the merger observations, and report the results in Panel D of Table II. We see that the price does indeed increase with specialness, and that the statistical significance is isolated to the merger observations. Resolving this with the Panel B result that the price of merger-stock votes are *not* significantly higher, even for specials, it appears that a few merger stocks are both very hard to borrow and relatively more expensive to buy votes for. We also see, in Panel C, that the quantity increase *decreases* with specialness, which is also consistent with the demand curve shifting along a supply curve that slopes only among specials. Thus, we conclude that at least some of the quantity increase comes from an increased demand to borrow shares when they convey votes, as opposed to an increased supply.

V. Cross Section of the Market for Votes

If vote trading serves to aggregate asymmetric information, this should be apparent in the cross section of votes. Most directly, vote trading should grow with information asymmetry about the firm. This is our next hypothesis to test (H2 in Table I), and it is straightforward to test since we can observe a widely accepted proxy for asymmetry of information about the firm, the bid/ask spread posted by its market maker.

The last set of tests addresses the relative gravity of the votes. There is little motive to trade trivial votes; the market is presumably driven by the important votes. Thus, if lending reflects asymmetry of information, it should grow as the vote grows more important. By contrast, if shareholders were *symmetrically* informed, we would expect preferences to

dominate and lending to *shrink* as importance grows, especially for a zero price: borrowers would have no information to add, and might have different preferences, so the risk would be all downside and would be larger for more important votes.

To take this hypothesis (H3 in Table I) to the cross section of votes, we need measures of their relative importance. Relative importance could reflect the significance of the issue at stake, and it could also reflect the probability that a given vote will be pivotal. Proxying for this probability is straightforward, because we can, for the larger firms whose outcomes are reported by the IRRC, simply look at how close the vote turned out to be.

Proxying for the relative importance of proposals is trickier because the literature provides little guidance as to which proposals are more important. The existing theory on vote trading, Harris and Raviv (1988) and Blair, Golbe and Gerard (1989), focuses on managerial performance, so we proxy for performance, in two ways: stock return, relative to industry, and bond rating, relative to industry. This gives us one proxy keyed to market prices, and one keyed to accounting data. As performance decreases, the importance of the firm's proposals should increase and so, by the hypothesis, should the transfer of votes.

As in the previous section, we avoid confusion between the demand for short exposure and the market for votes by focusing exclusively on excess share lending, as defined above: the loan volume on the record date minus the average loan volume on the twenty surrounding days. To allow comparability across regression models, all the regressions are limited to observations covered by the voting-outcomes data.

V.A Relation to Asymmetric Information and Importance of the Vote

Since a market maker's bid/ask spread for a firm's equity is generally viewed as a product of asymmetric information about the firm – in particular, the incidence of trading by investors who know more about the firm than he himself knows (Bagehot (1971) Glosten and Milgrom (1985), etc.) – it is the natural proxy for the uneven distribution of information about the firm. Because outside factors could simultaneously affect both spreads and lending, we avoid confusion by measuring spreads over the month before our loan sample begins.

To gauge the relation between spreads and lending, we first sort by closing spread into quintiles, with the lowest-spread stocks in quintile 1. We then calculate the average excess record-date lending for each quintile, and plot the result as Figure 4.

[Insert Figure 4]

The relation in Figure 4 is strong in the predicted direction. Vote trading grows as asymmetry of information grows. To establish the statistical significance of the relation, we regress excess record-date lending, denoted by $Excess\ Loan_i$ for record date i, on spreads, denoted by $Spread_i$, and test whether the slope is significantly positive. The fitted model, labeled REG1 in Panel A of Table III, shows that the slope is positive with a t-statistic of 3.16, so the relation is indeed significantly positive, even after controlling for the relative ease of borrowing denoted by the average level of specialness on the 20 surrounding days of the record date, *Special*. This supports one dimension of our hypothesis that the maldistribution of information across investors is an important incentive to rearrange votes across investors.

The other dimension is the importance of the vote. This in turn has two components: the importance of the proposal, and the probability that a given share's vote will be pivotal. For the importance of the proposal we have two measures of underperformance by the firm:

low stock return and low bond rating, relative to industry. The indicator *Low Return*$_i$ is 1 if firm *i* underperformed its industry over the year ended 10/98, and is 0 otherwise, and *Low Rating*$_i$ is 1 if firm *i*'s bond rating was below the median rating for its industry, and is 0 otherwise. Thus we have one measure reflecting market valuations, and one reflecting accounting data. For the probability that a share's vote will be pivotal we have the closeness of the vote, as revealed later at the meeting. We take proposal *i* to be close, and thus set *Close*$_i$ to 1, if the vote for the proposal was within 5% of the vote needed for passage. Otherwise, *Close*$_i$ is 0.

The question is whether *Close*, *Low Return* and *Low Rating* relate positively to vote trading, and we address this question with dummy-variable regressions where the dependent variable is again *Excess Loan*. We first run simple regressions on the three explanatory variables separately, then we run multiple regressions that interact *Close* with *Low Return*, and then with *Low Rating*. The multiple regressions allow the effect of a close vote to be different for lagging *vs.* leading firms. Results are collected in Panel A of Table III.

[Insert Table 3]

The simple regressions show, by either the stock-price or bond-rating measure, significantly more vote reallocations for lagging firms. Closeness is not significant unconditionally, but it is for votes of less creditworthy firms and lower-return firms. At the point of means, the effect on vote-borrowing for proposals of lagging firms is large, from 0.09% to 0.15% for firms with lagging stock returns, and from 0.09% to 0.18% for firms with lagging default risk. Therefore, the data support both dimensions of the hypothesis.

The remaining question is whether the two dimensions are significant conditional on each other. We can address this by including both in one regression. What we find, in

regressions 4 and 5 in Panel A of Table III, is that *Low Rating* and *Low Return* enter significantly in the presence of *Spread*, and that *Spread* enters positively and significantly when the other variable is *Low Rating* and *Low Return*. So the evidence is largely consistent with asymmetry of information and vote importance being independently significant.

V.B Relation of Vote-Trading Volume to the Proposal and Firm Governance

Does vote trading reflect what the vote is about, or who proposed it? The chronology is potentially important here. Because the record date precedes the distribution of proxies, traders must decide whether to borrow or lend votes *before* the relevant proposals are officially publicized. So the content of the proposals can affect the decision to borrow or lend only if it is somehow predictable, or privately known by some traders, as of the record date. In this section we address the influence of proposals on vote lending by relating vote-lending first to the content of the proposals, as revealed later in proxies, and then to information that is relevant to proposals, and that was definitely available to all investors on the record date.

