The Regulation of Shareholder Democracy*

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This paper studies how shareholder democracy regulations affect firm value and corporate decisions. We examine how investors and firms responded to an unexpected 2021 change in the SEC's proxy guidelines that allowed more climate-related shareholder proposals. Firms with high carbon emissions experienced negative abnormal returns upon the announcement of the new guidelines. However, we find no evidence that high-emitting firms reduced actual or pledged carbon emissions or increased investment. We do find that high-emitting companies increased their engagement with proponents and stakeholders, suggesting that the new guidance diverted managerial attention toward non-operational activities. These findings question whether changes in SEC regulations of shareholder democracy enhance firm value and protect the welfare of investors.

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1. Introduction

Shareholder democracy in the United States operates within a regulatory framework designed and enforced by the Securities and Exchange Commission (SEC). In recent years, the SEC's rulemaking has been criticized being politically motivated rather than following the Commission's statutory charge to facilitate capital formation, protect investors, and maintain efficient markets. A substantial body of scholarship has examined how shareholder democracy affects corporate outcomes such as firm value and managerial practices, yet much less research has been devoted to the regulatory scaffolding itself. We know relatively little about whether the rules structuring shareholder voting and shareholder proposals achieve their intended purposes of enhancing corporate value and protecting investors.

To speak to these questions, this paper studies the effects of a controversial 2021 SEC decision regarding shareholder proposals that made it significantly easier for investors to bring environmental proposals to a vote of shareholders. We estimate the effect of the new rules on the value of impacted firms, their carbon emissions, and managerial behavior.

Shareholder proposals are regulated through SEC Rule 14a-8, which sets conditions under which a company must include or may exclude a shareholder's proposal in its proxy statement, which in effect determines whether or not it comes to a vote. One of the most important conditions, 14a-8(i)(7), allows companies to exclude proposals if they concern "ordinary business" matters. According to the SEC, the purpose of the ordinary business rule is to prevent shareholder activists from meddling in corporate matters that are better handled by the corporation's managers. However, in part because of the broadness of the rule, it also has the potential to allow conflicted managers to shut down potentially meritorious proposals by claiming that they concern ordinary business matters.

On November 3, 2021, without going through its normal consultation process, the SEC issued Staff Legal Bulletin (SLB) 14L that rescinded previous SLBs 14I, 14J, and 14K. The announcement was unexpected and the complete rescission of an SLB – let alone three at once – was unprecedented. The new SLB announced a change in the Commission's enforcement of the "ordinary business" exclusion so that it no longer applied to certain policy issues of significant social importance, especially environmental issues. The effect was to allow shareholders much more scope to bring climate-related issues to a vote of

shareholders than had been possible before. Commentators described the SEC's revised stance as a "regime shift," reshaping the balance of power between shareholders and management (Anagnosti et al. 2021; RBC GAM Responsible Investment Team 2024; Whorisky 2021).

Our main finding is that SLB 14L imposed significant economic costs on firms likely to receive climate-related shareholder proposals. Firms with the greatest greenhouse-gas emissions experienced statistically significant cumulative abnormal returns of -1.6 percent over standard event windows following the announcement of SLB 14L. Firms with low or zero emissions experienced approximately zero abnormal returns on the announcement day. Overall, the SEC's new rule wiped out approximately $26 billion of value in the oil and energy industries. We are able to rule out that this finding was caused by concurrent events at those firms, such as earnings announcements and stock buybacks. Along the same lines, we also find that firms with a history of receiving SRI or climate-related proposals, or those in the oil and gas sector, experienced significantly lower abnormal returns than other firms.

Although SLB 14L was associated with a substantial loss of shareholder wealth, it is conceivable that some investors may have been better off because the guidance allowed them to force issuers to reduce their carbon emissions, which these investors valued more than the lost value of their stock. Shareholder empowerment could, in principle, raise welfare while at the same time lowering wealth, in the terminology of Hart and Zingales (2017). Is this a plausible explanation? To test it, we examine if the negative abnormal returns can be explained by subsequent emission reductions. Contrary to this interpretation, we find no evidence that high-emission firms cut or pledged to cut their emissions after SLB 14L, nor did they increase their investment in cleaner technologies. These findings suggest that the shareholder proposals enabled by SLB 14L were ineffective in bringing about emissions reductions.

Why then did the market react negatively to SLB 14L? One hypothesis is that the new guidance was costly for firms because of the necessity of managing a larger number of shareholder proposals. Companies frequently complain that frivolous proposals distract top management by forcing it to negotiate with proponents and engage with other shareholders and stakeholders to explain why management believes a proposal is not in the company's interest. The Business Roundtable (2025, p. 17) wrote that "[t]he shareholder

proposal system imposes a significant and unnecessary burden on companies, diverting resources from core business operations and long-term value creation. Each year, companies spend millions navigating a complex and often duplicative process to address shareholder proposals."

To assess the distraction hypothesis, we search each firm's proxy statement for text indicating that management discussed engagement with proposal sponsors or stakeholders. We find that engagement was mentioned much more often after the new guidelines were issued, and in a difference-in-differences framework, high-emission firms increased their shareholder engagement efforts more than low or zero-emission firms. This is consistent with the idea that responding to low-quality proposals dissipates management time and may explain part of the negative price reaction to SLB 14L. It is also aligned with other evidence on dissipative costs in Matsusaka et al. (2021).

Our study contributes to the literature on the effects of shareholder proposals. Most existing research examines the consequences of actual proposals (Karpoff et al. 2017; Matsusaka et al. 2021). Matsusaka and Ozbas (2017), however, show theoretically that shareholder proposals may also have an indirect effect by providing activists with a threat, an effect that cannot be detected from studying proposals themselves. Measuring this broader effect – the effect of the *existence* of the process – is challenging because there is little variation in the process across time and firms. By exploiting an unanticipated change to the process itself, our study provides perhaps the first estimates of the combined direct and indirect effects of shareholder proposals.

Khoo and Tallarita (2024) study the effect of SLB 14L on the number and nature of shareholder proposals. They find that it led to an increase in environmental proposals, and the incremental proposals were more "prescriptive" in nature. They argue that investors disliked these new prescriptive proposals, and that is why voting support for environmental proposals dropped considerably after the new guidance was issued.

Our study also relates to research on the value consequences of laws and regulations, particularly those issued by the SEC.[1] Previous research has focused on major

[1] For example, Binder (1985) studies 20 major regulatory laws; Duchin et al. (2010) study Sarbanes-Oxley; and Larcker et al. (2011) study laws and rules on executive compensation and proxy access.

statues enacted by Congress, such as the Sarbanes-Oxley and Dodd-Frank Acts, and formal regulations adopted through the time-consuming procedures required by the Administrative Procedure Act (APA). Over time, agencies have increasingly turned to guidelines and advisory letters that do not have the force of law – for example, SLB 14L explicitly states that it "has no legal force or effect." Informal advisories of this nature allow an agency to act quickly but are controversial because they bypass APA requirements such as conducting a benefit-cost analysis (Parrillo 2019). To our knowledge, our study provides the first evidence that such non-binding administrative guidance can nonetheless have a significant effect on market participants – in this case, a harmful one.

In recent years, discussions around sustainability and climate change have prompted an intense debate about the potential of shareholder democracy to drive environmental policy. Supporters argue that, in a time of political polarization and geopolitical gridlock, shareholder proposals can provide a channel for investors to influence corporate climate policies. Critics, in contrast, argue that the proposal process is vulnerable to abuse by special interest groups pursuing narrow and politically charged agendas. Special interest proposals, they argue, can divert management attention from core business responsibilities, and uncertainty surrounding corporate elections may lead managers to preemptively accommodate activist demands at the expense of broader shareholder interests.[2]

Finally, our paper contributes to the wider debate over the use of market-based mechanisms for addressing climate change. Scholars and policymakers have proposed and studied a variety of approaches, including: tying executive compensation to sustainability metrics (Bebchuk and Tallarita 2022; Michaely et al. 2025); imposing personal liability on executives and directors for ESG failures (Bucourt 2025); shareholder-backed lawsuits such as the recent action against Shell for an inadequate climate strategy; divestment of carbon assets or acquisition of polluting firms in order to influence managerial decisions (Kahn et al. 2024). The evidence on these mechanisms is mixed, with no approach yet demonstrating consistent effectiveness. Our findings add to this literature by suggesting that expanding

[2] For the pro-governance view, see Thomadakis (2024). Matsusaka et al. (2019) discuss the special-interest view and offer some evidence.

shareholder proposals on environmental matters may have limited impact on emissions and could even reduce firm value.

