european corporate governance institute

# The Regulation of Shareholder Democracy

Finance Working Paper N° 1099/2025
November 2025

John G. Matsusaka
University of Southern California
Oguzhan Ozbas
Bilkent University
Chong Shu
University of Utah
Irene Yi
University of Toronto and ECGI

© John G. Matsusaka, Oguzhan Ozbas, Chong Shu and Irene Yi 2025. All rights reserved. Short sections of text, not to exceed two paragraphs, may be quoted without explicit permission provided that full credit, including © notice, is given to the source.

This paper can be downloaded without charge from:
https://doi.org/10.67929/ecgi-fin-1099-2025

european corporate governance institute

ECGI Working Paper Series in Finance

# The Regulation of Shareholder Democracy

Working Paper N° 1099/2025
November 2025

**John G. Matsusaka**
**Oguzhan Ozbas**
**Chong Shu**
**Irene Yi**

© John G. Matsusaka, Oguzhan Ozbas, Chong Shu and Irene Yi 2025. All rights reserved. Short sections of text, not to exceed two paragraphs, may be quoted without explicit permission provided that full credit, including © notice, is given to the source.

# Abstract

We study how investors, managers, and firms responded to an unexpected change in SEC proxy guidelines expanding shareholders' ability to bring climate-related proposals to a vote. High-carbon-emitting firms experienced −1.6 percent abnormal returns following the announcement, yet showed no evidence of reduced actual or pledged emissions, reduced toxic releases, or increased clean-technology investment. These firms increased engagement with sponsors and stakeholders, consistent with managerial distraction, though estimated costs appear too small to explain the value loss. The absence of real effects, with evidence on policy expectations, suggests investors interpreted the change as signaling unfavorable future environmental policy, beyond proposal rights.



**John G. Matsusaka**
University of Southern California
Professor of Finance and Business Economics
e-mail: matsusak@usc.edu

**Oguzhan Ozbas**
Bilkent University
Professor
e-mail: oguzhan.ozbas@bilkent.edu.tr

**Chong Shu**
University of Utah
Assistant Professor
e-mail: Chong.Shu@Eccles.Utah.edu

**Irene Yi**
University of Toronto and ECGI
Assistant Professor
University of Toront
e-mail: irene.yi@rotman.utoronto.ca.

# The Regulation of Shareholder Democracy*

John G. Matsusaka, *University of Southern California*
Oguzhan Ozbas, *Bilkent University*
Chong Shu, *University of Utah*
Irene Yi, *University of Toronto*

We study how investors, managers, and firms responded to an unexpected change in SEC proxy guidelines expanding shareholders' ability to bring climate-related proposals to a vote. High-carbon-emitting firms experienced −1.6 percent abnormal returns following the announcement, yet showed no evidence of reduced actual or pledged emissions, reduced toxic releases, or increased clean-technology investment. These firms increased engagement with sponsors and stakeholders, consistent with managerial distraction, though estimated costs appear too small to explain the value loss. The absence of real effects, with evidence on policy expectations, suggests investors interpreted the change as signaling unfavorable future environmental policy, beyond proposal rights.

June 23, 2026

* We received helpful feedback from Ran Duchin, Davidson Heath, Kenneth Khoo, Anthony Orlando, Nora Pankratz, Matthew Ringgenberg, Silvina Rubio, Roberto Tallarita, Tracy Wang, and workshop and conference participants at California State Polytechnic University – Pomona, USC, the NBER Law and Economics Program Meeting, and the 2026 SAIF Annual Research Conference. Contact authors at: matsusak@usc.edu, oguzhan.ozbas@bilkent.edu.tr, chong.shu@eccles.utah.edu, i.yi@rotman.utoronto.ca.

## 1. Introduction

Shareholder democracy – voting on directors and corporate policies – is a central yet controversial part of corporate governance in the United States. Its effectiveness depends on a regulatory framework designed and enforced by the Securities and Exchange Commission (SEC). While a substantial body of scholarship has examined how shareholder voting and proposals affect firm value and managerial behavior, much less attention has been devoted to the regulatory scaffolding itself, even though it effectively determines which shareholder proposals reach the corporate ballot in the first place.

In this paper, we study the effects of a major change in SEC regulations that made it easier for investors to bring environmental proposals to a vote of shareholders. Unusually, the new regulations were largely unexpected by investors. We use this regulatory "shock" to explore two downstream effects of expanding shareholder proposal rights – on financial markets and on the real behavior of firms.

In American corporations, shareholders are permitted to propose matters for a vote of the shareholders at large. The process is regulated through SEC Rule 14a-8, which allows companies to exclude certain proposals under specified conditions.[1] One of the most important conditions, 14a-8(i)(7), allows companies to exclude proposals concerning "ordinary business" matters. The purpose of the ordinary business rule, according to the SEC, is to prevent activists from meddling in corporate decisions that are better handled by the corporation's managers. Because of the rule's subjectivity, it also has the potential to allow 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 appears to have been 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

[1] In November 2025, the SEC announced major changes to its role in the Rule 14a-8 process beginning with the 2025–2026 proxy season, including a broad elimination of the no-action letter process; these changes do not affect the period studied in this paper.

to certain policy issues of significant social importance, especially environmental issues. The change significantly expanded shareholders' ability to bring climate-related issues to a vote. 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).

We begin by studying the effect of SLB 14L on financial markets. Our core finding is that firms with high carbon emissions, those most likely to attract climate-related proposals, experienced large declines in value. On average, the 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. These firms lost approximately $26 billion in market value following the announcement. On its face, this is surprising because SLB 14L was merely an advisory bulletin with "no legal force or effect" according to the Commission. Firms with low or zero emissions, on the other hand, experienced approximately zero abnormal returns. We show that the price fall cannot be explained by a near-concurrent related policy announcement, or by a set of standard concurrent events, such as earnings announcements and stock buybacks.

We then turn to real effects. Our second finding is that high emitters did not make measurable operational changes that can account for the value loss. We find no evidence that high-emission firms cut or pledged to cut their carbon emissions after SLB 14L. Nor do we find evidence of increased capital spending, which would occur if firms invested in emission abatement technology. We also do not find reductions in emissions of other toxic chemicals. Given previous evidence that the number of green shareholder proposals increased after SLB 14L was issued (Khoo and Tallarita forthcoming), a pattern we confirm for our sample, our evidence suggests that although the new guidance resulted in more proposals, the incremental proposals were not effective in bringing about emissions reductions.

Why then did the market react negatively to SLB 14L? One potential explanation is that the new guidance was costly for firms because it forced managers to deal with more proposals, taking them away from other matters. Companies frequently complain that frivolous proposals distract top managers from their core responsibilities and force them to

increase engagement with proponents and other stakeholders. Our third finding is that companies were more likely to engage with proposal sponsors and stakeholders, according to their proxy statements, after the new guidance was issued, and in a difference-in-differences framework, high-emission firms increased their engagement more than low or zero-emission firms. We produce back-of-the-envelope estimates of distraction costs, based on top executives' opportunity cost of time, and find that the aggregate costs can plausibly run into the tens of millions of dollars. These costs are substantial, but appear too small to account for the magnitude of the estimated value losses.

The limited evidence of direct governance or real effects leads us to consider another possibility: that investors interpreted the new guidance as a signal about future government policy. The guidance may have shifted beliefs about future government policies and enforcement actions in an adverse direction for high-emission firms. To assess this possibility, we distinguish between two potential explanations for the negative CARs: increased exposure to shareholder proposals and increased exposure to unfavorable future policy changes. We use firms' emissions as a proxy for exposure to environmental policy risk, and control for shareholder proposal risk using variables indicating whether a firm received environmental proposals either before or after SLB 14L. We find a strong connection between a firm's emissions and its value loss, while variables relating to proposal exposure are not statistically related to returns. This pattern is consistent with investors updating their beliefs about the future policy environment for high-emission firms, rather than pricing the direct effects of increased proposal activity.

We also compare the SLB 14L CARs with firm abnormal returns associated with the 2024 election of Republican Donald Trump, who promised to reverse the incumbent Democratic president Joe Biden's environmental policies. The correlation is negative, consistent with the idea that SLB 14L conveyed information about future environmental policy that was reversed when Trump was elected.

Our findings contribute to several research streams. First, a large literature studies the effect of shareholder democracy on the performance and value of firms. We show that a major expansion in shareholder proposal rights concerning environmental proposals did not lead to measurable changes in corporate environmental policies. However, it appears to have led managers to spend more time engaging with shareholders and other stakeholders,

consistent with claims by business groups that shareholder proposals distract managers from their other business. While Khoo and Tallarita (forthcoming) study the effect of SLB 14L on proposal activity and voting outcomes, our paper focuses on the financial market and real effects of the guidance: firm value, corporate emissions, and investor beliefs about future policy.

Second, our paper contributes to the debate over the use of private-market approaches to address climate change. Scholars and policymakers have argued that investors can influence corporate environmental policies by 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; and divestment of carbon assets or acquisition of polluting firms in order to influence managerial decisions (Kahn et al. 2024). Our evidence does not offer support for the effectiveness of shareholder proposals as a tool for changing corporate environmental policies. Despite a substantial expansion in shareholders' ability to bring environmental proposals to a vote, we find no evidence that companies reduced their actual carbon emissions, strengthened their carbon emissions pledges, or reduced emissions of other toxic chemicals.

