

KEY TAKEAWAYS

- **Proposals are a free market tool** for shareholders to express concerns and suggestions to companies. There is nothing more natural than for a company to **listen to its owners**.
 - Proposals provide a process for companies and investors to **address financial issues themselves**, thereby reducing the need for government regulation.
 - While proposals are typically **nonbinding**, they have led to the **broad adoption of governance best practices** and risk mitigation policies essential for **long-term value creation**.
 - There is a **long-standing, stringent screening process**—overseen by the SEC—by which companies can omit **irrelevant proposals**.
 - Managers don't own public companies, **shareholders do**. Legislation intended to harm this valuable process **threatens shareholders' freedom** to engage with the companies they own.
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What are shareholder proposals?

- A shareholder proposal **allows investors to raise concerns** with companies on important, **financially relevant** issues. It is a 500-word request that can be voted on as part of a company's proxy materials. These are background documents distributed ahead of annual shareholder meetings to help investors make informed voting decisions.
- The practice of filing proposals has a long history, gaining prominence in 1942 with the introduction of a version of SEC Rule 14a-8, which investors and companies rely on to ensure a **fair and balanced** process.
- Proposals are almost always **non-binding**, even when they receive a majority supporting vote, meaning companies are not legally required to act on them.

Do proposals always go to a vote?

- Not always. Before being brought to a vote, many proposals get withdrawn after **constructive dialogue** between filers and companies **leads to an agreement**.
- For proposals that are included on a company's proxy statement, investors can vote at the company's annual general meeting to send a clear signal about their support for a particular recommendation.

Can companies exclude proposals from proxy statements?

- When requested by a company, proposals undergo the SEC's "no-action" review process to determine if proposals meet **strict exclusion criteria** such as relevance to the company's business, avoiding personal grievances, and addressing issues that transcend ordinary business operations. Through this process, the SEC determines whether there are grounds for companies to exclude proposals from their proxy materials.

Why are proposals important?

- Proposals are vital for mitigating financial risks and seizing business opportunities while fostering **transparent, competitive capital markets**.
- Proposals **protect against the risk of mismanagement** by promoting accountability for egregious management conduct and self-serving strategies that prioritize short-term profit.

- Mainstream investors, such as members of the Council of Institutional Investors, support the shareholder process as a **reliable tool for effective financial stewardship**.
- **Companies benefit** from proposals by **boosting their understanding** of the issues their owners prioritize, encouraging them to **improve corporate governance** and adopt strategies that **enhance long-term value**.
- Investors have a **legal right** to file and vote on proposals to express their aggregate voices to the companies they own. Legislation that harms the current process by **restricting their freedom** would increase the need for government market regulation.

What are some examples of the beneficial impacts of proposals?

Proposals drive corporate accountability by addressing critical financial risks, including cybersecurity, logistics safety in aviation and rail, and financial vulnerabilities in mortgage practices, often highlighting systemic issues before they escalate.

Enhanced governance standards.

Proposals have played a pivotal role in shaping corporate governance standards, driving the adoption of best practices like independent board committees, risk committees for banking boards, say-on-executive pay, and independent board chairs. These practices, now widely adopted, emerged to address issues like board composition and executive accountability.

Protecting Children Online.

Proposals have driven meaningful action to address child safety online, prompting social media companies to remove harmful content and implement stronger protections. These efforts fostered industry collaboration and informed solutions developed with the Senate Judiciary Committee. The proposals ignited efforts to protect children while addressing significant business risks related to sexually exploitive practices.

What are some common misconceptions about shareholder proposals?

Misconception	Clarification
Proposals are costly and burdensome.	The controversial figures often cited by opponents of shareholder rights are subjective and represent an upper boundary of possible expenditures, not the average. And most companies receive few or no proposals—on average, a Russell 3000 company gets one every 7.7 years.
The SEC is ‘weaponizing’ shareholder proposals for progressive purposes.	While the SEC has made it harder to exclude certain types of proposals, it often supports companies when they file no-action challenges. In 2023-2024, the SEC allowed companies to exclude 68% of proposals they challenged, consistent with the 69.6% average under the Trump SEC.
The SEC shouldn’t be involved in the proposal exclusion process.	The SEC ensures shareholder democracy remains intact, preventing companies from excluding too many proposals. Without this oversight, proposals would likely face state-based litigation, causing delays and additional costs.
Proxy advisory firms have too much influence.	Proxy advisors provide recommendations, not decisions. Institutional investors use them for independent analysis, but ultimately, it is their fiduciary duty to vote in the financial best interest of their clients.