2. Institutional and Legal Background

Shareholder democracy, as studied in this paper, encompasses processes by which shareholders propose and vote on corporate policies and directors. In the United States, state laws and corporate charters give shareholders the right to bring proposals before other shareholders for a vote at companies' annual meetings. Proposals, with a few exceptions, must be precatory, meaning not binding on management; nevertheless, managers typically appear to follow the recommendation of successful proposals (Ertimur et al. 2010). As part of the proposal process, before each meeting, companies send each shareholder a proxy statement that describes the items that will be put to a vote and contains arguments from the sponsors and recommendations from management. The Securities Exchange Act of 1934 (Section 14(a)) charged the SEC to regulate proxy statements "in the public interest and for the protection of investors."[3]

The SEC's proxy regulations are codified in Rule 14a-8. This multi-part rule affirms that companies are required to include shareholder proposals in their proxy statements (subject to certain procedural requirements, such as minimum share ownership by the sponsor), but also provides a list of grounds for exclusion of a proposal. Since 1976, the Commission has administered the rule through what is called the "no-action letter" process. If, upon receiving a letter from a shareholder proposing a vote on an item, a company believes that the proposal is excludable under one or more of the grounds in Rule 14a-8, the company can petition the SEC to concur with its view that the proposal is excludable.[4] If the SEC staff agrees with the company, it issues a "no-action" letter stating that it will not recommend an enforcement action if the company omits the proposal from its proxy

[3] For a discussion of legal aspects, see Fisch (1993) and Bainbridge (2012). For a discussion of the no-action letter process, see Matsusaka et al. (2021).

[4] A company may contest the SEC's interpretation in court. A recent example was ExxonMobil's lawsuit against Arjuna Capital in 2024 (*Exxon Mobil Corporation v. Arjuna Capital, LLC, et al.*, U.S. District Court for the Northern District of Texas, June 17, 2024).

statement. Although no-action letters are only advisory, when the SEC staff grants a no-action letter, the company usually excludes the proposal; and when the staff declines to issue a no-action letter, the company usually includes the proposal in the proxy statement.

For our purposes, the key basis for exclusion is 14a-8(i)(7), which prohibits proposals related to a company's "ordinary business operations." This exclusion was adopted in 1954 to reserve ordinary business decisions to management and the board of directors and prevent shareholders from micromanaging "matters of a complex nature upon which shareholders, as a group, would not be in a position to make an informed judgement."[5] The rule was modified in the 1970s to permit shareholder proposals that raise social policy issues that are "sufficiently significant because they transcend ordinary business." Because the terms "ordinary business" and "sufficiently significant" are subjective, enforcement of the rule has varied over time with changes in the Commission's leadership or political climate (Brown 2012). The ordinary business exception has been particularly important for climate issues as companies often claim that such proposals impinge on ordinary business decisions and therefore can be excluded.

To help companies and investors understand the SEC's interpretation of 14a-8, the Commission's staff occasionally issues Staff Legal Bulletins (SLBs) that define terms, clarify ambiguities, or advance new interpretations. SLBs, by the Commission's own statement, "have no legal force or effect" but nevertheless are closely monitored by activists and lawyers. Supplementary Appendix A lists the SLBs related to 14a-8, summarizing the key content, and characterizes whether they favored shareholders or management. SLBs 14A, 14E, and 14H are examples where the staff took a more pro-shareholder approach (e.g., restricting the scope of ordinary business or disallowing exclusion based on "objectionable language"), whereas 14C, 14I, 14J, and 14K are examples where the staff gave companies more room to exclude proposals on ordinary-business grounds.

Our focus is on SLB 14L, issued November 3, 2021. Three previous bulletins (14I, 14J, 14K), issued between 2017 and 2019 while the SEC was under Republican control, had expanded the ordinary business exception, allowing companies to exclude a wider range of

[5] Exchange Act Release No. 12999 (November 22, 1976.) Rule 14a-8(i)(7) was the most common basis for exclusion, mentioned in 29 percent of no-action letters, during 2007-2019 (Matsusaka et al. 2021).

proposals on grounds of micromanaging or failing to address a significant policy issue. SLB 14L, issued while the Commission was under Democratic control, rescinded the three previous bulletins, and stated a new, restricted meaning of micromanagement that made it harder to omit proposals. Although not explicitly targeted at climate issues, SLB 14L also highlighted a recent staff decision declining to grant a no-action letter on a climate-related proposal (*ConocoPhillips Company,* March 19, 2021), and described how such proposals could be formulated to satisfy the ordinary business rule.[6] It was widely believed that SLB 14L had opened the door for greenhouse gas and other climate-related proposals that had previously been excludable (Anagnosti et al. 2021; Whoriskey 2021).[7] As we will show, this was in fact the case.[8]

Because SLBs are not regulatory rules but advisories, they do not go through the notice-and-comment procedure required by the Administrative Procedure Act. Nevertheless, they are usually previewed and discussed in a stakeholders meeting involving investors and companies, where the Commission staff can receive feedback. In the case of SLB 14L, however, the SEC did not hold a stakeholders meeting and did not preview the bulletin (Gibson Dunn 2021). As a result, the issuance of the bulletin was a surprise and thus new information to the market.[9]

3. Data

We provide several types of evidence: the stock price reaction associated with issuance of SLB 14L, the effect of SLB 14L on shareholder proposal activity, and the effect of SLB 14L on carbon emissions, capital expenditures and carbon reduction pledges.

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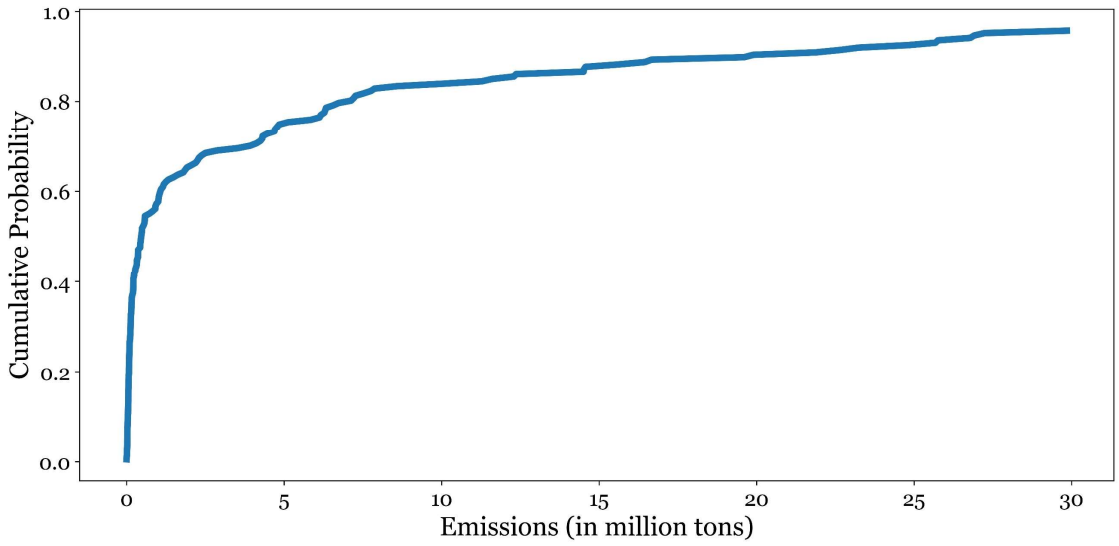
[6] SLB 14L also allowed social proposals that previously would have been excludable under 14a-i(5) because they related to operations which account for less than 5 percent of the company's assets, sales, or earnings.

[7] Anagnosti et al. (2021) called it a "major shift in the SEC's approach . . . to environmental and social matters."

[8] SEC Commissioner Mark Uyeda noted that in the year before SLB 14L, the staff granted no-action letters for ordinary business claims 40 percent of the time and declined 25 percent of the time; in the year after SLB 14L, staff granted no-action letters 23 percent of the time and declined 54 percent of the time (Uyeda 2023).

[9] In contrast, the SEC's rescission of SLB 14L in 2025 after Republicans assumed control was widely anticipated by corporate governance experts.

Figure 1. Cumulative Distribution of Firm Carbon Emissions



Data on greenhouse gas emissions come from the Environmental Protection Agency's (EPA) Greenhouse Gas Reporting Program (GHGRP). The GHGRP reports Scope 1 emissions for every facility in the United States emitting at least 25,000 metric tons of carbon dioxide annually. We aggregated emissions to the company level by identifying the parent company for facilities where the parent owned more than 50 percent of the facility. The distribution of emissions by company is highly skewed, with most emissions close to zero and a few large emitters (Figure 1). For some figures and tables, we divide emitting firms into three equal sized groups: high, moderate, and low emitters.

Emissions of other toxic chemicals are provided by EPA's Toxics Release Inventory dataset, which contains emissions of over 600 toxic chemicals. We aggregate facility-level toxic emissions to the company level by identifying each facility's parent company using the linking table provided by Duchin et al. (forthcoming).