The major categorization of proposals, as evidenced by the extensive literature analyzing shareholder proposals separately from management proposals (e.g., Gordon and Pound (1993) Karpoff, Malatesta and Walkling (1996) Wahal (1996) Gillan and Starks (2000)) is into shareholder proposals on the one hand, and management proposals on the other. So all proposals are first sorted by their proposers into one group of 212 shareholder proposals, and another of 1,575 management proposals (where 185 and 1,272 have measurable loan pricing on at least one of the surrounding 20 days) We then subdivide these groups into external, internal and compensation proposals, as described in Section III, and we flag them with the indicator variables *External*, *Internal* and *Compensation*. Proposals that do not fall into

exactly one category score zero on all three and so are captured by the intercept. We run one regression of *ExcessLoan* on *External*, *Internal* and *Compensation* for shareholder proposals and one for management proposals, and we report the results as REG1 on the left and right sides, respectively, of Panel B, Table III.

The regressions turn up just one statistically significant relation: when management proposes a change in compensation, more votes change hands. Such proposals would intuitively be salient, but we cannot tell if traders knew in time that they would arise.

What voters *can* know on the record date is the *current* state of a firm's corporate governance. This is a likely influence on the content and significance of upcoming proposals, so our empirical question is whether it influences the vote trade. One way to find out is to relate *Excess Loan* to a corporate-governance index. The index of Gompers, Ishii and Metrick (2003) is useful for this purpose because it reduces a firm's array of provisions to one number, where a higher number indicates that a firm's provisions are less shareholder-friendly, or in other words, that management is more entrenched. Since entrenchment reduces shareholders' indirect control of firms through management, it increases the importance of direct control though proposals, so our hypothesis that vote trading increases with vote importance predicts a positive relation between entrenchment and excess lending among shareholder proposals.

Among management proposals the prediction is less clear, since it is unclear how entrenchment should affect the importance of proposals that management chooses to put to a vote. In recent work, however, Weber, Joos and Balachandran (2003) find that "poorly-governed firms are more likely to adopt equity-based compensation plans without shareholder approval,"[13] and conclude that in general, management avoidance of putting decisions to vote grows as governance worsens. Though their measure of governance differs from the index we

use, this suggests that the importance of management proposals, and therefore the reallocation of votes, should decline as the index increases.

We determine the relation of vote trading to managerial entrenchment by first defining $Governance_i$ to be the Gompers, Ishii, and Metrick (2003) measure of corporate governance for the firm associated with proposal *i*. For management and shareholder proposals separately we first regress *ExcessLoan* on *Governance* alone, and then we add in the category indicators. Results are labeled REG 2 and REG 3, respectively, in Panel B of Table III.

Entrenchment enters every time, and indeed, reallocation of votes for shareholder proposals goes up and reallocation for management proposals goes down as entrenchment increases. There is still a positive effect of management proposals regarding compensation, though it is no longer significant. Because the state of corporate governance is known before the record date while the proposal is not publicly known until after, it follows that entrenchment should enter more significantly.

V.C Relation of Vote-Trading Price to the proposal and firm governance

Do the attributes of the proposals or firms affect price, as well as volume? Considering the findings above that the unconditional price is essentially zero, there is unlikely to be much effect, but it is simple enough to test by changing the dependent variable in Table III from excess volume to excess cost, again as defined for Table II. The results are collected in Table IV, organized analogously to Table III.

[Insert Table 4]

The main finding in Table IV is that the bid/ask spread relates to price as it does to volume, so by either measure, asymmetric information about the firm increases demand to

acquire its votes from willing lenders. Underperformance as measured by credit risk also enters positively, but statistical significance is otherwise lacking. We see that average specialness sometimes enters negatively, rather than positively as it does in Panel D of Table II. Substantial average specialness is quite scarce in the data, and this appears to result from a few highly influential observations.

V.D Vote Trading and Vote Outcomes

The economically important consequence of vote borrowing is its effect on outcomes. We do not directly observe how the borrowed votes are cast, but we can observe how the variation in borrowed votes relates to the variation in outcomes. To this end we define For_i and $Against_i$ to be the percentage vote for and against proposal *i*, and we regress it first on just *ExcessLoan*, and then to allow the relation to differ across categories, we regress it on the category indicators and $ExcessLoan_i$ interacted with the category indicators, and also with the indicator *Other* for proposals that do not fall in the three categories.

In the first pair of tests, the dependent variable is the vote in favor of a shareholder proposal, as a fraction of votes cast. In one regression, *ExcessLoan* is the only explanatory variable, and in the other, the vote-topic indicators, alone and interacted with *ExcessLoan*, are the explanatory variables. The second pair of tests is the same as the first, except the dependent variable is the vote in favor of a *management* proposal, as a fraction of either votes *outstanding* or votes *cast* depending on what was necessary for the vote to pass. The third is the same as the second, except the dependent variable is the vote *against* a management proposal. We do not include regressions of *Against* on *ExcessLoan* for shareholder proposals since in this case all votes are out of votes cast and there are no abstentions so *Against*=100-*For*. Results are in the first six columns of Table V.[14]

[Insert Table V]

What we find is that vote trading generally corresponds to support for shareholder proposals and opposition to management proposals. In the shareholder-proposal multiple regressions in Table V, three of four proposal types interacted with *Excess Loan* come in positive, with external proposals showing a statistically significant relation. In the management-proposal multiple regression with *For* as the dependent variable, both compensation proposals and internal proposals enter negatively, with internal proposals entering significantly. Among management proposals, the significant relation is once more to opposition. When the dependent variable is *Against*, three of four interaction variables enter positively with both internal and compensation entering significantly in the OLS regressions. To close the loop with our earlier results in Panel B of Table III, we first find more lending associated with management proposals regarding compensation, and now we find evidence that loaned votes are cast against these proposals. This associates vote-borrowing with a particular side of the vote, the positive side for proposals by shareholders, and the negative for proposals by management. This is the opposite side of the vote from that associated with broker votes in Bethel and Gillan (2002), whose evidence indicates that brokers have ulterior motives for siding with management. The evidence here indicates that uncertain voters allow their votes to be borrowed, taking the chance that the borrowers' preferences are aligned with their own. We cannot know whether the lenders would have voted this way if they knew everything, but we find reason for them to believe that their borrowers are at least not aligned with management.

A possibility these tests do not address is that a third force simultaneously affects both vote trading and the outcome. Shareholder sentiment may be stronger for some proposals, causing both more borrowing and more voting in a particular direction. We address this

possibility with a two-stage least squares test design. The first stage removes the effects of such sentiment on *Excess Loan* with instruments related to the ease of borrowing shares but not sentiment regarding the proposals at stake, and the second stage relates this instrumented *Excess Loan* to the outcome.[15] The second-stage results, in the last three columns of Table V, show the relation to the outcome to be still significant in the same directions. This relation holds despite relatively weak instruments in the first stage and after using different instruments and estimation procedures.[16] Therefore, we conclude that our results are robust to this possibility.

