BILL ANALYSIS

Senate Research Center

S.B. 1057
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Enrolled

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

Securities and Exchange Commission (SEC) Rule 14a-8 has made it too easy for small shareholders with special interests to force public companies to include proposals in proxy materials, requiring all shareholders to consider and fund them. This rule mandates that public companies present shareholder proposals—such as calls for ESG reporting—alongside management's proposals, even when those proposals originate from shareholders with minimal financial stakes. The rule is a federal overlay on state laws governing shareholder meetings, but its thresholds for shareholder eligibility are strikingly low: $25,000 in stock if held for one year, $15,000 for two years, or just $2,000 for three years. These minimal requirements enable activist shareholders to advance their agendas at the expense of companies and the broader shareholder base.

S.B. 1057 addresses this issue by raising ownership requirements for shareholders seeking to introduce proposals at Texas-based public companies. Under the bill, shareholders must hold at least $1 million in voting securities or three percent of the corporation's voting stock for a minimum of six months prior to and through the shareholder meeting. If these thresholds are not met, the proposal will not be eligible for a vote under Texas law, and the company will not be required to include it in proxy materials under SEC Rule 14a-8. These higher requirements ensure that only shareholders with a significant financial stake in a company can introduce proposals, preventing the misuse of corporate resources on issues that do not reflect the priorities of most shareholders.

The bill applies to corporations formed under Texas law with SEC-registered equity securities listed on a national exchange. These companies must either have their principal office in Texas or be listed on a Texas-based exchange approved by the State Securities Commissioner. Beyond ownership thresholds, S.B. 1057 introduces a procedural requirement: shareholders proposing resolutions must solicit proxies from at least 67 percent of shares entitled to vote. This ensures that any shareholder advancing a proposal bears the cost of outreach rather than relying on the company's proxy materials.

Compared to the market capitalization of companies in the S&P 500 Index, the current SEC thresholds represent an almost negligible ownership percentage—just 0.000002 percent at the lowest level. By contrast, S.B. 1057's $1 million requirement is 500 times higher for one-year holders and 40 times higher for three-year holders. The need for reform is especially evident among the largest corporations, which receive a disproportionate number of proposals under current SEC rules. Raising the ownership requirement would better align proposal privileges with financial investment, reducing frivolous submissions while maintaining access for legitimate shareholder activists and potential hostile bidders.

S.B. 1057 allows shareholders to aggregate holdings to meet the $1 million threshold, ensuring smaller investors can still submit proposals while filtering out those with minimal stakes and self-serving agendas. Encouraging shareholder coordination could lead to more thoughtful and widely supported proposals. By implementing these reforms, Texas corporations could achieve significant cost savings while management and shareholders focus on issues that matter to the majority. The bill could also serve as an incentive for more corporations to incorporate in Texas, reinforcing the state's pro-business environment.

(Original Author's/Sponsor's Statement of Intent)

S.B. 1057 amends current law relating to the submission and approval of certain proposals by shareholders of nationally listed corporations.

RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Subchapter H, Chapter 21, Business Organizations Code, by adding Section 21.373, as follows:

Sec. 21.373. NATIONALLY LISTED CORPORATIONS: SHAREHOLDER PROPOSALS. (a) Defines "nationally listed corporation" and "voting shares."

(b) Provides that this section applies only to a nationally listed corporation that makes an affirmative election to be governed by this section under an amendment to the corporation's governing documents.

(c) Requires a nationally listed corporation to provide notice to shareholders of the proposed adoption of an amendment under Subsection (b) in any proxy statement provided to shareholders preceding the amendment's adoption.

(d) Requires a nationally listed corporation to include in any proxy statement provided to shareholders specific information about the process by which a shareholder or group of shareholders may submit a proposal on a matter requiring shareholder approval, including information for how shareholders may contact other shareholders for the purpose of satisfying the ownership requirements in this section.

(e) Requires a shareholder or group of shareholders, except as provided by Subsection (f) and subject to the corporation's governing documents, to submit a proposal on a matter to the shareholders for approval at a meeting of shareholders, to:

(1) hold an amount of voting shares of the corporation, determined as of the date of submission of the proposal, equal to at least $1 million in market value or three percent of the corporation's voting shares;

(2) hold the shares described by Subdivision (1) for a continuous period of least six months before the date of the meeting and throughout the entire duration of the meeting; and

(3) solicit the holders of shares representing at least 67 percent of the voting power of shares entitled to vote on the proposal.

(f) Provides that Subsection (e) does not apply to director nominations and procedural resolutions that are ancillary to the conduct of the meeting.

SECTION 2. Effective date: September 1, 2025.