Cumulative abnormal returns (CARs) were calculated using the Fama-French four-factor model, with coefficients estimated over 100 trading days, a gap of 50 days before the event, and a minimum of 70 trading days required for the estimation period. CARs were winsorized at the 1 and 99 percent level. Data on concurrent events – earnings announcements, stock buybacks, executive changes, and "other" – came from Capital IQ's Key Developments dataset.

Data on proposals and no-action letters come from two sources: FactSet and ISS Voting Analytics. FactSet provides comprehensive data on voting outcomes and no-action letter requests, along with broad proposal topic classifications. While FactSet identifies proposal topics, its classifications are often general; therefore, we also use ISS Voting Analytics to obtain more detailed information on proposal content.

Data on corporate pledges to reduce emissions are from London Stock Exchange Group. The data are gathered from publicly available company documents, such as sustainability reports and annual filings. Pledges typically specify a target year for a percentage reduction in emissions; we define the pledge horizon as the difference between the target year and the observation year. The data contain over 3,000 pledges that on average commit to reducing emissions by 43 percent over a seven-year horizon.

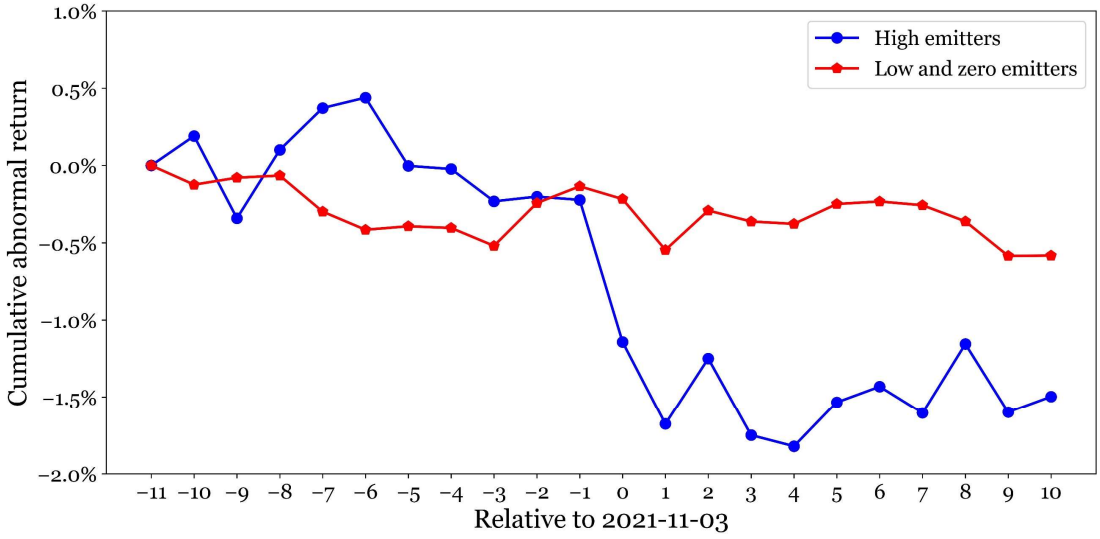
Financial information for companies – assets, capital investment, and earnings – are from Compustat. Supplementary Appendix B reports summary statistics.

4. Stock Price Reaction Associated with SLB 14L

We begin by analyzing the market's response to the release of SLB 14L on November 3, 2021. As mentioned above, SLB 14L was not previewed for investors, making it unexpected; the market response reveals the expected value consequences of the new regulatory regime. Because SLB 14L required companies to allow shareholder votes on climate-related proposals, we are particularly interested in the response of companies that were likely to receive such proposals in the future. A simple measure for identifying impacted companies is their level of greenhouse gas emissions. We distinguish between "high emitters," firms in the top one-third of greenhouse gas emitters, and "low emitters and zero emitters," firms outside the top one-third of emitters and firms with no reported emissions. There were 62 "high emitters" and 1,083 "low emitters and zero emitters" by this definition. High emitters accounted for approximately 95 percent of all Scope 1 carbon emissions among publicly traded firms in our sample in 2020.

Figure 2 shows the daily CARs from 10 days before to 10 days after the release of SLB 14L. A sudden decline in the stock price of about 1.5 percent among the high emitters

Figure 2. Daily CARs around the Release of SLB 14L



in the days around the release of SLB 14L is apparent. There is little to no change in the price of low emitters.

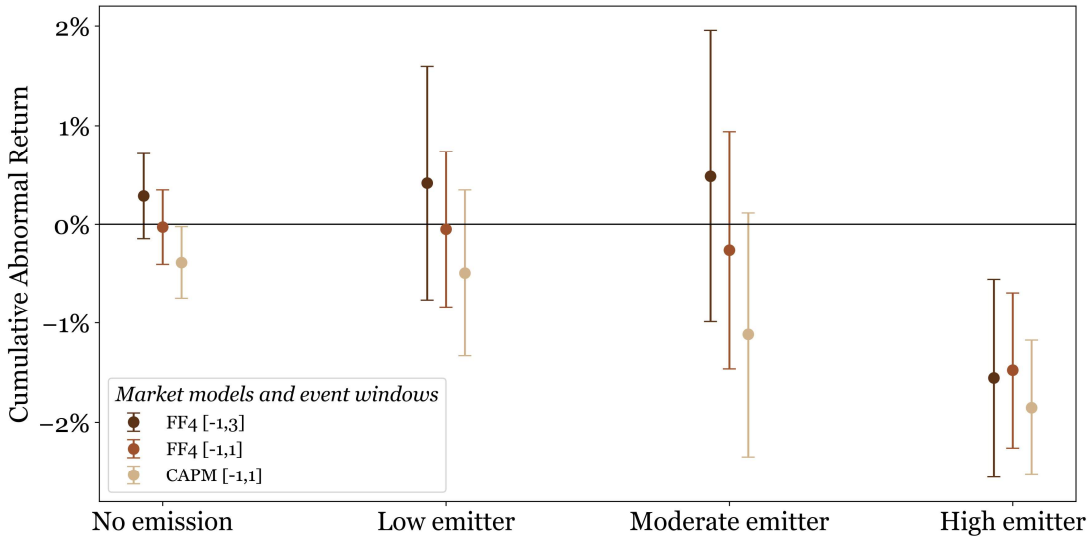
Figure 3 explores the robustness of this relation, reporting CARs over different event windows and dividing firms into four classes of emitters. The negative market reaction was confined to the very highest emitting firms, and the basic finding is robust to different windows. The price decline for high emitters ranged from −1.5 to −1.9 percent, depending on specifications, with all estimates statistically significant at the 5 percent level.

To control for other factors that might explain the returns, Table 1 reports OLS regressions in which the dependent variable is the CAR [−1,3], with controls for firm assets, capital expenditure, and profit, and dummy variables for four concurrent events (earnings announcements, stock buybacks, executive change, and other). In column (1), the key explanatory variable is a dummy = 1 for a firm with emissions in the top one-third. Top emitters experienced a 1.77 percent decrease in value compared to other firms during the event window.

In column (2), the dummy for top emitters is interacted with a dummy for firms that received an environmental proposal prior to 2021.[10] If the past is a guide to the present,

[10] We use ISS data to classify proposals as climate-related if their resolution contained any of the following words: “GHG,” “2 Degree,” “Methane,” “Emission,” “Climate,” “Greenhouse,” “Renewable Energy,” “Global

Figure 3. CARs for Different Emission Levels and Windows



firms that received environmental proposals in the past would be more at risk of receiving proposals in the future. High-emitting firms with a history of receiving environmental proposals should then have suffered a particularly large fall in price. This is indeed what we find: the decline in value was concentrated among these firms, reaching a staggering 4.36 percent compared to non-emitting firms that had not received a proposal previously.

In columns (3)-(5), the key explanatory variable is the level of emissions, in logarithms, restricted to firms with nonzero emissions. Column (3) includes all emitting firms, column (4) includes only emitting firms that received an environmental proposal before 2021, and column (5) includes only oil companies (SIC codes 1311, 2911, 4922, 4911, 4932). The estimates for firms with a history of environmental proposals are larger than those for other firms, consistent with the hypothesis that these firms were at greater risk of future proposals. The estimates for oil firms are also larger than other firms, consistent with the idea that high emitters in the oil industry were particularly vulnerable to activist pressure after SLB 14L.

Our evidence suggests that the SEC's new guidance substantially reduced the value of companies with high levels of greenhouse gas emissions. As a back-of-the-envelope

Warming," "Paris," "Carbon," "Net Zero," "2050," or "Fossil." We merge emissions data with shareholder proposal data using a fuzzy name-matching algorithm and manually delete false-positive matches.