Does the support and opposition translate to victory and defeat? For a final test, we define *Shareholder Win* as the 1 if shareholders win a vote and estimate a probit model in which the probability of a shareholder winning a proposal is a function of *Excess Loan* and proposal types. Shareholders are presumed to win if a shareholder proposal wins[17] or a management proposal loses. In our sample, about 3.7% of the observations are shareholder wins, but this differs vastly between management and shareholder proposals; shareholders win only 2% of management proposals, compared to 17% of shareholder proposals.

For both shareholder proposals and management proposals, vote reallocations significantly (with p-values of 5.1% and 5.3% respectively) increase the probability of a shareholder win. In the ninth column, we find that the interaction terms between excess lending and vote proposals are generally positive and weakly significant. These findings suggest an important role for vote trading in the reallocation of voting power.

V.E Vote Trading in the U.K.

The U.K. market provides both an extension of, and a potential contrast to, the U.S. results. We can extend the analysis of Table III, because while the U.K. database has no loan pricing or vote outcomes, it does show the whole lending market, and it also contains data on corporate governance and vote topics roughly equivalent to that in the US data. But in addition to this similarity, there are two potentially useful differences. One is the timing difference described above: in the U.K., firms describe a meeting's resolutions *before* the record date, not *after*. Therefore, vote topics have more potential influence on vote trading. The other difference is the voting advice in the U.K. data. That is, the data provider IVIS not only describes the resolutions before the record date but also reports whether they comply with ABI good-governance standards. This research helps close the information gap between investors, thereby potentially reducing information asymmetry and the benefit from moving votes.

The database CRESTCO sells tracks daily lending of the FTSE 100 and 250, i.e. the 350 highest market-cap firms with primary listings on the London Stock Exchange, plus a few other large firms, mostly Irish. The CRESTCO database starts 9/1/03 but the IVIS data on meeting dates and resolutions starts 1/1/04 and ends 12/31/05. For the firms in our sample we have 673 Annual General Meetings (AGMs) and 149 Extraordinary General Meetings (EGMs) (10 of which coincide with AGMs, and which we treat here as EGMs) with lending data from 20 days before to 20 days after the record date. For each record date we calculate (Loaned Shares)/(Shares in CRESTCO) for each of these event days, and we average across event days. These averages are plotted, with one line for AGMs and one for EGMs, as Figure 5.

[Insert Figure 5]

The graph makes two points. First, a sizable fraction of U.K. shares are on loan when they convey votes, over 4%. Second, the effect of votes on lending is weak for annual meetings, but strong for extraordinary meetings. As extraordinary meetings are likely related to significant corporate events, this is consistent with our U.S. finding that vote lending goes up, not down, with the significance of the issues at stake.

Analogously to Table III, we regress the cross section of excess lending on U.K. record dates on the available statistics regarding the cross section of firms and proposals, as described in Section III above. The key empirical questions are whether excess lending relates negatively to *Relative Performance* and positively to *UK Spread* and *UK Goverance*, as in Table III (recall that higher *UK Governance* means better corporate governance, and that the resolutions are essentially all management, so the negative relation on the right side of Panel B, Table III translates to a positive one here), whether the proposal-topic indicators *Compensation*, *Committee*, *Internal*, *External* and *Other* enter significantly, now that investors can see them before trading, and whether the research provided by IVIS, represented by *Compensation*Star*, *Committee*Star*, *Internal*Star*, and *External*Star*, enters negatively, as they would if the reduction of information asymmetry dampens vote trading. Results are in Table VI.

[Insert Table VI]

Comparing Tables VI and III, results are generally consistent. The bid-ask spread enters in the same direction, implying that, as in the U.S., U.K. vote trading increases with the maldistribution of information. Corporate governance enters analogously, so as vote trading on management proposals in the U.S. is greater when management is less entrenched, vote trading on management proposals in the U.K. is greater when corporate governance is rated

more highly.. The indicators of vote topics do not enter significantly, so we do not detect a significant influence of vote topics on vote trading, but *Compensation*Star* is significantly negative, consistent with the IVIS research reducing information asymmetry about how to vote on remuneration.

We can pursue this last point further by testing whether the presence of IVIS research reduces the effect of information asymmetry on vote trading. We do this by regressing excess lending first on just *UK Spread*, and then on *UK Spread* along with *UK Spread*Blue*, where *Blue* indicates the *absence* of a color-code warning from IVIS. The intuition here is that a blue code is not a recommendation to vote for the resolution, but simply an indication that IVIS did not find a reason to vote against it in the ABI guidelines. These regressions are in the first two columns of Table VI, and they find a significant relation of excess lending to *UK Spread* only in these no-warning cases. So to the extent investors learn more about whether to oppose a management proposal from violation of the ABI guidelines than from compliance, this is further evidence that information asymmetry drives vote trading.

One way for the investor community to combat information asymmetry is to trade votes. Another way is for an institution to address the information problem directly by producing and disseminating information the voters need. Our findings show both solutions in action.

VI. Summary and Conclusion

A market for votes is not necessarily a good thing, but we argue that it addresses an important problem. In the model of Harris and Raviv (1988), a company maximizes its own value but does not maximize society's value when it floats its shares separately from its cash flows. We find that votes float separately from shares whether companies want this or not, but

this may do more good than harm because it helps cure an inefficiency that is abstracted from in Harris and Raviv (1988) and related work. The vote market cures the inefficiency arising from votes being distributed differently from information about how to vote them. Transactions in votes can move shares to investors more willing and able to vote them properly. Of course, they can move votes to any hands at all and in principle could hinder governance, but the evidence here associates vote transfers with *less* support for incumbent management, which alleviates this concern.

We also argue that the lending market is the efficient venue for trading votes, and while we find no evidence of vote-trading in the spot market, we find clear evidence of it in the lending market. The price charged for these votes, the markup over the prevailing price for short exposure, is zero. Thus, investors are letting the votes go, not selling them, suggesting that information asymmetry is the cause. They would be better off voting in their interest if they knew how, so intuitively they don't know how. We find more evidence for this view in the cross section of record dates: as information about the firm grows more asymmetric, and as the vote grows more important, so does the quantity of reallocated votes. Because this quantity corresponds to support for shareholder proposals and opposition to management proposals, it does not appear that management or its allies use this market to subvert governance.