Third, our study adds to the broader study of regulation by focusing on informal administrative guidance. Previous research has largely examined legislation enacted by Congress (e.g., the Sarbanes-Oxley and Dodd-Frank Acts) or formal regulations adopted using procedures required by the Administrative Procedure Act (APA).[2] In contrast, SLB 14L was an advisory bulletin that did not have the force of law. Informal guidance of this nature – which also includes merger guidelines issued by the Department of Justice and Federal Trade Commission and "Dear Colleague" letters issued by the Department of Education – allows agencies to act quickly, but is controversial because it bypasses the APA's procedural requirements such as notice-and-comment and formal benefit-cost

[2] 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.

analysis (Parrillo 2019). Our findings show that even nonbinding guidance can have substantial financial consequences for regulated firms.

More broadly, our findings suggest that adoption of regulations may affect financial markets for reasons beyond the direct effects of the regulation itself. Even nonbinding and relatively technical changes in regulatory guidance may reveal information about future policies. In our case, the evidence suggests that investors interpreted SLB 14L not merely as an expansion of shareholder proposal rights, but as a signal of future environmental policies unfavorable to carbon-emitting firms. This interpretation complements emerging evidence that policy-related communications by political actors can move asset prices by shifting expectations about future policies (e.g., Cassidy 2026).

## 2. Institutional and Legal Background

Shareholder democracy 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 for a shareholder vote at companies' annual meetings. Proposals, with a few exceptions, must be precatory, meaning not binding on management; nevertheless, managers often 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 voting items 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 related to proposals 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) and provides a list of grounds for excluding 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

[3] For a discussion of legal aspects, see Fisch (1993), Bainbridge (2012), and Cox and Thomas (2022). For a discussion of the no-action letter process, see Matsusaka et al. (2021).

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 it 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 statement. 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 it in the proxy statement.

The basis for exclusion we study 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. The Commission states that SLBs "have no legal force or effect" but they are closely monitored by activists and lawyers. Appendix A lists and summarizes the SLBs related to 14a-8. SLBs 14A, 14E, and 14H are examples where the staff took a more pro-shareholder approach (e.g., restricting the scope of

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

[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).

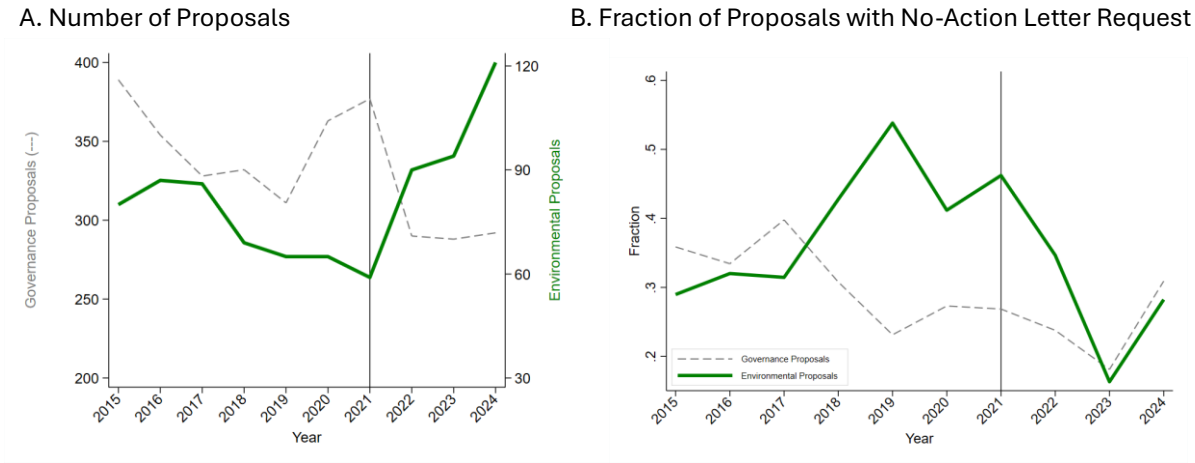
ordinary business or disallowing exclusions based on "objectionable language"), whereas 14C, 14I, 14J, and 14K are examples where the staff gave companies more room to exclude proposals.

We focus 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 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 for companies to omit proposals. Although not explicitly targeted at climate issues, SLB 14L 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 shareholders could formulate such proposals to satisfy the ordinary business rule.[6] It was widely believed that SLB 14L would lead to more climate-related proposals, and fewer challenges by companies (Anagnosti et al. 2021; Whoriskey 2021).[7] This is in fact what happened, as shown by Khoo and Tallarita (forthcoming), and confirmed for our sample in Figure 1.[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 "stakeholders" meetings involving investors and companies, where the Commission staff can receive feedback. In the

[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] While FactSet does not provide a granular breakdown of environmental proposals into subcategories like climate or biodiversity, other evidence implies that climate change was a dominant theme; according to ISS-Corporate (2024) approximately 75% of environmental proposals submitted between 2019 and 2024 focused on climate-related issues. 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).

Figure 1. Shareholder Proposals Activity 2015-2024




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, giving us a rare opportunity to study the causal effects of shareholder democracy regulation on firm value and corporate behavior.

## 3. Data

Data on greenhouse gas emissions come from the Environmental Protection Agency's (EPA) Greenhouse Gas Reporting Program (GHGRP). The GHGRP reports facility-level direct (Scope 1) emissions for every facility in the United States emitting at least 25,000 metric tons of carbon dioxide annually. Unless otherwise noted, our measure of emissions is $CO_2$-equivalent ($CO_2e$) as reported in the GHGRP, which aggregates all covered greenhouse gases (including carbon dioxide, methane, nitrous oxide, and fluorinated gases) into metric tons of $CO_2e$ using 100-year global warming potentials. We then 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 (Appendix B). The top one-third of emitting firms accounted for approximately 95 percent of carbon emissions reported in the EPA dataset among publicly traded firms in 2020.

For some figures and tables, we divide emitting firms into three equal sized groups: high, moderate, and low emitters. Our main findings do not rely on this classification and hold when we estimate regressions using continuous measures of emissions.

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. (2025).

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. Intraday stock prices are constructed from National Best Bid and Offer (NBBO) quotes in the NYSE Trade and Quote (TAQ) database, using the mid-point of the best bid and ask at one-minute intervals.

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 classify proposals pertaining to environmental matters. The environmental proposals in this period often called on firms to take steps or make commitments to reduce their emissions. The following example received by ExxonMobil is representative:

> 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)

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. Pledge information is available for about one-third of firm-years. 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. Appendix C reports summary statistics.

## 4. Stock Price Reaction Associated with SLB 14L

### *A. Baseline Finding*

We begin by estimating the market's response to the release of SLB 14L. We distinguish between "high emitters," firms in the top one-third of all nonzero 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 (zero emitters comprise about 80 percent of firms).

Figure 2 shows the mean daily CARs from 10 days before to 10 days after the release of SLB 14L. A sudden decline in the stock price of about 1.6 percent among the high emitters in the days of and after the release of SLB 14L is apparent. There is little change in the price of low emitters. We also found that 19 of the 20 largest carbon emitters experienced negative CARs.

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. Appendix D shows that the figure is similar if high emitters are defined based on combined Scope 1 and 2 emissions.

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

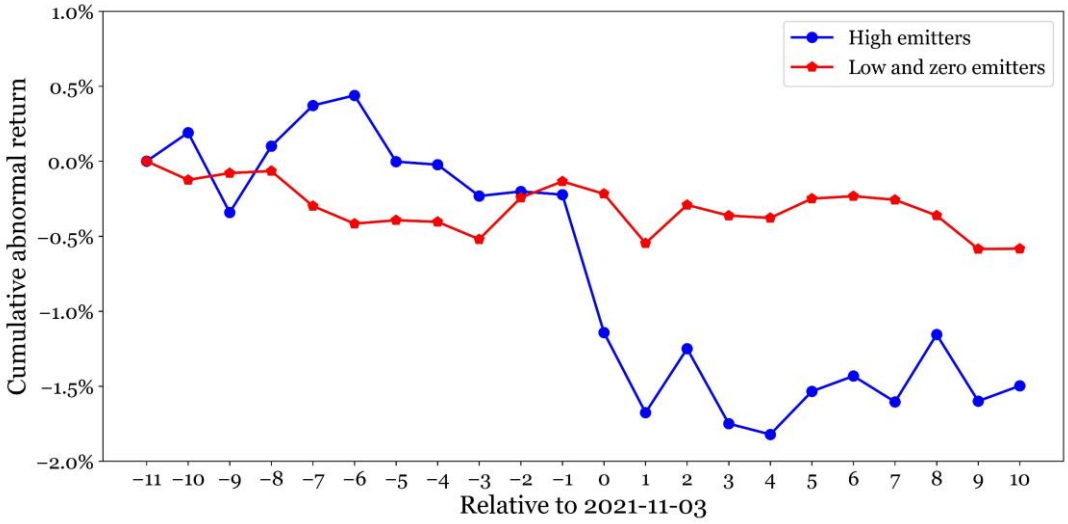



Figure 3. CARs for Different Emission Levels and Windows

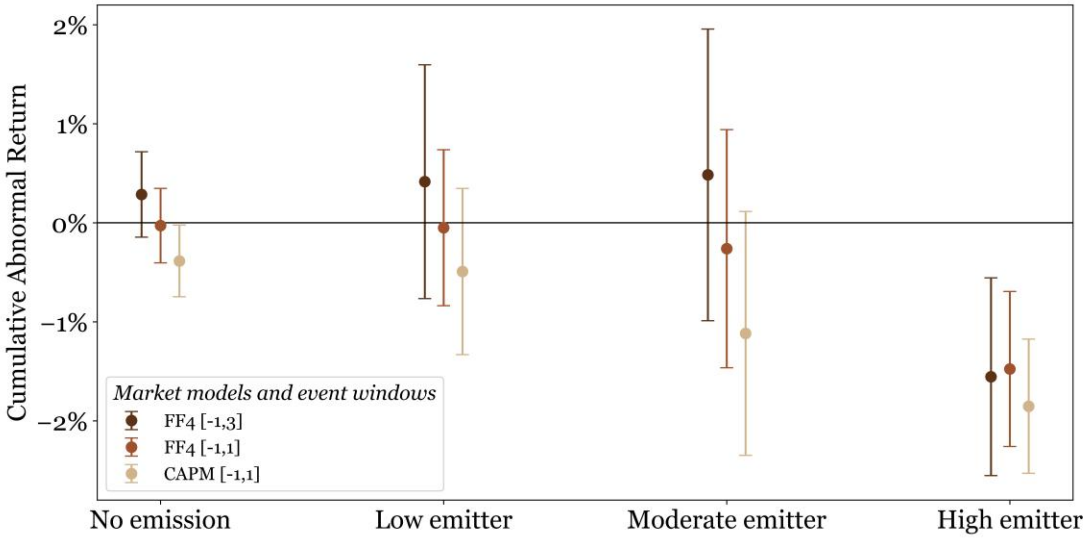



Table 1 reports OLS regressions in which the dependent variable is the CAR [−1,3] and the explanatory variable is an indicator for high-emission firms. The first column includes no controls while the other columns include controls for firm assets, capital expenditure, profit, and indicators for four firm-specific concurrent events (earnings announcements, stock buybacks, executive change, and other), as indicated at the bottom of