Table 1. Regressions of SLB 14L CAR $[-1,3]$ on Emissions

Each column is a regression is which the unit of observation is a company. The dependent variable is the CAR $[-1,3]$ associated with the release of SLB 14L. All regressions include log of assets, capital expenditures, ROA, and indicator variables for concurrent events. Robust standard errors are reported in parentheses. Significance levels: * = 10 percent, ** = 5 percent, and *** = 1 percent.

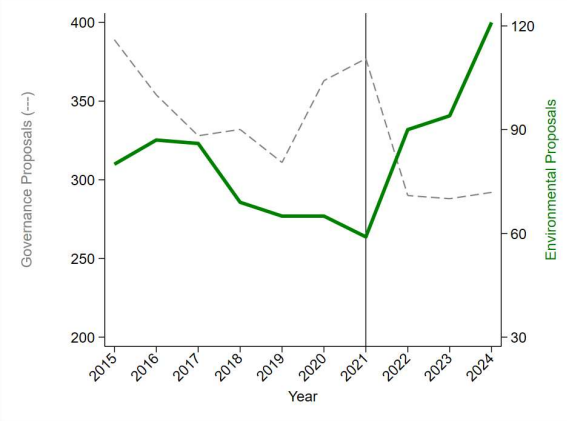
	(1)	(2)	(3)	(4)	(5)
Dummy = 1 if high emitter	-1.77**	1.31	…	…	…
	(0.74)	(1.46)			
Dummy = 1 if received environmental proposal	…	0.61	…	…	…
		(0.43)			
Dummy = 1 if high emitter & received environmental proposal	…	-4.36**	…	…	…
		(1.70)			
Emissions (log)	…	…	-1.25***	-1.95***	-1.43**
		.	(0.32)	(0.37)	(0.66)
Sample firms	All	All	Emitters	Emitters with past proposal	Oil companies
R^2	0.01	0.01	0.10	0.31	0.26
Observations	1,049	1,049	184	95	50

estimate, the total dollar loss for high emitters on the announcement date was approximately $26 billion. If the SEC's regulation of shareholder democracy is intended to increase value for shareholders, it badly misfired with SLB 14L.

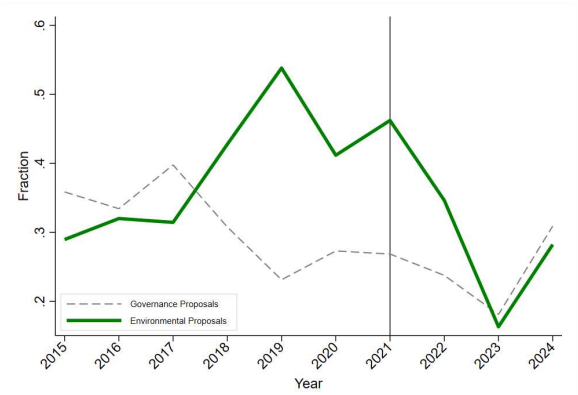
However, it is possible that the SEC was focusing on a different goal with SLB 14L: protecting the rights of investors to direct the use of the corporate assets they own. Some investors are willing to accept lower financial returns if necessary to advance what they perceive as "socially responsible" goals (Riedl and Smeets 2017). For example, they may want the companies they hold to reduce carbon emissions in order to combat climate change or provide other environmental amenities. Under this interpretation, the negative market return associated with SLB 14L was an acceptable price for investors to pay for the benefits of greenhouse gas abatement. For this to be a valid explanation, it must be the case that the firms actually cut their carbon emissions. We provide evidence about this after describing the responses in terms of shareholder proposals and voting.

Figure 4. Shareholder Proposals Activity 2015-2024

A. Number of Proposals



B. Fraction of Proposals with No-Action Letter Request



5. Changes in Shareholder Proposal Activity

It is natural to link the negative CARs to an expectation of more shareholder proposals in the wake of SLB 14L. Here we provide descriptive evidence in support of this expectation.

The environmental proposals in this period often called on firms to take steps or make commitments to reduce their emissions. For example, the proposal that led ExxonMobil to seek judicial relief was:

> Resolved: Shareholders support the Company, by an advisory vote, to go beyond current plans, further accelerating the pace of emission reductions in the medium-term for its greenhouse gas (GHG) emissions across Scope 1, 2, and 3, and to summarize new plans, targets, and timetables. (ExxonMobil vs. Arjuna 2024)

Figure 4 shows the number of environmental proposals (panel A) and the fraction of proposals with no-action letter requests (panel B) in the years surrounding SLB 14L. For comparison purposes, the figures also show the number of governance proposals, which observers believed would be largely unaffected by SLB 14L. Panel A shows that the number of environmental proposals rose sharply after the new rules were issued, with no similar increase in governance proposals (see also Khoo and Tallarita (2024)). Panel B shows that

Table 2. DID Regressions of Number of Environmental Proposals

Each column is a regression in which the unit of observation is a company-year during 2015-2024. The Dependent variable is indicated at the top of each column. $Treat = 1$ if the firm was a high emitter. $Post = 1$ for 2022-2024. All regressions include company and year fixed effects. Standard errors clustered at the firm level are in parentheses. Significance: * = 10 percent; ** = 5 percent; *** = 1 percent.

	# Environmental proposals (1)	Indicator for at least one environmental proposal (2)
$Treat \times Post$	-0.01	0.03
	(0.063)	(0.04)
N	10,139	10,139

while firms were more aggressive in challenging environmental proposals than governance proposals in the years leading up to SLB 14L, challenges become less frequent for environmental proposals afterwards. It seems that companies became more pessimistic about no-action letter challenges, and therefore less inclined to seek relief from the SEC.[11]

Table 2 estimates whether the new SEC guidance led to more climate-related proposals targeted at high emitters. We estimate firm-level difference-in-differences models using two dependent variables: the number of environmental proposals per annual meeting, and an indicator for whether the annual meeting had at least one environmental proposal. $Treat$ is a dummy for high emitters, and $Post$ is the years 2022-2024. High emitters received more environmental proposals before SLB 14L. The interaction term $Treat \times Post$ indicates which firms received the incremental proposals. In the first column the coefficient implies 0.01 fewer proposals per year at high emitters after SLB 14L, an effect that is statistically insignificant. In the second column the coefficient implies a 3-percentage point greater chance of receiving at least one environmental proposal at an annual meeting after SLB 14L, but again the effect is statistically insignificant. Because the point estimates are imprecise, a conservative conclusion would be that incremental proposals flowed to both high and low emitters in roughly equal amounts.

[11] As for the number and fraction of company requests that receive no-action letters from the SEC, there are two effects that work in opposite directions. While shareholders submit more environmental proposals after SLB 14L (Panel A), companies challenge a smaller fraction of them (Panel B). We find modest evidence of a decline in the SEC approval rate for company requests (see figure in Supplementary Appendix C).