In the U.K., we also find evidence that asymmetric information drives vote trading, but we also find evidence that proxy advice serves as a substitute. This raises the question of the incentives and governance of proxy advisors, an interesting question for future research. From a policy perspective, our results indicate that vote trading may serve the socially beneficial role of incorporating more information into corporate votes, a role that regulators could facilitate by reducing frictions imposed on vote trading. The examples in Hu and Black (2006) indicate a

potentially harmful role of vote trading, i.e. abuse by parties with conflicting interests, suggesting that any facilitation of vote trading be accompanied by closer inspection. Regulators could improve the efficiency of the vote trade by requiring that proposals be described before the record date, and also that beneficial owners be more directly informed about the approach of record dates.

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Footnotes

[1] "British Land slams shareholder Laxey", Sarah Marks, *Evening Standard*, July 16, 2002.

[2] "Icahn Cries Foul at Perry's No-Risk Play in Takeover Fight", Jesse Eisinger, *Wall Street Journal*, December 15, 2004, p C1.

[3] See Christoffersen, Geczy, Musto, Reed (2005) for the special case of cross-border dividends.

[4] This discussion is a summary of information available in Geczy, Musto, and Reed (2002) and D'Avolio (2002).

[5] Under the new amendments to Regulation T on April 1, 1998, a broker/dealer was considered exempt if: 1) the broker/dealer had 1,000 active accounts for persons other than brokers, dealers, or persons associated with a broker/dealer; or 2) the broker/dealer had $10 million in annual gross revenues from transactions with such persons; or 3) The broker/dealer derives 10 percent of its annual gross revenues from transactions with such persons. See http://www.nasdr.com/pdf-text/9843ntm.txt.

[6] In the P&O Princess case Mr. Defriez had identified a risk that voting of borrowed stock at an extraordinary general meeting to approve the merger with Carnival under a dual listed company structure could potentially lead to an outcome against the wishes of the long-term shareholders. Also he had reason to believe that some borrowers of P&O Princess stock might be planning to tender it into Carnival's partial share offer, which is for up to 20% of shares in P&O Princess, potentially crowding out long-term shareholders. (See Footnote 6 for reference)

[7] http://www.bankofengland.co.uk/markets/gilts/slrcdec02.pdf

[8] The variety of methods for hedging economic exposure is discussed in Martin and Partnoy (2005) and Hu and Black (2006).

[9] In reference to the Perry Capital case in the press clipping above, the same *Wall Street Journal* article reports " 'You could always buy votes – it's perfectly legal,' says a person allied with Perry. 'Richard Perry could have given every shareholder a dime and said give me your vote.' Indeed, some securities lawyers say the transaction appears to be legal." For a thorough legal analysis of this and other similar cases, see Hu and Black (2006) and Martin and Partnoy (2005).

[10] Bethel and Gillan (2002) report 87% turnout for routine proposals, and 76% turnout for non-routine proposals.

[11] The specialness implicit in a cash-collateral loan is defined as the GC rate for the loan's size minus the loan's rebate rate (annualized), *if* the loan is Medium or Large. If the loan is Small, it is not used for calculating specialness. For non-cash-collateral loans the specialness is defined as the lending fee minus 20bp. The specialness of a stock on a given day is the value-weighted average of the specialness of all Medium and Large loans of the stock that day. These calculations are identical to those in Geczy, Musto and Reed (2002); see that paper and Reed (2002) for more discussion.

[12] As reported in the Co-operative Financial Services Sustainability Report 2004.

[13] The quote is from the abstract of Weber, Joos and Balachandran (2003).

[14] These estimates control for the fact that *For* and *Against* are constrained to lie between 0 and 100. A simple OLS regression provides almost identical estimates.

[15] The instruments are average specialness from Tables II, III and IV the number of investors owning more than 5% of the shares, the percent of institutional ownership, the percent of shares owned by shareholders with more than 5%, and the bid-ask spread from Tables III and IV.

[16] The F-tests in the first stage range between three to five. According to Andrews and Stock (2005), strong instruments would have an F-test above 10. We also estimate using different instruments and find similar results. These other instruments include all the dependant variables in Table III (except *Close*, *Close*LowReturn*, and *Close*LowRating*) and average specialness. The results are also robust to estimation using limited information maximum likelihood (LIML).

[17] For an analysis of the effect of a shareholder proposal winning, see Del Guercio, Wallis and Woidtke (2006).

Table I
Hypotheses Tests

	Aggregation of Preferences	Aggregation of Information
H1. Marginal price of vote	Increase	Not Change
H2. Relation between excess lending and information dispersion (Bid/Ask spread)	Not Change	Increase
H3. Relation between excess lending and the importance of the vote	Decrease	Increase

Table II
Average abnormal vote-day loans and specialness

This table shows the average abnormal specialness and loans for all votes and those votes around mergers. Panel A reports the abnormal lending on voting record date where abnormal lending is the lending on record date less the average lending on the 10 trading days before and after. We provide averages for two matched samples: (1) stocks in CRSP and (2) stocks in the Russell 3000. A merger vote is determined when the record and meeting date fall between the announcement and effective date of a merger. We also provide averages for all stocks and those stocks where the average specialness is greater than 25 bp. Panel B provides averages of abnormal specialness (in basis points) for those stocks where specialness is observed. Panels C and D regress abnormal lending (in percent) and abnormal specialness on average specialness,*Special*, for the 20 trading days surrounding the vote and a dummy variable, *Merger*, that takes the value 1 for a merger vote. For the regressions, abnormal and average specialness are measured in percent rather than in basis points as in Panel B.

Panel A: Average abnormal lending (% shares outstanding) for merger and all votes

Not conditioning on specialness

	Stocks in CRSP				Stocks in R3000			
	Target	Acquirer	Merger	All votes	Target	Acquirer	Merger	All votes
Mean	0.05	0.08	0.07	0.05	0.08	0.10	0.09	0.10
t-stat Mean= 0	2.47	2.96	3.81	18.25	2.69	2.76	3.76	17.95
Observations	166	188	354	6764	104	147	251	2839

Average specialness > 25bp

	Stocks in CRSP				Stocks in R3000			
	Target	Acquirer	Merger	All votes	Target	Acquirer	Merger	All votes
Mean	0.10	0.00	0.02	-0.01	0.12	-0.01	0.02	0.00
t-stat Mean= 0	0.47	-0.10	0.34	-0.91	0.44	-0.10	0.33	0.14
Observations	5	17	22	281	4	14	18	143

Panel B: Average abnormal specialness (bp) for merger and all votes

Not conditioning on specialness

	Stocks in CRSP				Stocks in R3000			
	Target	Acquirer	Merger	All votes	Target	Acquirer	Merger	All votes
Mean	4.76	1.06	2.02	0.64	5.65	1.19	2.35	0.45
t-stat Mean= 0	0.89	0.61	1.06	1.66	0.96	0.65	1.15	1.41
Observations	43	123	166	2318	39	111	150	1830