Table 1. Regressions of SLB 14L CAR on Emissions

Each column is a regression in which the unit of observation is a company. The dependent variable is the four-factor CAR [−1,3] associated with the release of SLB 14L. Robust standard errors are reported in parentheses. Significance levels: * = 10 percent, ** = 5 percent, and *** = 1 percent.

| | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| Dummy = 1 if high emitter | -1.55** | -1.73** | -1.55** | -1.77*** |
| | (0.70) | (0.74) | (0.70) | (0.74) |
| Controls for asset, CAPEX, and profit | No | Yes | No | Yes |
| Controls for concurrent events | No | No | Yes | Yes |
| $R^2$ | 0.00 | 0.01 | 0.01 | 0.01 |
| Observations | 1,145 | 1,049 | 1,145 | 1,049 |

each column.[9] The basic pattern is robust across specifications, with the last column showing that top emitters experienced a 1.77 percent decrease in value compared to other firms during the event window.

The abnormal returns show that the SEC's announcement of new guidance substantially reduced the value of companies with high levels of greenhouse gas emissions. As a rough estimate, the total dollar loss for high emitters on the announcement date was approximately $26 billion.

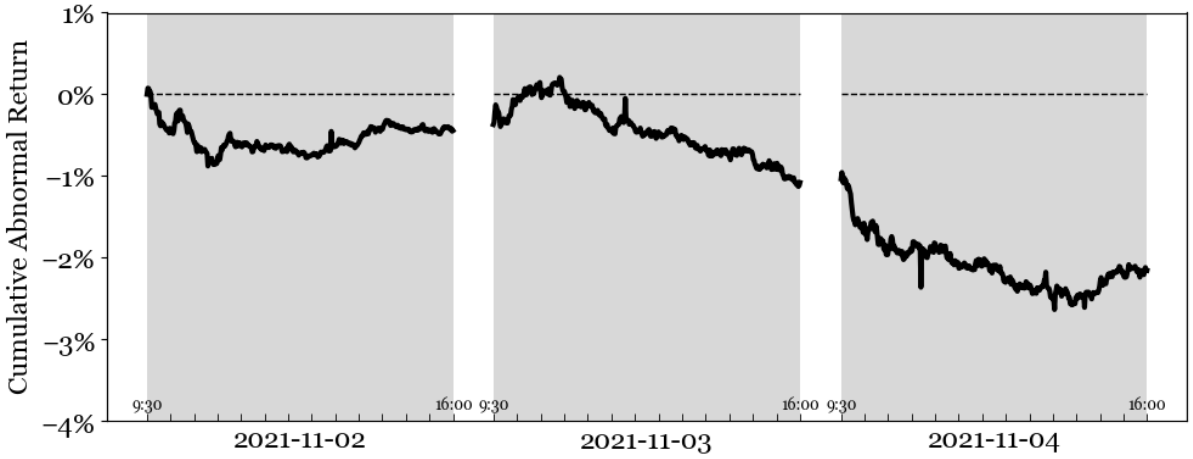
*B. A Potential Confounding Policy Announcement*

In interpreting the abnormal return, it is important to consider the possibility of confounding events within the event window. We searched media stories in the days surrounding November 3, 2021 and identified one event of potential concern: on November 2, during the United Nations Climate Change Conference (COP26) in Glasgow, President Joe Biden announced a new plan to control the emissions of methane, a greenhouse gas. The administration's Proposed Methane Rule proposed for the first time to regulate emissions of methane from existing oil and gas facilities (new facilities were already subject to regulation), and tighten regulation of new facilities.

While at first glance it seems possible that our estimated CARs could be capturing reactions to the methane announcement, there are reasons to believe this is unlikely. For one thing, the key elements of the methane plan had been widely discussed for months

[9] The key coefficient is also negative and statistically significant for other windows, including [-1,1] and [0,1].

Figure 4. Mean Hourly CARs for High Emitters




prior to the official announcement. According to a report by DavisPolk (2021), "the Proposed Methane Rule was long expected given prior statements by the Biden administration," and its "impact on industry [is] expected to be modest" because companies had already begun making investments to comply.

This conclusion is reinforced by more granular intraday data. The Proposed Methane Rule was announced in the morning of November 2 in Glasgow. Because of time zone differences, the information reached New York in the very early hours (EDT) of November 2. The first media story that we identified on the methane plan was published by Reuters at 1:12 am EDT, and Bloomberg published stories at 7:27 am and 10:16 am EDT.

Figure 4 shows the average minute-level excess return for high emitters from the start of trading on November 2 to close of trading on November 4. Consistent with contemporary accounts that markets had already anticipated the methane rule, the figure does not show a downward trend on November 2.

The first media story on SLB 14L that we have identified was published on PoliticoPro at 12:50 pm EDT on November 3; a Reuters story was published at 3:30 pm EDT. It appears that SLB 14L was released in late morning or early afternoon. The figure shows negative returns for high emitters beginning in late morning of November 3 and continuing to midday November 4, consistent with the reaction being a response to the release of SLB 14L.

Yet another way to investigate the effect of the announcement of the Proposed Methane Rule is to compare the CARs for emitters with and without significant methane emissions. If our estimates are spuriously picking up a response to the methane plan, then the negative CARs should be concentrated among those companies with the highest methane emissions. We used the EPA's Greenhouse Gas Reporting Program data to determine the ratio of methane to total $CO_2$ emissions for high emitters, and divided them into two groups, according to whether the ratio was above or below the median (the precise cutoff is not critical because the ratio's distribution is approximately bimodal). We then calculated the CARs over the [0,1] window, where possible confounding is the biggest concern. The mean was $-0.54$ percent for the high-methane companies and $-2.13$ percent for the low-methane companies. This is inconsistent with the idea that the negative CARs were driven by the methane-intensive firms.

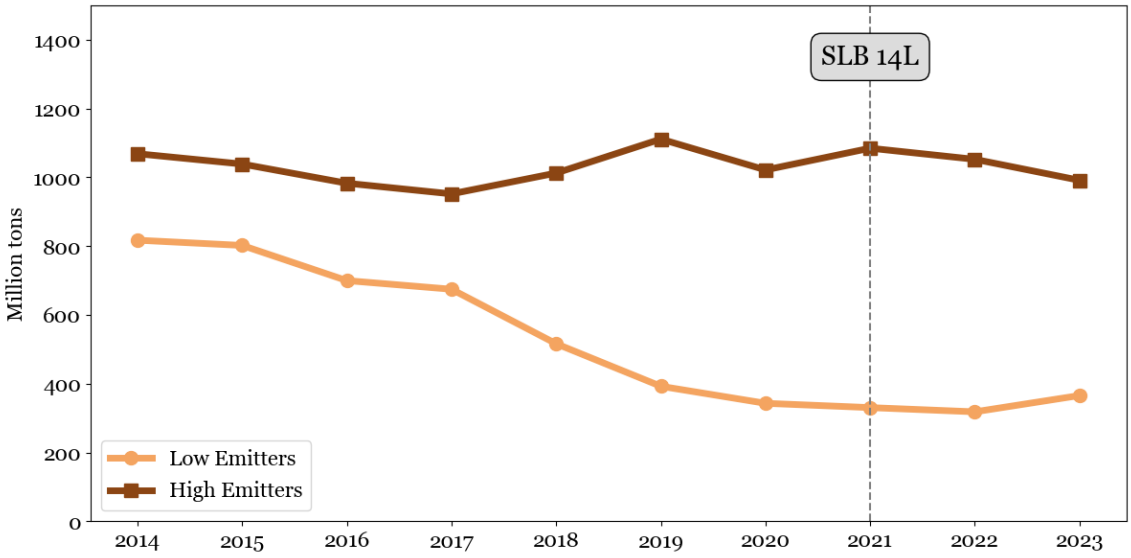
## 5. Real Effect on Emissions

One might wonder why the SEC would promulgate a rule that resulted in shareholders losing billions of dollars, especially since the Commission's mandate includes "protecting investors engaged in securities transactions."[10] One explanation could be that SEC was protecting the right of investors to direct the use of corporate assets they own. Given that investors are willing to accept lower financial returns if necessary to advance what they perceive as "socially responsible" goals (Riedl and Smeets 2017), investors could have found the value loss from SLB 14L an acceptable price to pay for greenhouse gas abatement. However, this assumes that the new guidance actually reduced emissions. The evidence in this section does not support the assumption.