Figure 5. Vote Support for Shareholder Proposals

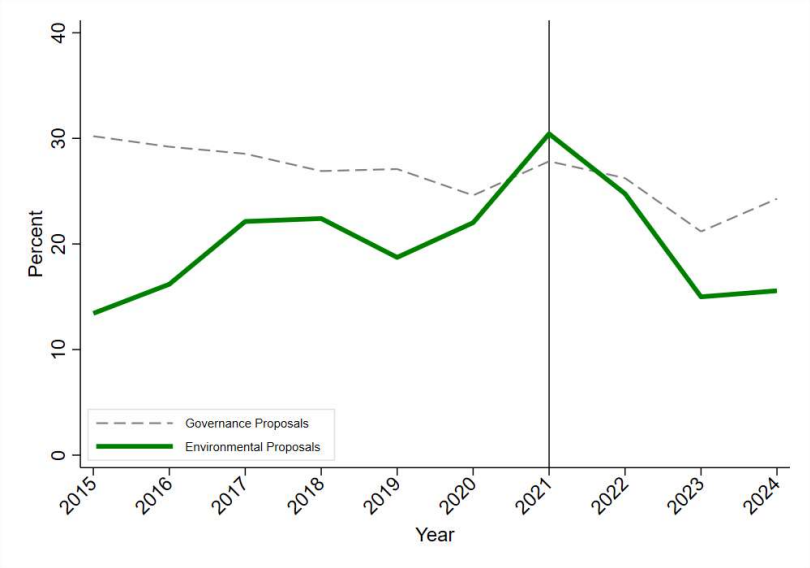


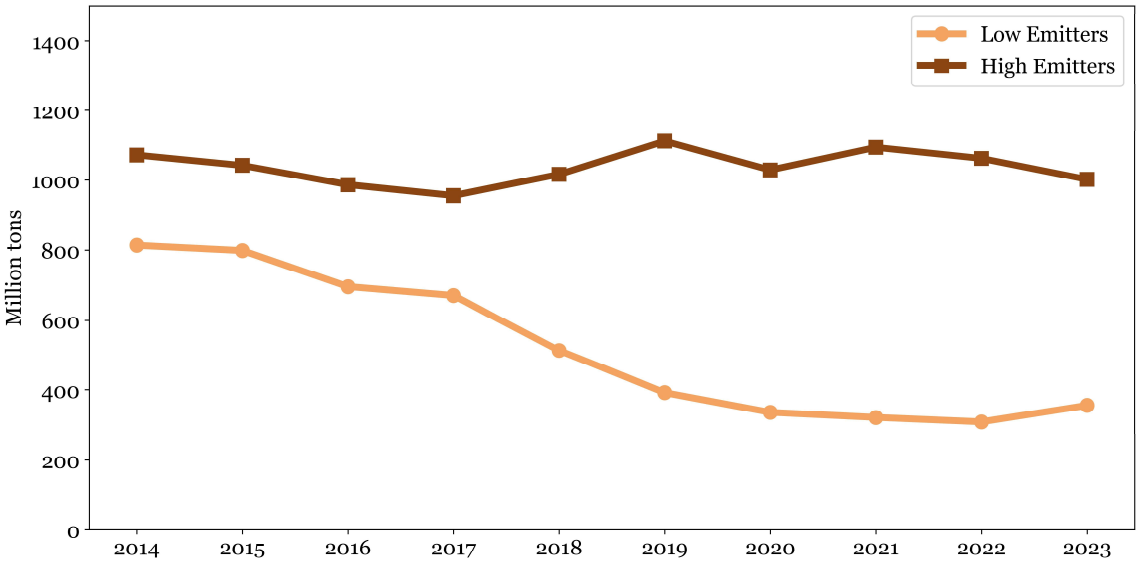
Figure 5 reports the approval rate for environmental proposals over time. It reveals a pronounced decline in average shareholder support for environmental proposals after SLB 14L, after several years of steadily growing support previously. This is consistent with the idea that the new guidelines led to proposals with terms that shareholders found less appealing than proposals in previous years. Khoo and Tallarita (2024) argue that investors disliked the new proposals because they were overly prescriptive.

6. Effect on Greenhouse Gas Emissions

If the new regulatory regime benefited shareholders by allowing them to force cuts in greenhouse gas emissions, we should observe companies reducing or pledging to reduce their carbon emissions after SLB 14L.

Theoretically, the new guidance created two channels through which green investors could have influenced corporate policy: shareholders could approve proposals calling for emissions reductions, and the mere existence of a threat of a proposal could prompt a company to respond in order to deter it. Matsusaka and Ozbas (2017) show that as long as the outcome of a proposal vote is uncertain, it is optimal for managers to offer proponents some accommodation in order to dissuade them from making the proposal in the first place (or convince them to withdraw the proposal, if it has already been submitted.) If

Figure 6. Annual Greenhouse Gas Emissions



shareholder proposals were effective through either channel, we would expect to see reductions in emissions after SLB 14L.

Figure 6 shows total greenhouse gas emissions for high-emitting and low-emitting firms from 2014 to 2023. Overall emissions decreased modestly over this period, but emissions from high emitters were fairly flat, and there was no obvious drop in their emissions after 2021. The figure shows a gradual decline in emissions for low emitters, again with no obvious break point in 2021.

Table 3 provides evidence from firm-level difference-in-differences regressions with company and year fixed effects. These regressions include only firms with nonzero emissions. The dependent variable is emissions in (1) and (2). In (1), the key explanatory variable is a dummy for high-emitters ($Treat$) interacted with a dummy for post-2021 ($Post$). The coefficient implies that high emitters released 1.11 million tons less carbon after the SEC's new guidance, consistent with the idea that allowing more proposals pressured companies to cut emissions, but the coefficient is not statistically different from zero. If we use a rough two-standard-deviation bound around the coefficient to find the most likely "true" effect, column (1) suggests a number ranging from -3.89 to $+1.67$ million tons. The regression in column (2) is the same except that the treated group consists of firms that experienced a negative CAR when SLB 14L was released. This

Table 3. Effect of SLB 14L on Emissions and Capital Expenditures

Each column is a regression in each observation is a company-year during 2015-2023. The dependent variable is indicated at the top of the column. $Treat$ is a dummy variable also indicated at the top of each column. $Post$ is a dummy variable for 2022 and 2023. All regressions include company and year fixed effects. Standard errors clustered at the firm level are in parentheses beneath the coefficients. Significance: * = 10 percent; ** = 5 percent; *** = 1 percent.

	Dependent = Emissions		Dependent = CAPX/ASSETS	
	$Treat =$ High Emitter	$Treat$ = CAR < 0	$Treat =$ High Emitter	$Treat$ = CAR < 0
	(1)	(2)	(3)	(4)
$Treat \times Post$	-1.11	-1.27	-0.003	-0.005
	(1.39)	(0.84)	(0.004)	(0.003)
N	2,437	2,437	2,383	2,383

connects the CARs directly to emission cuts. The coefficient in this regression is also negative – companies with negative CARs decreased their carbon emissions by 1.27 million tons after SLB 14L was released – but again it is statistically insignificant. The two-standard-deviation bound on the coefficient in column (2) is -2.95 to $+0.41$ million tons. Power is an issue here – we are unable to establish a statistically significant link between the market's negative reaction to SLB 14L and subsequent carbon reductions.[12]

Instead of directly cutting emissions, companies might respond to activist pressure by increasing investment in green technologies. To test for this, columns (3) and (4) of Table 3 report regressions in which the dependent variable is capital expenditure as a fraction of assets. A similar non-result appears – we do not detect a disproportionate change in investment among high emitters, or among companies that had negative CARs.

One issue in searching for effects of SLB 14L is that it could take companies a while to react to shareholder pressure. This is a valid concern, but Kahn et al. (2025) show that firms can and do make adjustments in response to external pressure in as little as a year. For example, a power company can reduce its emissions simply by shifting electricity production from its relatively dirty facilities to relatively clean ones.[13]

[12] We also find insignificant coefficients when emissions are specified in logs and as a fraction of assets.

[13] Kahn et al. (2024) study pressure from green shareholders, finding that polluting firms cut emissions in response to an increase in the fraction of shareholders with green preferences. It is also conceivable that when emitters are pressured, they sell their dirty assets to other companies that are not under pressure

Table 4. Effect of SLB 14L on Carbon Reduction Pledges

Each column is a regression in which the unit of observation is a company-year during 2015-2024. The dependent variable is pledged carbon reduction as a percentage. $Treat$ is a dummy variable indicated in the panel title. $Post$ is a dummy variable for 2022-2024. Pledge horizon is the pledge target year minus the observation year. All regressions include company and year fixed effects. Column (2) also includes fixed effects for each pledge horizon value. Standard errors clustered at the firm level are in parentheses beneath the coefficients. Significance: * = 10 percent; ** = 5 percent; *** = 1 percent.

Panel A. $Treat = High\ Emitter$

	(1)	(2)	(3)
$Treat \times Post$	-5.80*	-1.90	-1.55
	(3.25)	(2.77)	(2.78)
Pledge horizon	…	…	2.11***
			(0.15)
N	2,962	2,962	2,962

Panel B. $Treat = CAR < 0$

	(1)	(2)	(3)
$Treat \times Post$	1.93	2.47	2.60
	(1.99)	(1.79)	(1.78)
Pledge horizon	…	…	2.12***
			(0.15)
N	2,962	2,962	2,962

Even if it takes time for a company to adjust its production methods, it can state its intention to cut emissions almost immediately. We next investigate if targeted companies were more likely to pledge emissions cuts after SBL 14L was issued. These data, collected from various company documents, record stated pledges to reduce emissions by a target date. Each target specifies a percentage reduction relative to a baseline year, defined as the year the commitment is announced. For example, if a company pledged in 2019 to cut emissions by 30% by 2025, it was committing to a 30% reduction from its 2019 levels. These data are not perfect – pledges are voluntary disclosures, not all firms report them, and stated goals may reflect intentions rather than binding commitments.[14]

Table 4 presents difference-in-differences regressions analogous to those previously reported. In Panel A, column (1) shows that, on average, high emitters pledged reductions

("greenwashing"), which would produce an average effect of zero, but we found too few within-group asset sales to support this explanation.

[14] In a global sample, Bolton and Kacperczyk (forthcoming) show that pledging firms do in fact reduce their emissions in the short run but less so in the longer run.

5.80 percentage points lower than the control group after SLB 14L, statistically significant at the 10 percent level. This suggests that high emitters were associated with less ambitious carbon reduction pledges after SLB 14L. Column (2) adds fixed effects for each pledge horizon, and column (3) includes pledge horizon as a control variable (because pledge horizon is significantly associated with more aggressive pledges). Across these specifications, the coefficients on the $Treat \times Post$ interaction remain negative, indicating weaker pledges by treated high emitters, with the magnitude declining from -5.80 to -1.90 and -1.55, and losing statistical significance.