Average specialness > 25bp

	Stocks in CRSP				Stocks in R3000			
	Target	Acquirer	Merger	All votes	Target	Acquirer	Merger	All votes
Mean	43.41	10.66	16.90	0.87	56.85	14.52	21.99	1.37
t-stat Mean= 0	0.74	0.91	1.21	0.29	0.70	1.03	1.28	0.35
Observations	4	17	21	231	3	14	17	123

Panel C: Regression of abnormal lending on merger votes and average specialness

	Stocks in CRSP				Stocks in R3000			
	Coef	t-stat	Coef	t-stat	Coef	t-stat	Coef	t-stat
Intercept	0.111	17.41	0.111	18.19	0.119	16.66	0.120	17.51
Special	-0.046	-5.24	-0.046	-5.42	-0.052	-3.95	-0.050	-4.12
Merger	0.010	0.41			0.009	0.35		
Merger*Special	0.003	0.09			0.010	0.29		
Observations	2770		2770		2131		2131	

Panel D: Regression of abnormal specialness on merger votes and average specialness

	Stocks in CRSP				Stocks in R3000			
	Coef	t-stat	Coef	t-stat	Coef	t-stat	Coef	t-stat
Intercept	0.594	1.46	0.423	1.06	0.271	0.86	0.096	0.30
Special	-0.003	-0.57	0.012	2.28	0.001	0.11	0.030	5.59
Merger	-2.633	-1.71			-2.119	-1.90		
Merger*Special	0.190	9.77			0.217	14.61		
Observations	2318		2318		1830		1830	

Table III
Dependent Variable is Excess Vote-Day Loan Volume

The sample is all nonroutine proposals of large firms, as defined and collected by the Investor Responsibility Research Center, with a record date falling within the period 11/16/98 through 10/15/99. In each regression the dependent variable is *Excess Loan*, defined as the number of shares loaned on the record date of a proposal minus the average number of shares loaned over the ten trading days before and the ten trading days after, divided by the number of shares of the firm outstanding, and multiplied by 100 (i.e. in percentage terms). *Spread* is the average closing spread (in percent of average bid and offer price) for the stock in October 1998. *Low Return* is 1 if the firm's total stock return for the year ending 10/31/98 was below the average total return of stocks with the same two-digit SIC code, and is 0 otherwise. *Low Rating* is 1 if the firm's long-term senior bond rating, as of 9/30/98, was below the median rating for firms with the same two-digit SIC code. *Close* is 1 if the vote for the proposal was within 5% of the vote required for passage, and is 0 otherwise. *Special* is the average specialness of the loan in the 10 trading days before and after the record date expressed in percent. *External*, *Internal* and *Compensation* are 1 if the proposal is an external, internal or compensation issue (as defined in the text), and are 0 otherwise. *Governance* is the corporate governance index where a larger value indicates a weakening of corporate governance as defined by Gompers, Ishii, and Metrick (2003). T-statistics are below, in italics.

Panel A

	REG 1	REG 2	REG 3	REG 4	REG 5	REG 6	REG 7	REG 8
Intercept	0.07	0.09	0.09	0.07	0.04	0.10	0.09	0.09
	4.29	*9.84*	*7.85*	*4.52*	*2.07*	*13.87*	*9.75*	*8.00*
Spread	0.033**			0.02*	0.055**			
	3.16			*1.70*	*3.62*			
Low Return		0.059**		0.051**			0.052**	
		3.77		*2.32*			*3.20*	
Low Rating			0.093**		0.12**			0.082**
			4.23		*4.48*			*3.67*
Close						-0.01	-0.02	-0.08
						-0.15	*-0.46*	*-1.51*
Low Return * Close							0.147**	
							2.01	
Low Rating * Close								0.213**
								2.09
Special	-0.338**	-0.03**	-0.277*	-0.336**	-0.319*	-0.0318**	-0.0314**	-0.26*
	-3.44	*-2.01*	*-1.80*	*-3.47*	*-1.84*	*-2.10*	*-2.09*	*-1.71*
Observations	946	1416	758	921	639	1457	1416	758

Panel B

	Shareholder Proposal			Management Proposal		
	REG 1	REG 2	REG 3	REG 1	REG 2	REG 3
Intercept	0.09	-0.063	-0.10	0.08	0.16	0.15
	1.62	*-1.74*	*-1.56*	*5.63*	*6.03*	*4.92*
External	0.06		0.102*	-0.03		0.00
	1.02		*1.77*	*-0.71*		*0.07*
Internal	-0.03		0.04	0.00		0.00
	-0.56		*0.76*	*0.04*		*-0.05*
Compensation	-0.04		0.04	0.04**		0.03
	-0.71		*0.79*	*2.23*		*1.37*
Governance		0.014**	0.012**		-0.0073**	-0.0074**
		3.64	*3.07*		*-2.41*	*-2.42*
Special	0.198	0.025	0.062	-0.03*	-0.062	-0.059
	0.75	*0.10*	*0.25*	*-1.86*	*-1.38*	*-1.31*
Observations	185	182	182	1272	1064	1064

** and * indicates significance at the 5% and 10% level.

Table IV
Dependent Variable is Excess Vote-Day Specialness

The sample is all nonroutine proposals of large firms, as defined and collected by the Investor Responsibility Research Center, with a record date falling within the period 11/16/98 through 10/15/99. In each regression the dependent variable is excess specialness, defined in basis points as the specialness on the record date minus the average specialness over the ten trading days before and after the record-date. *Spread* is the average closing spread (in percent of average bid and offer price) for the stock in October 1998. *Low Return* is 1 if the firm's total stock return for the year ending 10/31/98 was below the average total return of stocks with the same two-digit SIC code, and is 0 otherwise. *Low Rating* is 1 if the firm's long-term senior bond rating, as of 9/30/98, was below the median rating for firms with the same two-digit SIC code. *Close* is 1 if the vote for the proposal was within 5% of the vote required for passage, and is 0 otherwise. *Special* is the average specialness of the loan in the 10 days before and after the record date expressed in basis points. *External, Internal,* and *Compensation* are 1 if the proposal is an external, internal or compensation issue (as defined in the text), and 0 otherwise. *Governance* is a corporate governance index where a larger value indicates a weakening of corporate governance as defined by Gompers, Ishii, and Metrick (2003). T-statistics are below, in italics.