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

[10] The quote is from Cox and Thomas (2022, p. 1172). As they explain, over time the SEC expanded the rationale for Rule 14a-8 to include ensuring that investors had accurate information when voting by proxy and guaranteeing the rights of shareholders to influence management and control important corporate decisions.

Figure 5. Annual Greenhouse Gas Emissions




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, managers may optimally 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.[11] If shareholder proposals were effective through either channel, we would expect to see reduced emissions after SLB 14L.

*A. Reductions in Greenhouse Gas Emissions*

Figure 5 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, also with no obvious break point in 2021. The figure is similar for combined Scope 1 and 2 emissions (Appendix E).

[11] Media outlets mentioned that more than 100 companies negotiated agreements with climate activists in exchange for their proposals being withdrawn or not proposed (Sciammacco 2022).

Table 2. Effect of SLB 14L on Emissions and Capital Expenditures

Each column is a regression in which the unit of observation is a company-year during 2015-2023. The dependent variable is shown at the top of the column. $Treat$ is an indicator defined at the top of each column. $Post$ is an indicator for 2022 and 2023. 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.

| | 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 |

Table 2 reports firm-level difference-in-differences regressions of carbon emissions (first two columns) and capital spending (last two regressions), with company and year fixed effects, using only firms with nonzero emissions. In (1), the explanatory variable is an indicator 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 SLB 14L, but it isn't statistically different from zero. In (2), the treated group consists of firms that experienced a negative CAR when SLB 14L was announced. The coefficient in this regression is also negative but again statistically insignificant.[12]

Instead of directly cutting emissions, companies might respond to activist pressure by increasing investment in green technologies. The last two columns of Table 2 produce a similar non-result – we find small and statistically insignificant changes in investment among high emitters, and among companies that had negative CARs.

*B. Pledged Reductions in Greenhouse Gas Emission*

It could take time for companies to adjust to the new rules. While some adjustments can be made quickly, such as sourcing more power from clean and less from dirty power

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

Table 3. Effect of SLB 14L on Carbon Reduction Pledges

Each column in each panel 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 an indicator, defined in the panel title. $Post$ is an indicator for 2022-2024. Pledge horizon is the target year minus the observation year. 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.

*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) |
| Pledge horizon fixed effects | No | Yes | No |
| $N$ | 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) |
| Pledge horizon fixed effects | No | Yes | No |
| $N$ | 2,962 | 2,962 | 2,962 |

plants (Kahn et al. 2024), other changes, such as installing new abatement technology or redesigning production processes, may require years to implement. To investigate whether companies intended to make adjustments that took longer than the time horizon of our data, we also examine companies' pledges to cut emissions.

The pledge data, collected from various company documents, capture companies' stated intentions to reduce emissions by a target date. Pledges are stated as a percentage reduction relative to the year the commitment is announced. Pledges are non-binding, and

not all firms report them, but there is some evidence that pledging firms do in fact reduce their emissions (Bolton and Kacperczyk forthcoming).

Figure 6. Pledges and Announcement of SLB 14L

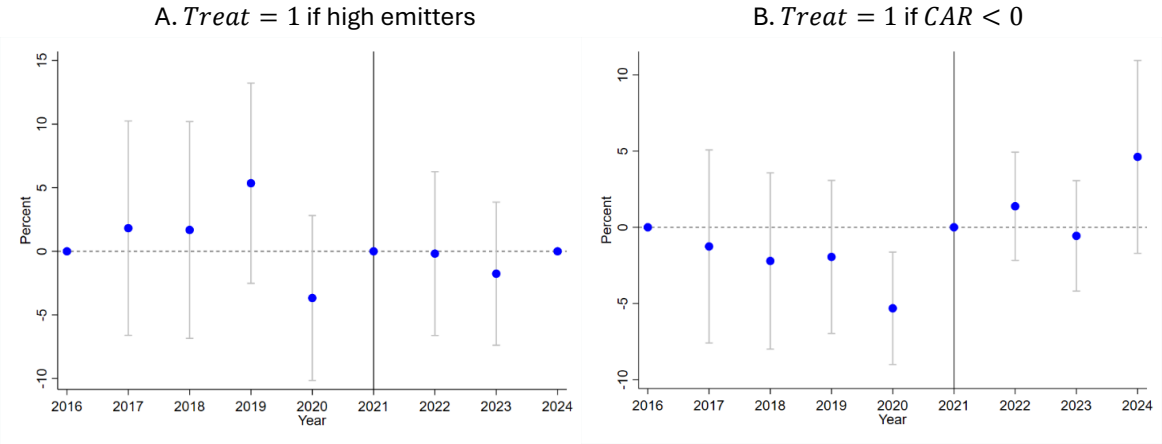
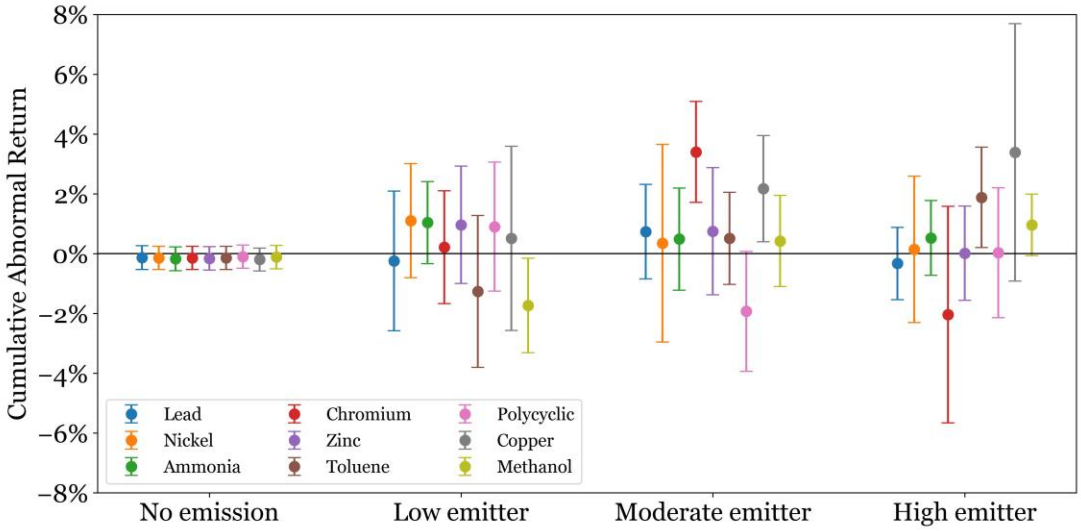



Table 3 presents difference-in-differences regressions predicting carbon reduction pledges. The columns differ in how the pledge horizon is taken into account. Panel A shows that high emitters reduced their pledged cuts after SLB 14L (that is, increased their projected emissions), relative to the control group, but the coefficients are statistically insignificant except in the first column. Panel B shows that firms with negative CARs increased their pledged cuts, although none of the coefficients are statistically different from zero. Overall, these results do not provide reliable evidence that high emitters or firms with negative CARs pledged to cut carbon emissions more deeply after the SEC's new guidance was issued.

Figure 6 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 is high emitters in Panel A, and firms that experienced a negative CAR when SLB 14L was announced in Panel B. In the post-treatment period, the coefficients in both panels are statistically insignificant and hover near zero. Furthermore, the plots reveal no significant pre-existing trends in pledging differences. This reinforces the finding that SLB 14L did not produce a detectable change in corporate carbon pledges for the firms most likely to be affected.

*C. Reduction in Emissions of Toxic Chemicals*

Figure 7. CARs for Different Toxic Chemical Emission Levels




Environmental proposals may target chemical emissions other than greenhouse gases, for example, asking a company to address damages caused by its toxic waste or establish plans to limit chemical emissions.[13] 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 7 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.

Finally, we investigated if firms changed their divestment activity after SLB 14L. Duchin et al. (2025) find that firms often divest polluting plants in response to environmental pressure. Since we find no effect of SLB 14L on emissions, we do not expect

[13] For example, in Tesla's 2021 proxy statement, one proposal 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." Based on proxy statement text, 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 find measurable divestitures of polluting assets; we do not find an increase in such divestitures in the year after SLB 14L (Appendix F).

### 6. 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 natural explanation of the negative price reaction. In this section, we offer evidence on an alternative explanation that we call the managerial distraction hypothesis.

The 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.

*A. Evidence from Engagement*

We are aware of only limited evidence that speaks to this hypothesis. Matsusaka et al. (2021) shows that stock price movements, including the otherwise puzzling tendency of prices to react when the SEC issues a no-action letter (independent of the decision), are consistent with the idea that unresolved no-action letter requests distract managers from their work. In a different context, Bloom et al. (2025) provides evidence on managerial distraction in the United Kingdom as a result of having to plan for Brexit. They show that firms in which senior managers reported spending high amounts of time planning for Brexit ("diverted management time") between 2017 and 2020 experienced lower productivity growth in the post-referendum period.

To assess the prevalence of managerial distraction, we measure how frequently a company mentioned engagement with proponents and stakeholders in its proxy statement.[14] 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.