In Panel B, the treated group is firms that experienced a negative CAR when SLB 14L was released. We observe small increases in pledged reductions, but none of the coefficients are statistically significant. Overall, these results do not support the hypothesis that treated firms strengthened their carbon reduction pledges, consistent with the absence of significant evidence for actual emissions reductions or green investments in Table 3.

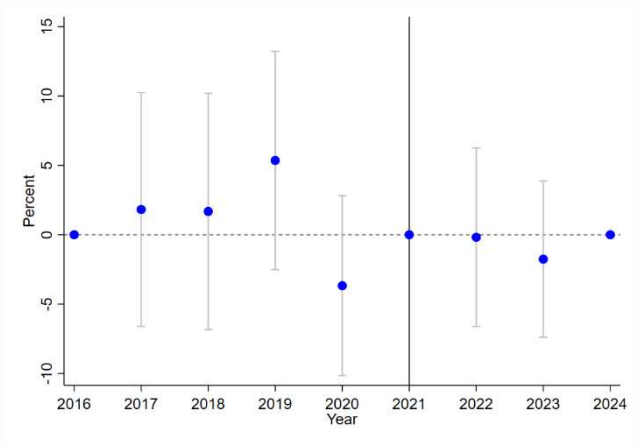
To examine the timing of any potential effects, we investigate the year-by-year impact of SLB 14L on corporate carbon pledges. Figure 7 plots the year-by-year coefficients from a regression of pledged reduction percentage on the interaction between our two treatment definitions and year indicators, with 2021 serving as the reference year. The treatment in Panel A is high emitters, and in Panel B is firms that experienced a negative CAR when SLB 14L was announced. In the post-treatment period (2022–2024), the coefficients in both panels are statistically insignificant and hover near zero. Furthermore, the plots reveal no significant pre-existing trends in pledging differences. Overall, the figure reinforces our main finding: the regulatory shift did not lead to a detectable change in the ambition of corporate carbon pledges for the firms most likely to be affected.

Environmental proposals may target chemical emissions other than those contributing to greenhouse gases. A proposal may ask a company to address damages caused by its toxic waste or establish plans to limit chemical emissions.[15] Based on proposal

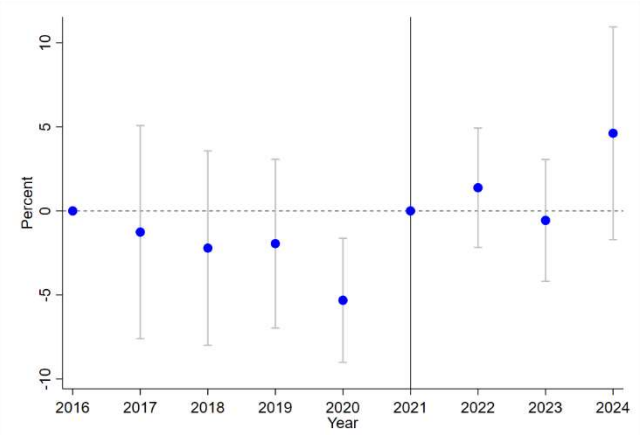
[15] For example, in Tesla's 2021 proxy statement, a proposal sponsor urged the company "not to source from Norilsk Nickel until it remediates devastating environmental, cultural, and economic harms from a major oil spill that impacted the traditional territory and livelihoods of Indigenous Peoples."

Figure 7. Pledges and Announcement of SLB 14L

A. $Treat = 1$ if high emitters

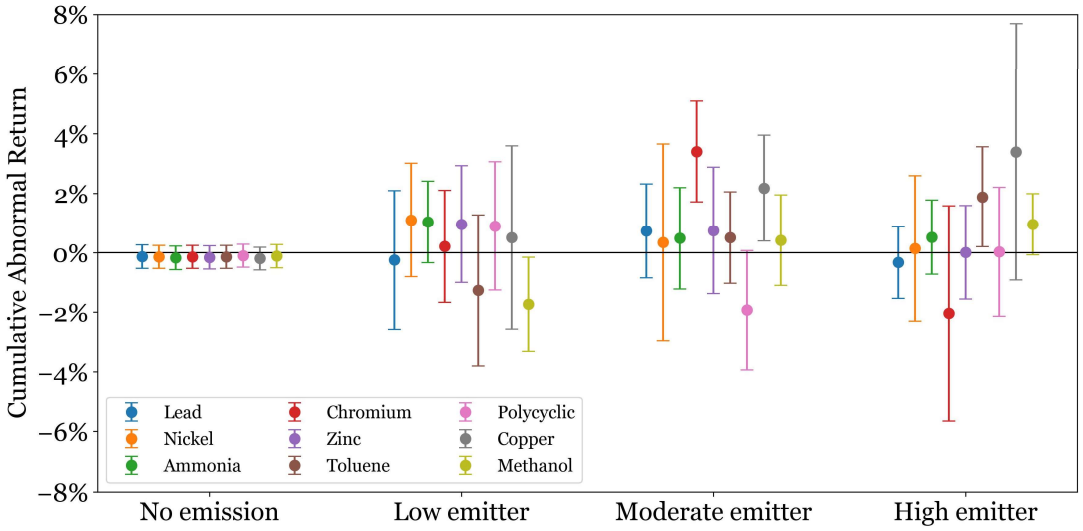


B. $Treat = 1$ if $CAR < 0$



texts and proponent arguments, we identified 23 proposals mentioning toxic chemicals, 7 mentioning hazardous waste, and 87 mentioning at least one of the top 100 toxic chemicals defined by the EPA. To test whether the release of SLB 14L affected the valuation of firms that emitted these toxic chemicals, we repeat the analysis involving different CARs, replacing high carbon emitters with high emitters of the nine most common other chemicals. Figure 8 reports the CARs for different chemicals by emission levels. Firms with high emissions of these chemicals did not experience significant stock declines following the release of SLB 14L. The negative market reaction associated with SLB 14L was restricted to large carbon emitters.

Figure 8. CARs for Different Toxic Chemical Emission Levels



7. Managerial Distraction

The absence of a detectable link between the negative CARs when SLB 14L was released and subsequent carbon emissions is puzzling. It does not square with the most straightforward explanation of the negative price reaction. In this section, we offer evidence on an alternative explanation that we call the managerial distraction hypothesis.

The basic idea is that dealing with shareholder proposals may be costly for managers and directors, especially when management believes that a proposal is harmful and must be opposed. In a recent report that called the current proposal process "unsustainable," the Business Roundtable (2025, pp. 17-18) claimed:

> The financial and operational costs of this system are substantial and far-reaching. Companies frequently incur significant legal and advisory expenses, hiring outside counsel, proxy solicitation firms and other consultants to navigate the SEC's no-action process and assess the viability, legality and implications of proposals. Additionally, senior executives and board members must dedicate considerable time to these matters – time that could be better spent on strategy, operations and innovation. According to our member

> survey, nearly 20% of responding companies spend over $500,000 in external costs managing and responding to shareholder proposals in a typical season, including some small-cap firms. . . . Beyond legal fees, internal teams – including legal, compliance and investor relations – must devote substantial time to analyzing, responding to, and managing these proposals. Our 2025 Member Survey found that more than 75% of respondents spend over 100 hours each proxy season on shareholder proposals.

The Business Roundtable, to be sure, is not a disinterested party, and may have incentives to exaggerate the costs, but business groups have been raising this concern for decades. We are aware of only one empirical study that explicitly tested the hypothesis, with largely indirect evidence (Matsusaka et al. 2021).

This section offers evidence on engagement efforts before and after SLB 14L, using a text-based approach that draws from each company's description of its engagement efforts in its proxy statement. We measure how frequently a company mentioned two types of engagement: engagement with proponents and engagement with stakeholders.[16] For proponents, we search for phrases that include the words "*engag[] with*" followed by "*proponent*" or "*sponsor*" or "*supporter*" or one of these terms as a modifier of "*engagement.*" For stakeholders, we use keyword searches that include the phrase "*engag[] with*" followed by "*stakeholder*," or the phrase "*stakeholder engagement*." An example of engagement with proponents (ExxonMobil 2024):

> ExxonMobil shares society's concerns about mismanaged plastic waste in the environment, as was explained during engagement with the proponent. As You Sow continues to push 'supply reduction' as the only path forward [and] back their belief with flawed, remote scenarios.