Panel A

	REG 1	REG 2	REG 3	REG 4	REG 5	REG 6	REG 7	REG 8
Intercept	-0.12	0.66	0.18	-0.14	0.15	0.74	0.67	0.16
	-0.41	*2.67*	*0.90*	*-0.46*	*0.47*	*3.65*	*2.66*	*0.76*
Spread	0.60**			0.72**	0.05			
	2.90			*2.94*	*0.18*			
Low Return		0.43		-0.32			0.29	
		0.98		*-0.73*			*0.66*	
Low Rating			0.63*		0.45			0.66*
			1.60		*1.00*			*1.62*
Close						0.83	-0.19	0.61
						0.83	*-0.15*	*0.59*
Low Return * Close							2.98	
							1.37	
Low Rating * Close								-0.63
								-0.33
Special	-0.162**	0.0036	-0.197**	-0.162**	-0.10**	0.0034	0.0033	-0.197**
	-8.03	*0.90*	*-6.85*	*-7.92*	*-3.35*	*0.87*	*0.85*	*-6.82*
Observations	841	1257	678	818	573	1282	1257	678

Panel B

	Shareholder Proposal			Management Proposal		
	REG 1	REG 2	REG 3	REG 1	REG 2	REG 3
Intercept	-0.50	-1.83	-2.41	1.00	0.33	0.33
	-0.22	*-1.27*	*-0.85*	*2.49*	*0.47*	*0.42*
External	-0.35		-1.25	-1.33		-0.89
	-0.14		*-0.46*	*-1.18*		*-0.78*
Internal	1.17		0.48	-0.30		-0.70
	0.49		*0.18*	*-0.24*		*-0.50*
Compensation	0.73		0.35	-0.20		0.08
	0.30		*0.13*	*-0.40*		*0.17*
Governance		0.22	0.267*		0.07	0.07
		1.48	*1.75*		*0.87*	*0.88*
Special	-0.74**	-0.70**	-0.71**	0.004	0.075**	0.075**
	-7.78	*-7.21*	*-7.26*	*1.01*	*6.71*	*6.68*
Observations	163	160	160	1119	939	939

** and * indicate significance at the 5% and 10%level.

Table V
Votes For and Against and Voting Outcomes of Proposals

The sample is all non-routine proposals of large firms, as defined and collected by the Investor Responsibility Research Center, such that the record date falls within the period 11/16/98 through 10/15/99. The dependent variables *For* and *Against* are defined as the percentage of votes for and against the proposal, respectively. They are measured as a percentage of either votes cast or votes outstanding depending on what was required for the vote to pass. The dependent variable *Shareholder Win* is defined as 1 if votes *For* are greater than votes needed in a shareholder proposal (SP) or if votes *For* are less than votes needed in a management proposal (MP). *Excess Loan* is defined as the number of shares loaned on the record date of a proposal minus the average number of shares loaned over the ten trading days before and the ten trading days after, divided by the number of shares of the firm outstanding, and multiplied by 100 (i.e. in percentage terms). *External*, *Internal* and *Compensation* are 1 if the proposal is an external, internal or compensation issue (as defined in the text), and are 0 otherwise. The estimation in the first six columns is a censored tobit analysis allowing for the dependent variable to be constrained between 0 and 100. Coefficient and marginal estimates from a probit analysis are provided in columns six to twelve. Two stage least squares estimates are presented in the last three columns of the table. The instruments used in the first-stage are average specialness from Tables II, III and IV, the number of investors owning more than 5% of the shares, the percent of institutional ownership, the percent of shares owned by shareholders with more than 5%, and the bid-ask spread from Tables III and IV.T-statistics are below the reported parameter estimates in italics.

	DepVar FOR		DepVar FOR		DepVar AGAINST		DepVar SHAREHOLDER WIN						Two-Stage Least Squares		
							Coefficient			Marginal Effects			FOR	FOR	AGAINST
	SP		MP		MP		SP	MP	All	SP	MP	All	SP	MP	MP
Intercept	27.39	11.16	82.39	83.23	12.64	7.04	-1.05	-2.11	-1.97	0.166	0.019	0.019	23.74	85.70	8.66
	17.65	*1.75*	*218.59*	*121.80*	*36.55*	*11.88*	*-9.14*	*-26.15*	*-15.09*				*7.90*	*70.96*	*7.58*
ExcessLoan	26.13**		-1.05		3.73**		1.20*	0.43*		0.30*	0.020*		72.43**	-13.42	23.38**
	2.71		*-0.79*		*3.05*		*1.95*	*1.94*		*1.95*	*1.95*		*2.12*	*-1.36*	*2.50*
External		24.16**		-0.63		-4.17**			0.89**			0.093**			
		3.36		*-0.33*		*-2.55*			*4.23*			*2.46*			
Internal		23.69**		-9.63**		2.96*			0.96**			0.10**			
		3.58		*-4.76*		*1.68*			*5.39*			*3.11*			
Compensation		-0.57		-0.74		9.08**			-0.47**			-0.025**			
		-0.08		*-0.89*		*12.58*			*-2.50*			*-2.36*			
External*ExcessLoan		29.76**		4.20		-0.58			0.79			0.037			
		2.48		*0.66*		*-0.10*			*1.43*			*1.40*			
Internal*ExcessLoan		-7.46		-14.91**		10.04**			1.03*			0.049*			
		-0.49		*-2.72*		*2.11*			*1.85*			*1.77*			
Compensation*ExcessLoan		39.99		-2.08		2.79**			0.60*			0.028**			
		1.48		*-1.27*		*1.96*			*1.91*			*1.97*			
Other*ExcessLoan		36.13		3.90		0.47			-0.12			-0.006			
		1.30		*1.49*		*0.21*			*-0.21*			*-0.21*			
Observations	212	212	1575	1575	1575	1575	212	1575	1787				169	777	777

** and * indicate significance at the 5% and 10% level.

Table VI
Dependent Variable is Excess Vote-Day Loan Volume in the U.K.