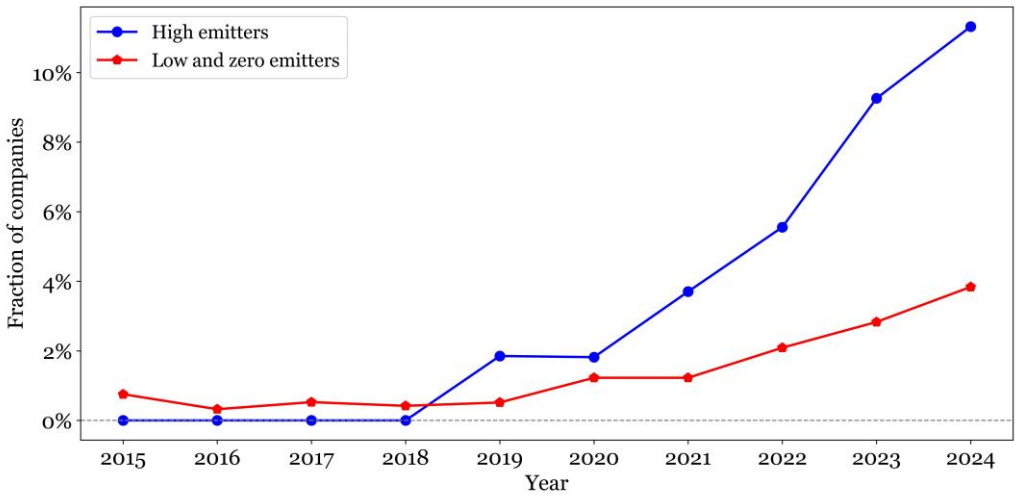
An example of engagement with stakeholders (Edison International 2021):

> "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."

[14] There are not meaningful changes in "engagement with shareholders" because companies routinely mention this throughout our study period.

Figure 8. Engagement with Proponents and Stakeholders

A. Companies that Mentioned Engagement with Proponents




B. Companies that Mentioned Engagement with Stakeholders

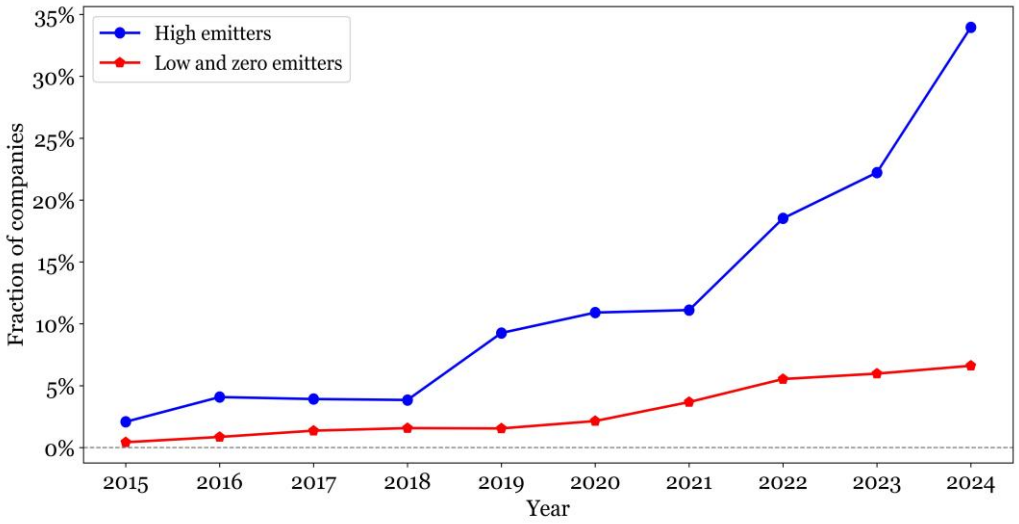



Figure 8 shows the fraction of companies that mentioned engagement over time, distinguishing high emitters from low and zero emitters. Panel A shows growing engagement with proposal sponsors over time by both groups of firms, with engagement by high emitters accelerating in 2021. Panel B shows that high emitters increased their engagement with stakeholders in 2019 and then made a big increase in engagement in 2022, the first full year that SLB 14L was in effect. It appears that engagement with proponents and stakeholders reached very high levels after 2021, but there is some evidence that it was already growing before then.

Table 4. 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 |

Table 4 presents difference-in-differences regressions of engagement, where the unit of observation is a company-year. The regressions differ in whether they concern engagement with proponents or stakeholders, and where $Treat$ is an indicator for high emitters or for $CAR < 0$. $Post$ is the years 2022-2024. The coefficients on the interaction term $Treat \times Post$ indicate that firms most likely to be affected by SLB 14L were 2 to 6 percentage points more likely to engage with proponents and 2 to 12 percent more likely to engage with stakeholders after SLB 14L, relative to control firms; statistically significant at the 10 percent level or more in all specifications. These estimates support the idea that high emitters suffered higher distraction costs after SLB 14L and that anticipated distraction costs could have played a role in the market's negative reaction to the announcement.

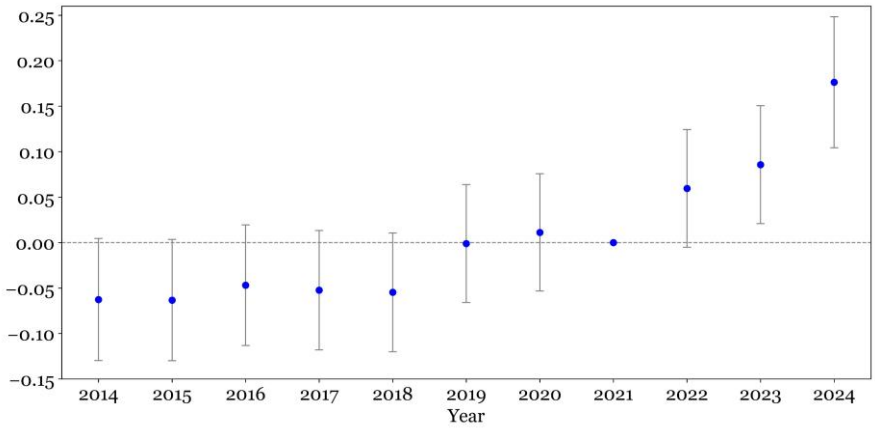
Figure 9 reports regression coefficients to evaluate the parallel trends assumption. The dependent variable is a dummy indicating engagement with stakeholders, and the independent variables are interactions of the treatment variable (high emitters in Panel A and $CAR < 0$ in Panel B) with each year. 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.

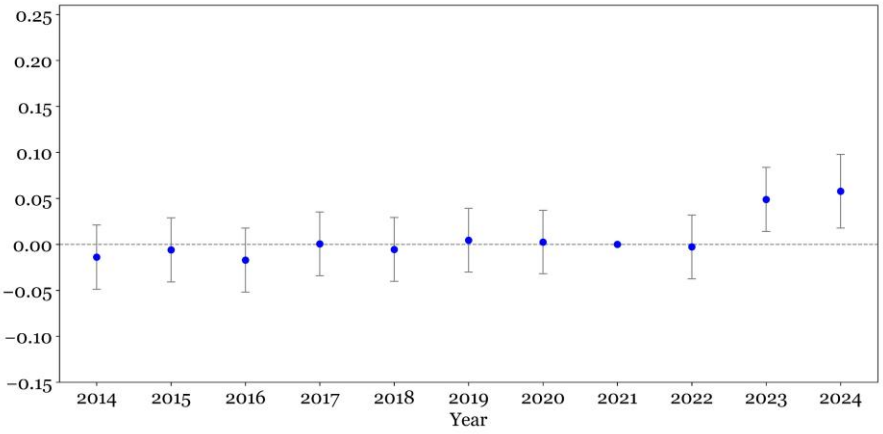
## *B. Magnitudes*

Figure 9. Parallel Trends in Engagement with Stakeholders

A. $Treat = 1$ if high emitters




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




To get a rough sense of how important distraction costs might be in accounting for the market's reaction, here we present back-of-the envelope estimates of the direct costs of dissipation. In a competitive market, a worker's hourly wage is equal to the worker's marginal revenue. Applying this logic, if we assume that a manager's salary is fixed (i.e., is not reduced as a result of lower productivity from distraction, and there are no incentive contracts), the cost of one hour of distraction is equal to the manager's hourly wage. Let $w_t$ be the average wage of managers that are distracted by proposals in year $t$, let $h_t$ be the

number of hours of distraction caused by one proposal in year $t$, and let $p_t$ be the incremental number of proposals brought about by SLB 14L in year $t$. Then the expected value lost due to distraction in year $t$ for a given firm is equal to

$$\Delta V_t = w_t \cdot h_t \cdot p_t.$$

The total value loss from SLB 14L is the present value of future losses across all firms. Assuming that $w_t = w$, $h_t = h$, and $p_t = p$ are constant across time, future cash flow is discounted at the rate $r$, and there are $N$ affected companies, then a simple perpetuity formula implies that the total value loss caused by SLB 14L is

$$N \cdot \Delta V = N \sum_t \frac{w \cdot h \cdot p}{(1+r)^t} = N \cdot \frac{w \cdot h \cdot p}{r}.$$

We produce a rough estimate of $N \cdot \Delta V$ as follows. For $w$, based on evidence from CEOs in Porter and Nohria (2018), we assume that managers work 62.5 hours per week, for a total of $62.5 \times 52 = 3{,}250$ hours per year. Hourly wages are determined by dividing total compensation in 2021 from Execucomp by 3,250.[15] For each firm, we average the hourly wage rate across the top officers, typically the top five officers.

For $h$, we report a range of values. Conceptually, the total amount of time is the sum of hours lost by the CEO, CFO, General Counsel, and other staff. As part of its benefit-cost analysis of amendments to Rule 14a-8 in 2020, the SEC (2020, p. 95, footnote 490) listed several activities that might occupy managers' time: reviewing the proposal and addressing the issues it raises; discussing the proposal with proponents; communicating with proxy advisors and non-proponent shareholders; deciding and possibly engaging in the no-action letter process; and preparing an opposition statement. These activities could involve, in addition to the CEO, managers and staff in finance, operations, legal services,

[15] We value stock options at the time of award (variable: *tdc1*). The average annual compensation for CEOs in high-emission companies was $12.5 million (implied hourly wage of $3,852), while the average annual compensation for the top five officers was $5.5 million (implied hourly wage of $1,686).

communications, and investor relations. The Commission estimated that a proposal might consume approximately 107 hours of company time, with an upper bound of 150 hours (much of that time would be staff, not top officers).