An example of engagement with stakeholders (Edison International 2021):

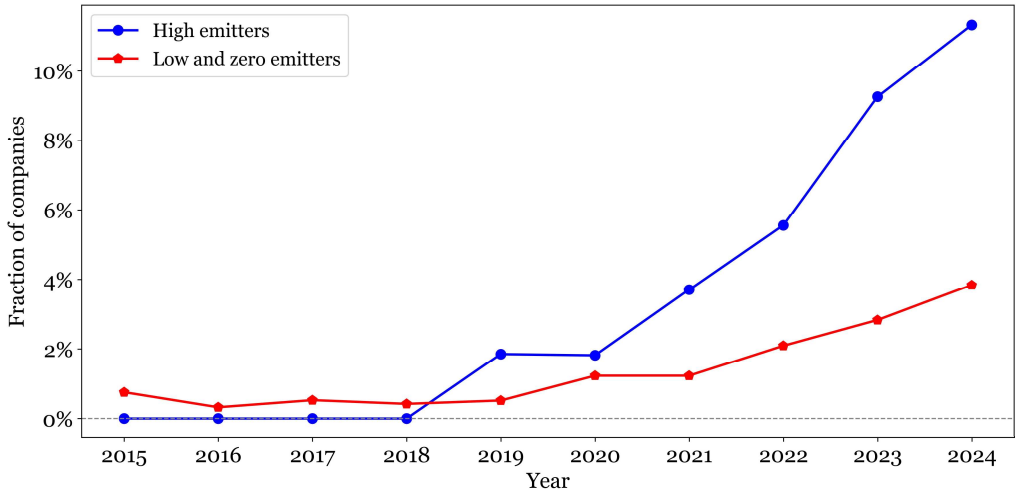
[16] We cannot meaningfully examine "engagement with shareholders" because companies routinely mention this throughout our study period and there is little scope for it to increase over time.

"From how we manage our operations and engage with stakeholders to how we provide safe, reliable, affordable and clean power — we are committed to sustainability because the Company's success is tied to the strength and health of the communities in which we operate and serve."

Figure 9 shows the fraction of companies that mentioned engagement over time, distinguishing high emitters from low and zero emitters. Panel A, which plots engagement with proposal sponsors, shows growing engagement over time from both groups of firms,

Figure 9. Companies that Mentioned Engagement in Proxy Statement

A. Engagement with Proponents



B. Engagement with Stakeholders

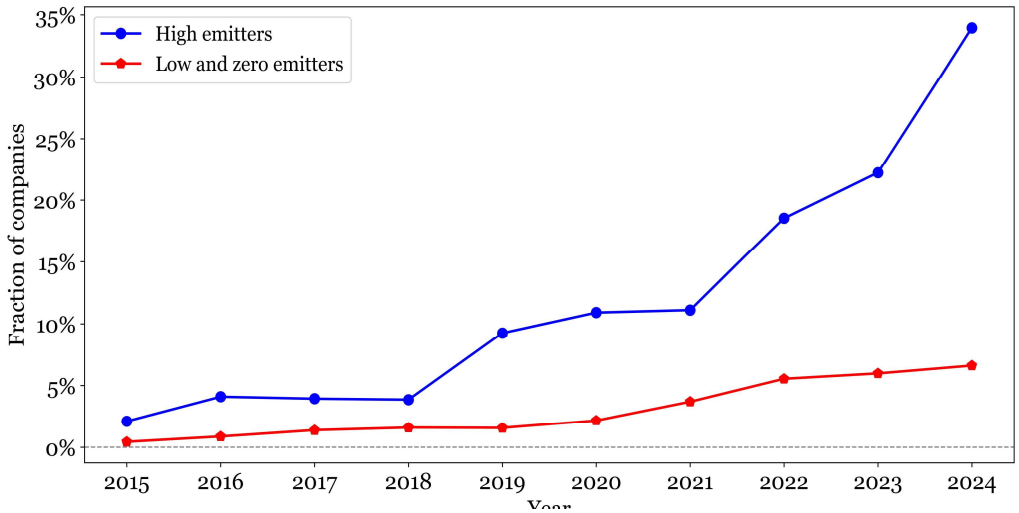


Table 5. Effect of SLB 14L on Company Engagement

Each column is a regression in which the unit of observation is a company-year during 2015-2024. The dependent variable is a dummy = 1 if a company mentioned shareholder engagement in its proxy statement. $Treat$ is a dummy variable as indicated at the top of each column. $Post$ is a dummy variable for the years 2022-2024. All regressions include company and year fixed effects. Standard errors clustered at the firm level are in parentheses beneath the coefficients. Significance: * = 10 percent; ** = 5 percent; *** = 1 percent.

	Dependent = Engaged with Proponents		Dependent = Engaged with Stakeholders	
	$Treat =$ High Emitter	$Treat$ = CAR < 0	$Treat =$ High Emitter	$Treat$ = CAR < 0
	(1)	(2)	(3)	(4)
$Treat \times Post$	0.06*	0.02**	0.12***	0.02*
	(0.03)	(0.01)	(0.04)	(0.01)
N	9,192	9,192	9,192	9,192

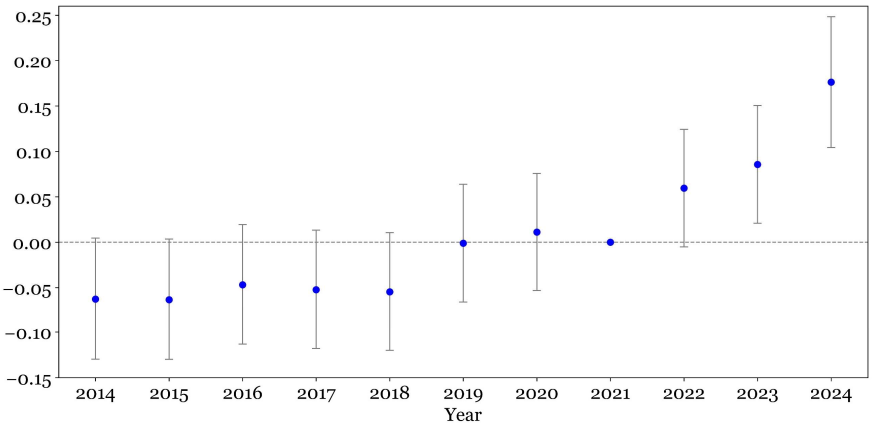
with engagement by high emitters accelerating in 2021. Panel B, which plots engagement with stakeholders, shows that high emitters increased their engagement in 2019 and then made a big increase in engagement in 2022, the first full year that SLB 14L was in effect. In short, engagement with proponents and stakeholders reached very high levels after 2021, but there is some evidence that it was already growing before then.

Table 5 presents difference-in-differences regressions, where the unit of observation is a company-year. In regressions (1) and (3), $Treat$ is a dummy for high emitters, and $Post$ is the years 2022-2024. The coefficients on the interaction term $Treat \times Post$ indicate that high emitters were 6 percentage points more likely to engage with proponents and 12 percent more likely to engage with stakeholders after SLB 14L, relative to low or zero emitters; statistically significant at the 10 percent and 1 percent levels, respectively. In regressions (2) and (4), $Treat = 1$ if the firm had $CAR < 0$ in the announcement window. The coefficients indicate that firms with negative CARs were 2 percent more likely to engage with either group after the new guidelines, with the proponent coefficient significant at the 5 percent level and the stakeholder coefficient significant at the 10 percent level. The coefficients are not enormous but generally support the idea that high emitters paid higher distraction costs after SLB 14L and that anticipated distraction costs played a role in the market's negative reaction to the announcement.

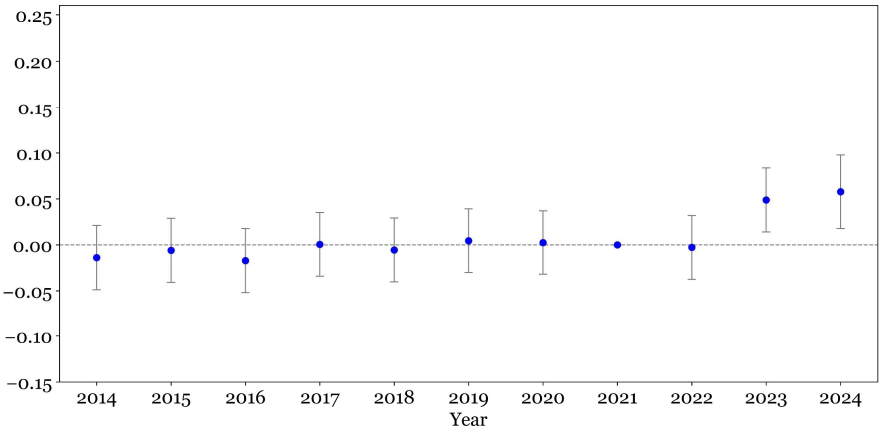
Figure 10 reports regression coefficients that test the parallel trends assumption. The dependent variable is a dummy indicating engagement with stakeholders, and the

Figure 10. Parallel Trends in Engagement with Stakeholders

A. $Treat = 1$ if high emitters



B. $Treat = 1$ if $CAR < 0$



independent variables are interactions of the treatment variable (high emitters in Panel A and $CAR < 0$ in Panel B) with each year. Although we observe some pre-trend differences between high emitters and low emitters, these differences are not statistically significant. We also observe no pre-trend differences between firms experiencing positive or negative CARs on the SLB 14L announcement date. The test using engagement with proponents as the dependent variable produces similar pictures.