This table regresses abnormal lending for U.K. firms on various measures concerning the vote and the performance of the firm. Abnormal lending is defined as the difference between lending on the record date and the average shares lent on the 20 days before and after the record date, divided by the number of shares in CRESTCO, and multiplied by 100 (i.e. in percentage terms). Using proxy information from the Institutional Voting Information Service (IVIS), we identify issues voted on during the meeting and classify them as indicator variables *Compensation, Committee, Internal, External,* or *Other*. *Compensation* takes the value 1 for all issues concerning compensation (ie. including discussions either on the remuneration report or incentive arrangements), and 0 otherwise. *Committee* is 1 for votes concerning the composition of various committees including the Board, Audit, and Remuneration Committees, and 0 otherwise. *Internal* is 1 for changes to the internal corporate governance such as discussion on the independence of board members or the Articles of Association, and 0 otherwise. *External* is 1 for issues such as mergers, acquisitions, hostile takeovers, disposals, spin-offs, etc., and 0 otherwise. In the reports from IVIS, the proxies are colour-coded. A colour code of amber or red indicate that the company is proposing an issue which contradicts ABI guidelines. If the proxy is coded as red or amber and the issue in question is highlighted with a star, *we indicate these highlighted votes as Compensation*Star*, *Committees*Star*, *Internal*Star*, and *External*Star*. *UK Spread* is the average closing bid-ask spread for the month before the vote from Datastream and is expressed as a percent of the closing price. *UK Spread*Blu*e is the bid-ask spread for those proxy statements coded as blue. *UK Governance* is the overall corporate governance index of a firm as of June 2006 (ranking a company between 1-10) where a higher value indicates better corporate governance. *Relative Performance* is the difference between the annual performance (in percent) of a firm and its industry index in the year prior to the meeting. The sample includes firms with data in Bloomberg and Datastream and whose voting record dates fall between 10/1/03 to 12/31/05. T-stats are provided below each coefficient in italics.

Compensation						0.0013	-0.0214
						0.01	*-0.17*
Committee						-0.0418	-0.0219
						-0.44	*-0.23*
Internal						-0.19*	-0.1631
						-1.67	*-1.41*
External						0.0919	0.0914
						0.48	*0.48*
Other						0.1158	0.0969
						0.73	*0.61*
Compensation*Star						-0.246**	-0.242**
						-2.31	*-2.26*
Committee*Star						0.6405	0.7052
						1.31	*1.44*
Internal*Star						0.2652	0.2397
						0.48	*0.44*
External*Star						-0.1869	-0.1162
						-0.40	*-0.25*
UK Spread	0.079**	-0.0031			0.107**		0.114**
	2.04	*-0.06*			*2.66*		*2.79*
UK Spread*Blue		0.164**					
		2.75					
UK Governance			0.0672		0.104**		0.125**
			1.56		*2.31*		*2.43*
Relative Performance				-0.4456			
				-1.00			
Intercept	-0.025	-0.036	-0.452	0.042	-0.823	0.170	-0.860
	-0.46	*-0.66*	*-1.40*	*1.02*	*-2.35*	*1.40*	*-2.08*
Observations	687	646	687	685	687	596	592

** and * indicate significance at the 5% and 10% level.

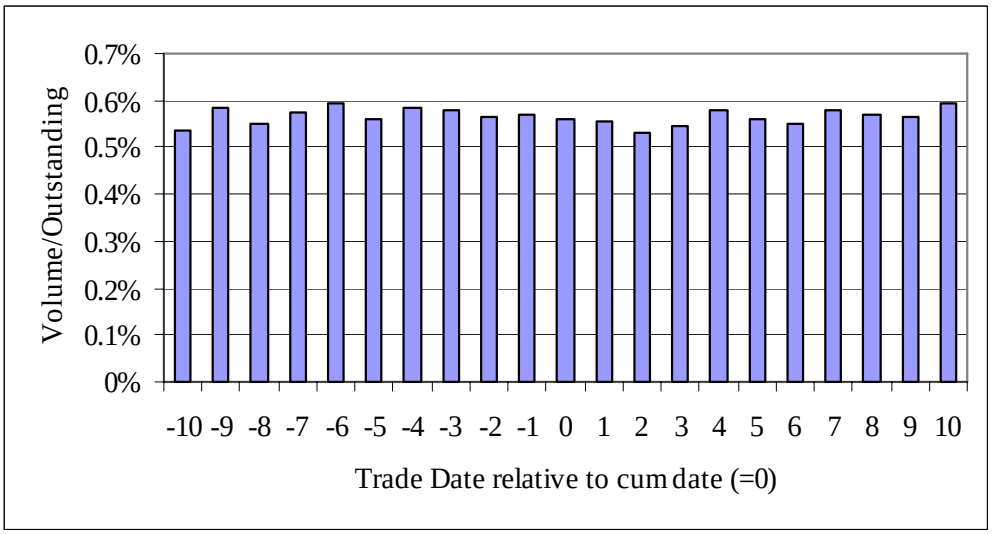

Figure 1. Spot-market volume around cum-vote date. Trade date (where cum-vote date is 0) is on the horizontal axis, and trading volume divided by shares outstanding is on the vertical axis. The sample is all 6,764 cum-dates of CRSP stocks from 11/11/98 to 10/12/99.

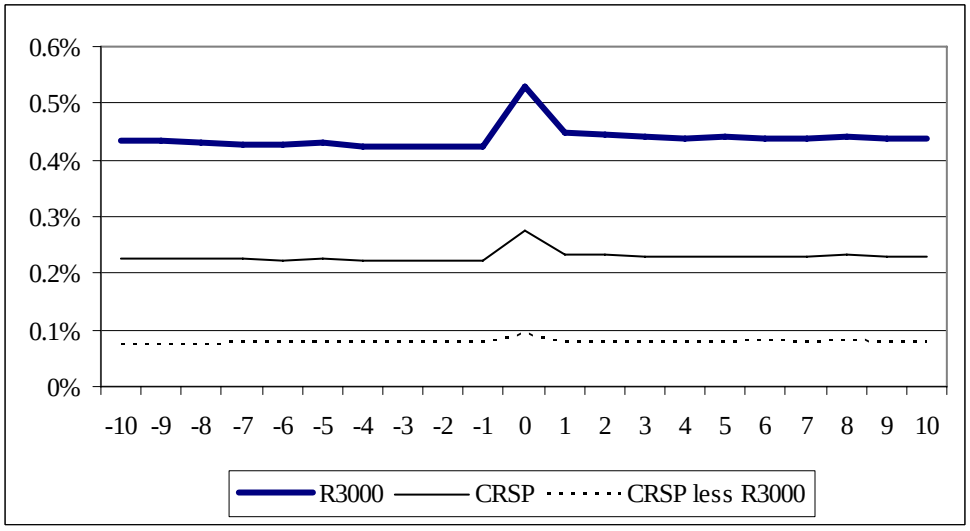

Figure 2. Loan-market volume around voting record date. Loan date (where record date is 0) is on the horizontal axis, and shares loaned by our data provider, divided by shares outstanding, is on the vertical axis. The sample is all 6764 record dates of CRSP stocks from 11/16/98 to 10/15/99. The sample is broken into all shares in CRSP, all shares in the Russell 3000, and those shares in CRSP but not the Russell 3000.