For $p$, Figure 1 suggests a sizeable increase in climate-related proposals, but there is not enough data to estimate the number precisely. We simply assume that the new guidance would trigger on average one new climate proposal every three years, so that $p = 1/3$.

For $r$, in principle the appropriate cost of capital is firm-specific, depending on each firm's risk characteristics, however, we assume a common rate. We report estimates for a range of rates centered on 10 percent. For $N$, we use the number of high-emitting firms, 62.

Table 5 shows the estimates of $N \cdot \Delta V$ for different values of $r$ and $H$. We emphasize

Table 5. Imputed Value Loss Associated with Managerial Distraction (in $Millions)

| | Hours of Time Lost Due to Distraction from One Proposal | | | | | |
|---|---|---|---|---|---|---|
| | $H = 5$ | $H = 10$ | $H = 20$ | $H = 50$ | $H = 100$ | $H = 150$ |
| $r = 0.06$ | 2.9 | 5.8 | 11.6 | 29.0 | 58.1 | 87.1 |
| $r = 0.08$ | 2.2 | 4.4 | 8.7 | 21.8 | 43.6 | 65.4 |
| $r = 0.10$ | 1.7 | 3.5 | 7.0 | 17.4 | 34.9 | 52.3 |
| $r = 0.12$ | 1.5 | 2.9 | 5.8 | 14.5 | 29.0 | 43.6 |
| $r = 0.14$ | 1.2 | 2.5 | 5.0 | 12.4 | 24.9 | 37.3 |

that these numbers are only intended to suggest the approximate magnitude of the distraction costs. The table suggests that increased distraction costs can easily reach into the millions of dollars, but are unlikely to reach into the billions. For example, even under the extreme assumption of 150 lost hours and a 6 percent discount rate, the total imputed loss is $87.1 million. Under more reasonable assumptions, such as (perhaps) a 10 percent discount rate and 50 hours of distraction, the aggregate cost is approximately $17.4 million. While distraction costs may be real and may have played a role in the market's reaction to SLB 14L, it does not appear that such costs were the main determinant.

## 7. Policy Expectations

The underlying reasons why the announcement of SLB 14L reduced the value of high-emitting firms do not appear to be what one might initially expect. Affected firms did not appear to materially reduce their emissions or increase investment, and managerial distraction costs seem too small to account for the magnitude of the returns. This section explores another possibility: investors interpreted the issuance of SLB 14L as a signal of future government policy and enforcement actions that would be harmful to high-emitting firms.

### *A. Separating Proposal and Policy Channels*

Table 6. Announcement Returns, Emissions, and Proposal Exposure

Each column is a regression in which the unit of observation is a company. The dependent variable is the CAR $[-1,3]$ associated with the release of SLB 14L. Columns (1)–(3) include all firms; columns (4)–(6) are restricted to firms with positive emissions. 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) | (6) |
|---|---|---|---|---|---|---|
| Dummy = 1 if high emitter | -1.91** | -1.72** | -1.86** | … | … | … |
| | (0.76) | (0.75) | (0.76) | | | |
| Dummy = 1 if received climate proposal pre-SLB | 0.33 | … | 0.54 | -0.85 | … | -0.95 |
| | (0.42) | … | (0.48) | (0.75) | | (0.82) |
| Dummy = 1 if received climate proposal post-SLB | … | -0.28 | -0.64 | … | -0.15 | 0.32 |
| | | (0.62) | (0.70) | | (0.94) | (1.03) |
| Emissions (log) | … | … | … | -0.38** | -0.43*** | -0.38** |
| | | | | (0.17) | (0.16) | (0.17) |
| $R^2$ | 0.01 | 0.01 | 0.01 | 0.07 | 0.06 | 0.07 |
| Observations | 1,049 | 1,049 | 1,049 | 184 | 184 | 184 |

The negative announcement return for high-emission firms could be explained in at least two ways. First, high emitters may have been more exposed to future environmental proposals, and second, the new guidance may have updated investor beliefs about future unfavorable government policies and enforcement actions. To distinguish between these explanations, we estimate regressions that relate announcement returns to firms' emissions and exposure to shareholder proposals. If emissions predict returns after accounting for proposal exposure, it suggests that the market's reaction reflected broader policy expectations in addition to direct effects of shareholder proposals.

Table 6 shows the CAR regressions including the same company-specific controls and indicators for concurrent events used in the baseline specification. The first three regressions include an indicator for high-emitting firms, together with various indicators for whether a firm received an environmental proposal before or after SLB 14L.[16] The coefficient on high emitters is negative and statistically significant, as in our baseline regression, while proposal variables are never statistically significant.

The final three columns restrict the sample to firms with positive emissions and replace the high-emitter indicator with the logarithm of total carbon emissions, allowing exposure to future environmental policy risk to vary continuously with the amount of emissions. The coefficient on emissions is negative and statistically significant in all three specifications, while proposal variables remain statistically insignificant. Neither prior proposal activity nor realized post-SLB 14L proposal activity explains the cross-section of returns.[17]

The limited ability of past or present proposal activity to explain returns may reflect investor skepticism about the effectiveness of the incremental proposals unleashed by SLB 14L or about their likelihood of receiving shareholder support. Khoo and Tallarita (forthcoming) argue that investors were less supportive of the post-SLB 14L climate proposals in part because they were overly prescriptive. Consistent with this interpretation, they find that climate proposals were less likely to pass after SLB 14L, a pattern we also observe in our sample (Appendix G).

### *B. Policy Reversal in the 2024 Elections*

For additional evidence on the possible role of policy expectations, we examine abnormal returns around the November 5, 2024 presidential and congressional elections,

[16] 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 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.

[17] In untabulated analyses, we do not find a significant increase in the number of environmental proposals received by high emitters after SLB 14L, consistent with the evidence in Table 6 that proposal exposure does not explain the announcement returns.

in which Republican Donald Trump was elected president and the Republican Party captured control of both the House and Senate. The shift from Democratic to Republican control was widely expected to produce environmental policies more favorable to fossil fuel companies and other high-emission firms. If investors revised their beliefs about future policy after SLB 14L was issued, then the 2024 election may have partially reversed the earlier negative returns for high emitters.

To examine this, we calculate the CARs for our sample firms over a $[-1,3]$ window around the 2024 election day. Looking at high emitters, we find a negative correlation of $-0.18$ ($p = .014$), between the CARs for the 2024 election and for SLB 14L, indicating that firms with larger losses after SLB 14L experienced larger gains after the 2024 election. Looking at all firms, the correlation is $-0.06$ ($p = 0.051$). The relationship is modest, perhaps because the election altered expectations about many government policies in addition to environmental regulation.

These correlations should be interpreted with some caution, as the 2024 election was not a mirror-image reversal of SLB 14L: the two events differed in their information content, in the relevant prior probabilities held by investors, and in the range of policies about which investor beliefs were updated. Announcement returns reflect changes from prior to posterior beliefs, not the total importance of the underlying policy issue, so there is no reason to expect a one-for-one reversal in returns. The more relevant implication is the negative sign of the relationship: firms penalized more strongly when climate-related policy risk increased tended to benefit more when that risk was plausibly reduced. This cross-sectional pattern is consistent with the interpretation that policy expectations contributed to the SLB 14L announcement returns.

## 8. Conclusion

This paper studies how investors, firms, and managers responded when the SEC issued new proxy guidelines in November 2021 that substantially expanded the rights of shareholders to bring environmental matters to a vote. Although the new guidance was advisory and not legally binding, it was widely viewed as enabling climate activists to put more pressure on corporate managers to reduce carbon emissions.

We find that the announcement of SLB 14L led to a large decline in the value of carbon-emitting firms, with total value losses of approximately $26 billion among the highest emitters. Although the number of proposals increased, we find no evidence that companies reduced their greenhouse gas emissions, strengthened their pledged emissions cuts, reduced their emissions of other toxic chemicals, or increased their capital expenditures consistent with investment in new cleaner technologies.

In a time of political polarization and geopolitical gridlock, some activists have argued that shareholder proposals can provide a channel for investors to influence corporate climate policies, and provide a private market solution to public environmental problems. While this may be correct, our evidence does not provide support for the efficacy of shareholder democracy in addressing environmental externalities. We do find evidence that managers increased engagement with shareholders and other stakeholders after the new guidance was issued, consistent with claims by business groups that shareholder proposals can divert management time and attention away from core operations.[18] This concern is central to the Business Roundtable's (2025) call for reform of the proxy process, and highlights a potential cost of shareholder democracy. However, the estimated distraction costs appear too small to account for the magnitude of the observed valuation losses.

Taken together, our evidence suggests that investors responded to SLB 14L not only because it would lead to more shareholder proposals, but also because it signaled future environmental policy and enforcement that would be unfavorable to emitting firms. From the perspective of empirical research on regulation, this underscores that the announcement returns associated with new regulations may combine both direct effects and broader policy expectations, potentially complicating inference in event-study analysis.

More substantively, it is remarkable that this policy signal, with its sizeable financial impact, did not come from a law or formal rule – it was an advisory statement on a somewhat technical matter that did not change a single law or regulation, an advisory that the SEC stated had no legal force. While at first counterintuitive, we speculate that the

[18] 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.

informal nature of this guidance may be the reason it provided a useful signal. Guidance statements of this nature are able to bypass the procedural constraints associated with formal rulemaking. Unlike regulations adopted through APA procedures, informal guidance may offer a more unadulterated perspective on the priorities and intentions of sitting government.