8. Conclusion

The SEC's regulation of shareholder democracy is intended to facilitate capital formation and protect investors by giving shareholders a voice in corporate decision making, yet it has downsides if shareholder proposals disrupt managerial focus or pressure

firms into costly actions. This paper examines the SEC's issuance in 2021 of new legal guidance that encouraged climate-related proposals. We observe a significant negative abnormal price change for high-emission firms on the date SLB 14L was issued, suggesting that investors expected the regulations to increase costs or constrain these firms. However, we find no evidence that high-emission firms subsequently reduced their carbon output or significantly altered their pledges to reduce emissions, even though there was a burst of shareholder proposals calling for them to do so. The SEC's new regulatory interpretation reduced the value of high-emission companies yet did not translate into detectable operational changes.

These findings present two puzzles. The first is why the value of high-emitting companies fell when SLB 14L was issued, given that companies did not reduce or pledge to reduce their emissions beyond what they would otherwise have done. It could be that the market incorrectly anticipated value-reducing adaptations that did not occur. A different hypothesis is that the wave of shareholder proposals unleashed by SLB 14L imposed distraction costs on managers of targeted firms, requiring them to spend time and resources addressing frivolous proposals, instead of focusing on more important corporate matters. This explanation, often advanced by corporate managers, is a central argument in the Business Roundtable's (2025) call for reform of the proxy process. We find some support for this explanation in the form of increased engagement by companies with proponents and other stakeholders after the new guidelines were issued.[17]

The other puzzle is why proponents would introduce environmental proposals if they have no effect on emissions and destroy firm value? A possible answer is: to get attention. Proponents often have very low stakes in the companies they target, and their financial exposure to a price decline is negligible. A shareholder is eligible to submit a proposal by owning as little as $2,000 of a company's stock (Rule 14a-8(b)). Some sponsors, such as As You Sow, are primarily social activists, not investment managers. They may value the publicity associated with challenging a major corporation above and beyond

[17] Another possible explanation (for which we have no evidence either way) is that the SEC's new guidance may have raised compliance risks or reputational costs without obligating firms to make operational changes.

any changes their proposal brings about in the company's behavior.[18] Whether this use of the proxy process serves a greater good is open for debate, but it is not the intended purpose of the process, nor does the SEC claim to be pursuing such goals.

Our findings paint a somewhat pessimistic picture about the efficacy of using shareholder democracy to bring about environmental change. While SLB 14L broadened shareholder access to the proxy ballot on climate issues, our evidence suggests that the main effect was to increase administrative burdens and dissipative costs of dealing with questionable shareholder proposals. Further empowering shareholders by making shareholder resolutions binding, a policy change suggested by reform advocates such as Hart and Zingales (2022), would risk raising the stakes for management and could lead to even greater dissipative costs without resulting in meaningful changes in corporate policies. This is not to say that all forms of shareholder democracy are counterproductive, but that the regulatory details matter. Just as with democracy in the political sphere, simply holding a vote does not guarantee that the results reflect the will of the voters or advance their interests, as shown by the Arrow Impossibility Theorem; the institutions to make democracy work must be carefully calibrated to be effective.

Our evidence suggests that the SEC's new guidance substantially reduced the value of companies with high levels of greenhouse gas emissions. Interestingly, this change in regulation was not the result of a law or formal rule – it was simply an advisory stating the SEC's enforcement intentions, an advisory that did not change the text of any law or rule and that the SEC itself stated had no legal force. The SEC swiftly rescinded SLB 14L in 2025 when Republicans retook control. This high-stakes volatility in regulatory advice – which is partly enabled by the ability of advisory guidance to bypass the procedural requirements for rulemaking – raises the question if such guidance (including the no-action letter process itself) is protecting investors and capital markets or is itself a source of costly variation.

[18] The Business Roundtable (2025, p. 9) mentions a member company's discussion with a proponent in which they "openly stated they would not withdraw their proposal, not due to company-specific concerns, but because keeping it on the proxy statement provided a larger platform for their cause."

Business groups have begun to complain about policy whiplash when administrations change.[19]

[19] Business Roundtable (2025, p. 10): "The informal and impermanent nature of staff guidance remains susceptible to change with each new administration." Anagnosti et al. (2021) similarly observe that companies are increasingly left "at the mercy" of political winds.

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Supplementary Appendix A. SEC Staff Legal Bulletins Related to Rule 14a-8

This table summarizes SEC Staff Legal Bulletins. Each bulletin addresses specific grounds for proposal exclusion, clarifies procedural requirements, and can significantly affect whether shareholder proposals ultimately appear on corporate proxy statements.

SLB	Date	Rules	Description	Favors
14	7/13/2001	All	General explanation	
14A	7/12/2002	14a-8(i)(7)	Allows exclusion of proposals seeking shareholder approval of exec comp plans that would result in material dilution of stock.	Shareholders
14B	9/15/2004	14a-8(i)(3); 14a-8(j)	Prohibits exclusion based on objectionable language in supporting statement.	Shareholders
14C	6/28/2005	14a-8(i)(6); 14a-8(i)(7); 14a-8(l)	Allows exclusion of proposal requiring director independence at all time; allows exclusions that require assessment of risks from operations that affect public health or environment.	Management
14D	11/7/2008	14a-8(i)	Allows proponents to revise proposals calling board to amend charter, if state law prohibits board from unilaterally amending charter.	Shareholders
14E	10/27/2009	14a-8(i)(7)	Does not allow companies to exclude risk-based proposals that transcend ordinary business and raise significant policy issues	Shareholders
14F	10/18/2011	14-a8(b)	Limits brokers that can provide a record of ownership; requires companies to accept timely revised proposals (they do not violate one-proposal rule).	Both
14G	10/16/2012	14a-8(b); 14-a8(i)(3)	Allows certain brokers to provide record of ownership; does not allow references to web sites to avoid vague and indefinite rule.	Both
14H	10/22/2015	14a-8(i)(9); 14a-8(i)(7)	Allows exclusion of duplicate proposals only if they conflict with management proposals not if they simply might confuse voters or create conflicting mandates	Shareholders
14I	11/1/2017	14a-8(i)(7); 14a-8(i)(5)	Invites board to address significance of proposal to company.	Management
14J	10/23/2018	14a-8(i)(5); 14a-8(i)(7)	States that micromanagement is a separate ground for exclusion under ordinary business	Management
14K	10/16/2019	14a-8(i)(7)	Allows exclusion if company has already addressed in some manner the policy issue; or if proposal "micromanages" the company.	Management
14L	11/3/2021	14a-8(i)(7); 14a-8(i)(5)	Rescinds SLB 14I, 14J, 14K. Allows proposals related to "significant social issues" even if not significant for the company or affects less than 5 percent of business.	Shareholders
14M	2/12/2025	14a-8(i)(7); 14a-8(i)(5)	Rescinds SLB 14L.	Management

Supplementary Appendix B. Summary Statistics

Firm or meeting level statistics	Mean	Std	1%	50%	99%	N	Source
Emissions (million tons)	0.53	5.00	0.00	0.00	14.36	28,656	EPA GHGRP
Emission reduction pledge (%)	42.8	28.7	1.6	37.3	100	3,007	LSEG
Horizon (years)	7.07	5.53	1.0	7.0	30	3,007	LSEG
ROA	0.01	0.92	-0.64	0.04	0.30	20,713	Compustat
CapEx (in billion dollars)	0.59	2.03	0.00	0.08	9.22	20,665	Compustat
Assets (in billion dollars)	31.3	173.0	0.00	4.00	495.4	21,400	Compustat
# gov. proposals	0.33	0.73	0	0	3	10,143	FactSet
# env. proposals	0.08	0.39	0	0	2	10,143	FactSet
% gov. no-action letters requested	0.29	0.42	0	0	1	2,387	FactSet
% env. no-action letters requested	0.34	0.46	0	0	1	602	FactSet
% gov. no-action letters granted	0.56	0.47	0	1	1	842	FactSet
% env. no-action letters granted	0.33	0.45	0	0	1	228	FactSet
% gov. shares voted for	26.7	17.4	0.8	25.2	79.3	2,508	FactSet
% env. shares voted for	18.9	13.4	0.6	18.3	67.2	543	FactSet
Cumulative Abnormal Return on 11/3/2021	-0.00	0.06	-0.16	-0.00	0.17	1,152	CRSP

Supplementary Appendix C

Figure C. Fraction of Requests that Were Granted a No-Action Letter