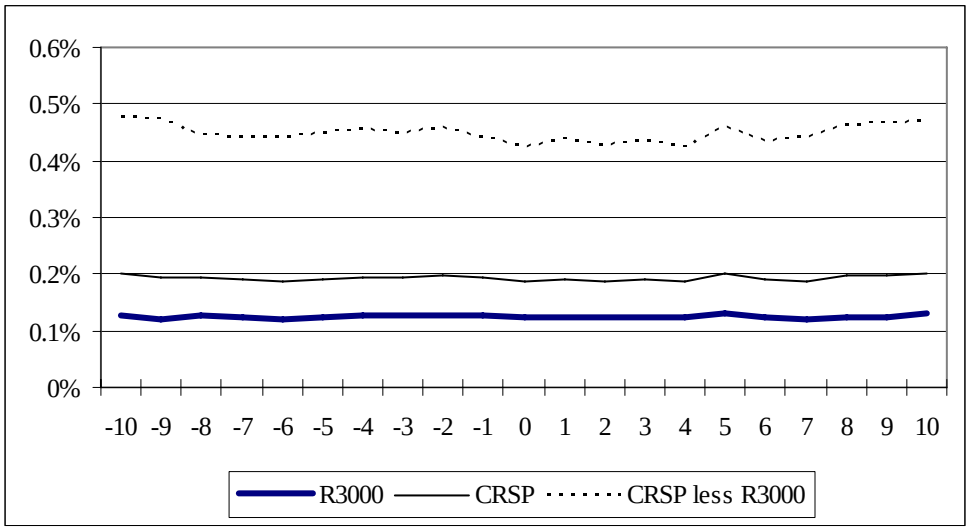

Figure 3. Loan pricing around voting record date. Loan date (where record date is 0) is on the horizontal axis, and specialness of loans by our data provider is on the vertical axis (in annualized %). The average for a given date is across those stocks with loans outstanding on that date. The sample is all 6,764 record dates of CRSP stocks from 11/16/98 to 10/15/99 where specialness is observed. The sample is broken into all shares in CRSP, all shares in the Russell 3000, and those shares in CRSP but not the Russell 3000.

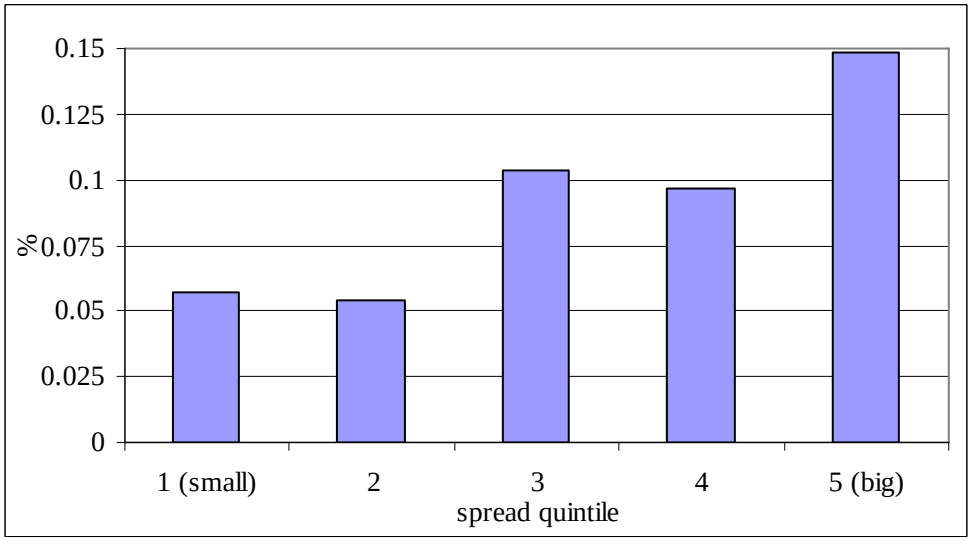

Figure 4. Excess record-date lending, sorted by trading spread. Record dates are sorted by percentage closing spread in October 1998. Spread quintiles are on the horizontal axis and the average excess-record date lending for the quintile is on the horizontal axis.

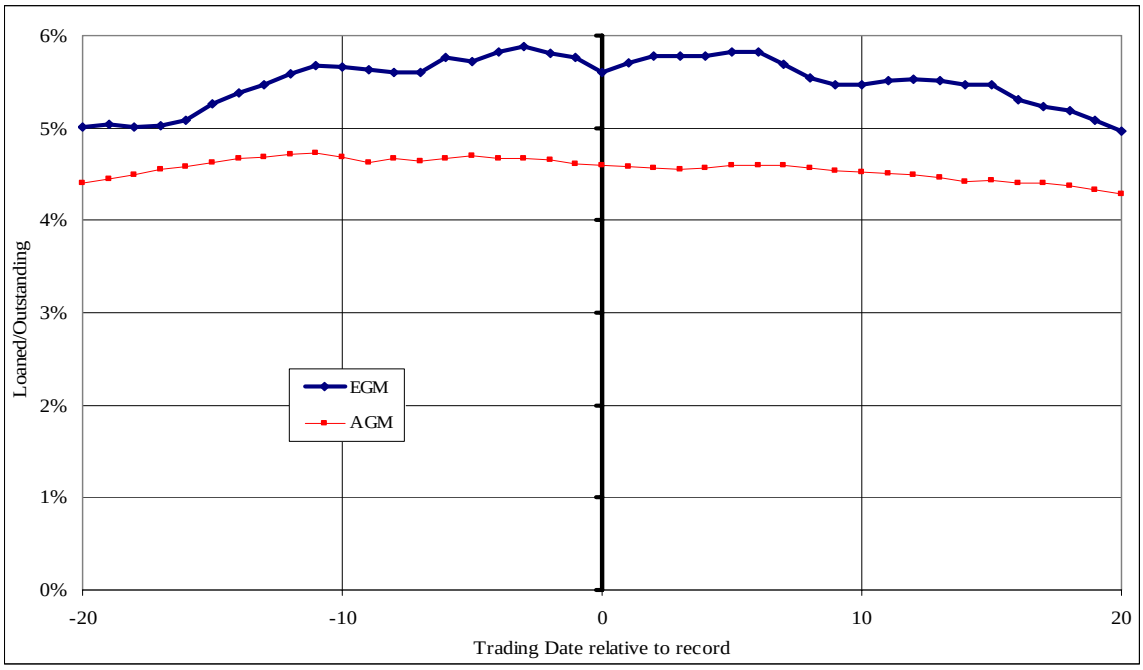

Figure 5. Record-date lending in the U.K. Loan date (where record date is 0) is on the horizontal axis, and loaned shares divided by total shares, as reported by the U.K. clearing firm CRESTCO, is on the vertical axis. The sample is all 673 annual general meetings (represented by the line AGM) and 149 extraordinary general meetings (EGM) from October 1, 2003 to December 31, 2005

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