When Republicans took control of the Commission in 2025, the SEC swiftly issued SLB 14M, rescinding SLB 14L. This high-stakes volatility in regulatory advice, with its ability to bypass the APA's procedural requirements for rulemaking, raises questions about whether such guidance is protecting investors and promoting stable capital markets or may itself be a source of costly variation. Business groups increasingly complain about policy whiplash when administrations change, and scholars have noted growing volatility in regulations.[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. Tallarita (2022, p. 1755) writes that "the SEC has erratically changed its approach" to the admissibility of certain proposals. Pandey et al. (2025) show that SEC investigations and enforcement actions are more likely to be targeted at companies that are not political aligned with the Commission's majority.

**References**


Anagnosti, Era, Maia Gez, and Scott Levi. 2021, December 4. "SEC's New Approach to No-Action Requests for Shareholder Proposals." Harvard Law School Forum on Corporate Governance. Available at: https://corpgov.law.harvard.edu/2021/12/04/secs-new-approach-to-no-action-requests-for-shareholder-esg-proposals/.

Bainbridge, Stephen M. 2012. *Corporate Governance after the Financial Crisis.* New York: Oxford University Press.

Bebchuk, Lucian A. and Roberto Tallarita. 2022. "The Perils and Questionable Promise of ESG-Based Compensation." *Journal of Corporation Law* 48: 37-75.

Binder, John J. 1985. "Measuring the Effects of Regulation with Stock Price Data." RAND *Journal of Economics* 16 (2): 167-183.

Bloom, Nicholas, Philip Bunn, Paul Mizen, Pawel Smietanka, and Gregory Thwaites. 2025. "The Economic Impact of Brexit." NBER Working Paper 34459.

Bolton, Patrick and Marcin T. Kacperczyk. Forthcoming. "Firm Commitments." *Management Science.*

Bucourt, Noemie. 2025. "Real Effects of Personal Liability: Evidence from Industrial Pollution." Working paper, Cornell University.

Business Roundtable. 2019, June 3. *Business Roundtable Supplemental Public Comments to SEC on the Proxy Process*. Available at: https://s3.amazonaws.com/brt.org/Business-RoundtableSECSubmissionReFileNo.4-725.pdf.

Business Roundtable. 2025. *The Need for Bold Proxy Process Reforms*. Available at: https://www.businessroundtable.org/business-roundtable-calls-for-bold-reform-of-the-corporate-proxy-process-in-new-white-paper.

Brown, J. Robert, Jr. 2012. "The Politicization of Corporate Governance: Bureaucratic Discretion, the SEC, and Shareholder Ratification of Auditors." *Harvard Business Law Review* 2:501–34.

Cassidy, William. 2026. "Elections Have Consequences: The Impact of Political Agency on Climate Policy and Asset Prices," working paper, Washington University in St. Louis.

Cox, James D. and Randall S. Thomas. 2022. "The SEC's Shareholder Proposal Rule: Creating a Corporate Public Square," *Columbia Business Law Review* 2021(3): 1147-1198.

DavisPolk. 2021, November 9, "President Biden announces major proposed methane emission rules at 2021 UN Climate Change Conference." *Insights*, available at: https://www.davispolk.com/insights/client-update/president-biden-announces-major-proposed-methane-emission-rules-2021-un.

Duchin, Ran, Janet Gao, and Qiping Xu. 2025. "Sustainability or Greenwashing: Evidence from the Asset Market for Industrial Pollution." *Journal of Finance* 80(2): 699-754.

Duchin, Ran, John G. Matsusaka, and Oguzhan Ozbas. 2010. "When Are Outside Directors Effective?" *Journal of Financial Economics* 96: 195-214.

Ertimur, Yonca, Fabrizio Ferri, and Stephen R. Stubben. 2010. "Board of directors' responsiveness to shareholders: Evidence from shareholder proposals." *Journal of Corporate Finance* 16 (1), 53-72

Exxon Mobil Corporation vs. Arjuna Capital LLC and Follow This. 2024, January 21. *Complaint filed in U. S. District Court for the Northern District of Texas, Fort Worth Division.* Available at: https://climatecasechart.com/case/exxon-mobil-corp-v-arjuna-capital-llc/.

Exxon Mobil Corporation. 2024. *Schedule 14A: Proxy Statement*.

Fisch, Jill E. 1993. "From Legitimacy to Logic: Reconstructing Proxy Regulation." *Vanderbilt Law Review* 46:1129–99.

Gibson Dunn. 2021, November 5. "The Pendulum Swings (Far): SEC Staff Issues New Guidance on Shareholder Proposals." Client Alert. Available at: https://www.gibsondunn.com/the-pendulum-swings-far-sec-staff-issues-new-guidance-on-shareholder-proposals/.

ISS-Corporate (2024). U.S. Shareholder Proposals: A Decade in Motion. Available at: https://www.iss-corporate.com/library/us-shareholder-proposals-a-decade-in-motion/.

Kahn, Matthew E., John G. Matsusaka, and Chong Shu. 2024. "Divestment and Engagement: The Effect of Green Investors on Corporate Carbon Emissions." NBER Working Paper 31791.

Khoo, Kenneth and Roberto Tallarita. Forthcoming. "Expanding Shareholder Voice: The Impact of SEC Guidance on Environmental and Social Proposals." *Journal of Law and Economics.*

Larcker, David, Gaizka Ormazabal, and Daniel J. Taylor. 2011. "The Market Reaction to Corporate Governance Regulation." *Journal of Financial Economics* 101: 431-448.

Matsusaka, John G. and Oguzhan Ozbas. 2017. "A Theory of Shareholder Approval and Proposal Rights." *Journal of Law, Economics, and Organization* 33 (2): 377-411.

Matsusaka, John G., Oguzhan Ozbas, and Irene Yi. 2019. "Opportunistic Proposals by Union Shareholders." *Review of Financial Studies* 32 (8): 3215-3265.

Matsusaka, John G., Oguzhan Ozbas, and Irene Yi. 2021. "Can Shareholder Proposals Hurt Shareholders? Evidence from Securities and Exchange Commission No-Action-Letter Decisions." *Journal of Law and Economics* 64: 107-152.

Michaely, Roni, Thomas Schmid, and Menghan Wang. 2025. "Implicit versus Explicit Contracting in Executive Compensation for Environmental and Social Performance." Working paper, University of Hong Kong.

Pandey, Vivek, Xingyu Shen, and Joanna Shuang Wu. 2025. "Partisan Regulatory Actions: Evidence from the SEC," *Journal of Accounting and Economics* 80(1), 101777.

Parrillo, Nicholas R. 2019. "Federal Agency Guidance and the Power to Bind: An Empirical Study of Agencies and Industries." *Yale Journal of Regulation* 36 (1): 165-271.

Porter, Michael E. and Nitin Nohria. 2018. "Manage Time: Time is the Scarcest Resource Leaders Have. Where They Allocate It Matters – A Lot." *Harvard Business Review* July-August: 42-51.

RBC GAM Responsible Investment Team. 2024, August 9. "What Is the Road Ahead for Shareholder Proposals?" Available at: https://www.rbcgam.com/en/ca/article/what-is-the-road-ahead-for-shareholder-proposals/detail.

Riedl, Arno and Paul Smeets. 2017. "Why Do Investors Hold Socially Responsible Mutual Funds?," *Journal of Finance* 72 (6): 2505-2550.

Sciammacco, Sara. 2022, August 1. "Record Number of Negotiated Agreements between Investors and Companies in 2022 Proxy Season." Ceres. Available at: https://www.ceres.org/resources/news/record-number-of-negotiated-agreements-between-investors-and-companies-in-2022-proxy-season.

Securities and Exchange Commission. 2020. *Final Rule: Procedural Requirements and Resubmission Thresholds under Exchange Act Rule 14a-8.* Available at: https://www.sec.gov/files/rules/final/2020/34-89964.pdf.

Tallarita, Roberto. 2022. "Stockholder Politics." *Hastings Law Journal* 73(6): 1697-1760.

Uyeda, Mark T. 2023, June 21. "Remarks at the Society of Corporate Governance 2023 National Conference." Available at: https://www.sec.gov/newsroom/speeches-statements/uyeda-remarks-society-corporate-governance-conference-062123.

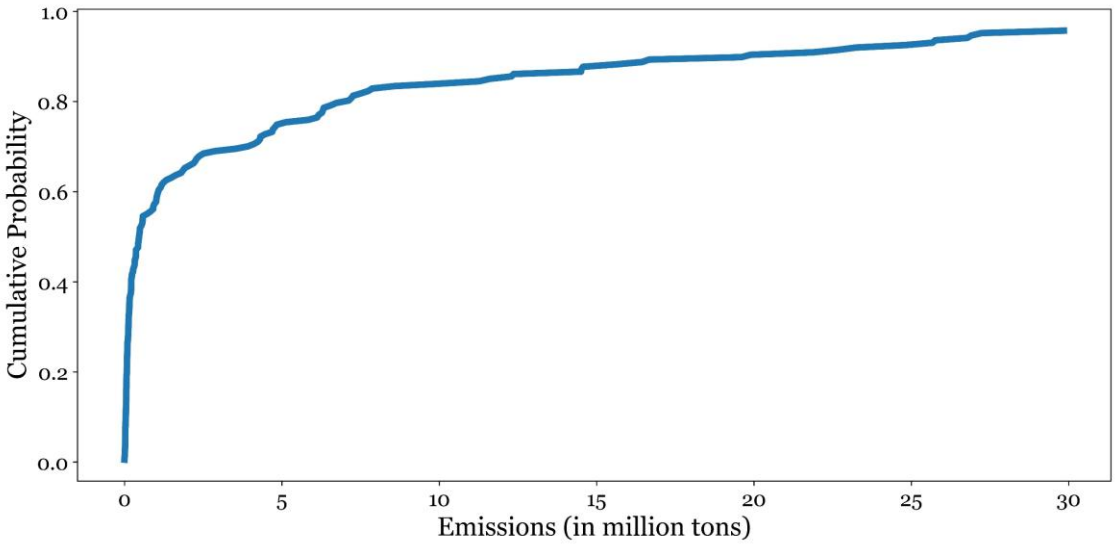
Whoriskey, Neil. 2021, November 24. "Milbank Discusses SEC Guidance on Shareholder Proposals and the Way to Regulate Climate Change," The CLS Blue Sky Blog. Available at: https://clsbluesky.law.columbia.edu/2021/11/24/milbank-discusses-sec-guidance-on-shareholder-proposals-and-the-way-to-regulate-climate-change/.

## 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 |

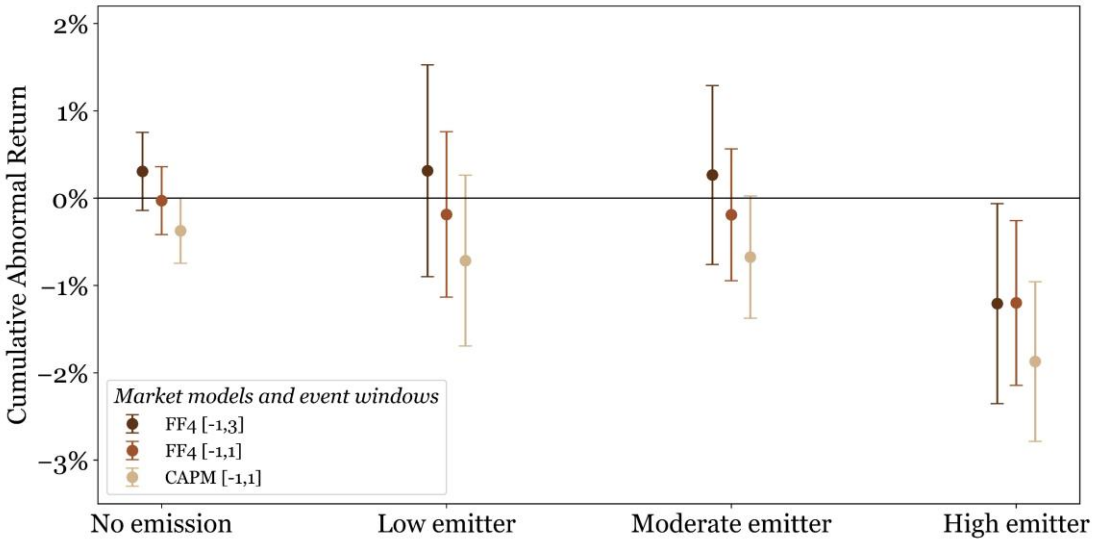
## Appendix B. Cumulative Distribution of Firm Carbon Emissions



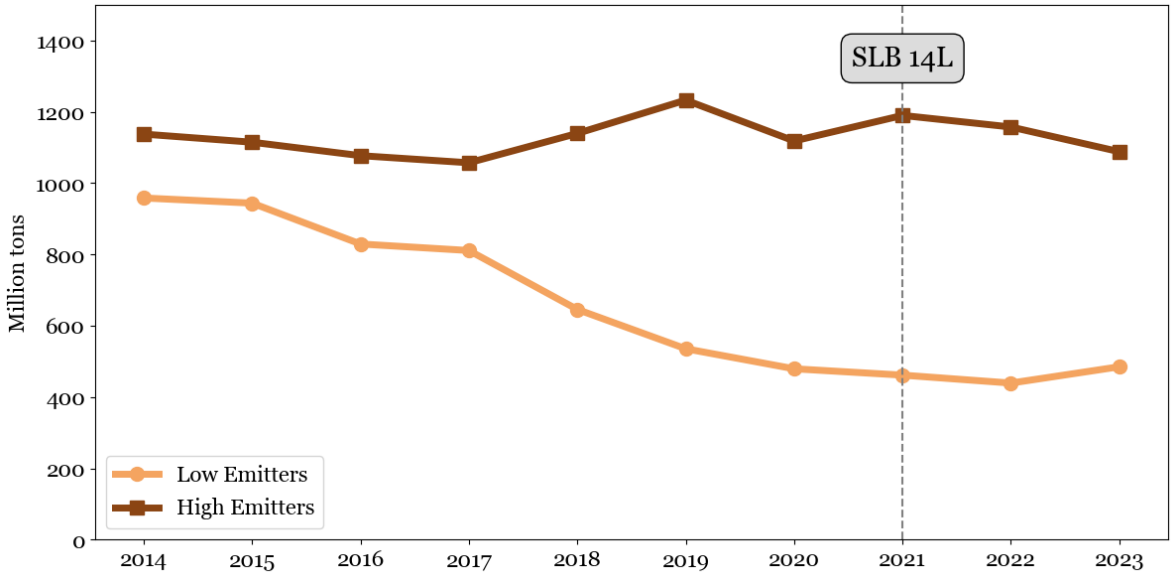

## Appendix C. Summary Statistics

| **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. 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 |

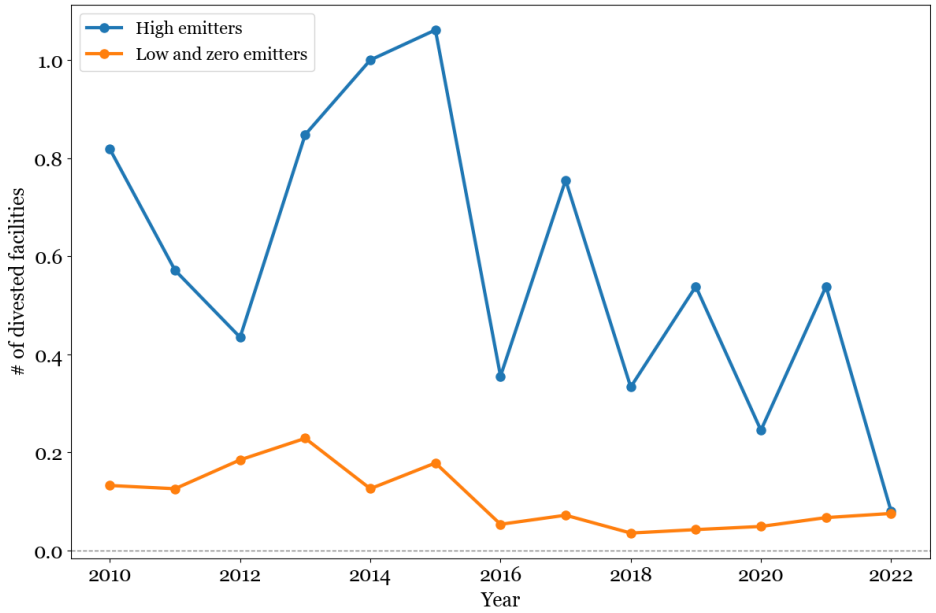
## Appendix D. CARs with Emitters Classified Based on Scope 1+2 Emissions



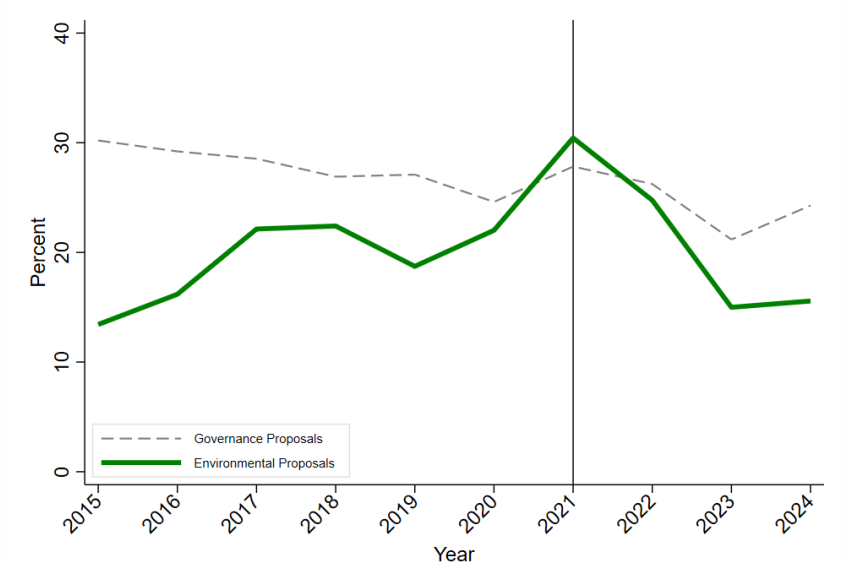

## Appendix E. Annual Greenhouse Gas Emissions Scope 1+2



## Appendix F. Number of Divested Facilities




## Appendix G. Voter Support for Shareholder Proposals



european corporate governance institute

## About ECGI

ECGI is an international non-profit membership organisation that provides a platform for debate and dialogue among academics, policymakers, and business leaders, with a focus on major corporate governance, ESG, and stewardship issues.

The views expressed in this working paper are those of the authors, not those of the ECGI or its members.

**www.ecgi.global**

european corporate governance institute

## ECGI Working Paper Series in Finance

Editorial Board

| | |
|---|---|
| Editor | **Nadya Malenko,** Professor of Finance, Boston College |
| Consulting Editors | **Renée Adams,** Professor of Finance, University of Oxford |
| | **Franklin Allen,** Professor of Finance and Economics, Imperial London |
| | **Julian Franks,** Professor of Finance, London Business School |
| | **Mireia Giné,** Professor of Finance, IESE Business School |
| | **Marco Pagano,** Professor of Economics, Facoltà di Economia Università di Napoli Federico II |
| Series Manager | **Asif Malik**, ECGI Working Paper Series Manager |

https://www.ecgi.global/publications/working-papers