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*

This paper studies how shareholder democracy regulations affect firm value and corporate decisions. We examine responses to an unexpected 2021 change in the SEC's proxy guidelines that allowed more climate-related shareholder proposals to come to a vote. Firms with high carbon emissions experienced −1.6 percent 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 was costly for targeted companies by diverting managerial attention toward non-operational activities, consistent with claims often made by business groups.

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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 as 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 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 controversial SEC guidelines issued in 2021 that made it significantly easier for investors to bring environmental proposals to a vote of shareholders. We estimate the effect of the new guidelines 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.[1] 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 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

[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.

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, firms with the highest carbon emissions lost approximately $26 billion of value upon the announcement of SLB 14L. We are able to rule out that the price fall 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, some investors may have been better off if 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). Could this be 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. Apparently, 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 discussion of 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 reported engagement efforts more than low or zero-emission firms. We produce back-of-the-envelope estimates of possible distraction costs, based on top executives' opportunity cost of time and find that the aggregate costs can easily run into the tens of millions of dollars. This is consistent with corporate claims 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 evidence on distraction costs in Matsusaka et al. (2021) and Bloom et al. (2025). However, the magnitudes are too small to account for the major portion of the negative announcement returns. We suggest that the negative returns may have in part impounded expectations of future enforcement and rulemaking actions by the SEC that would be adverse to high-emission firms.

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 including potential activist threats – 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 (forthcoming) 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.[2] Previous research has focused on major 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 a broad 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.[3]

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[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.

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

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 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."[4]

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

[4] 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).

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.[5] 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. 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."[6] 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

[5] 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).

[6] 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).

lawyers. Appendix A lists the SLBs related to 14a-8, summarizing the key content, and characterizes whether they were viewed as favorable to 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 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 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.[7] 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).[8] We show that this was in fact the case.[9]

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 case of SLB 14L, however, the SEC did not hold a stakeholders meeting and did not preview

[7] 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.
[8] Anagnosti et al. (2021) called it a "major shift in the SEC's approach . . . to environmental and social matters."
[9] 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).

the bulletin (Gibson Dunn 2021). As a result, the issuance of the bulletin was a surprise and thus new information to the market.[10]

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.

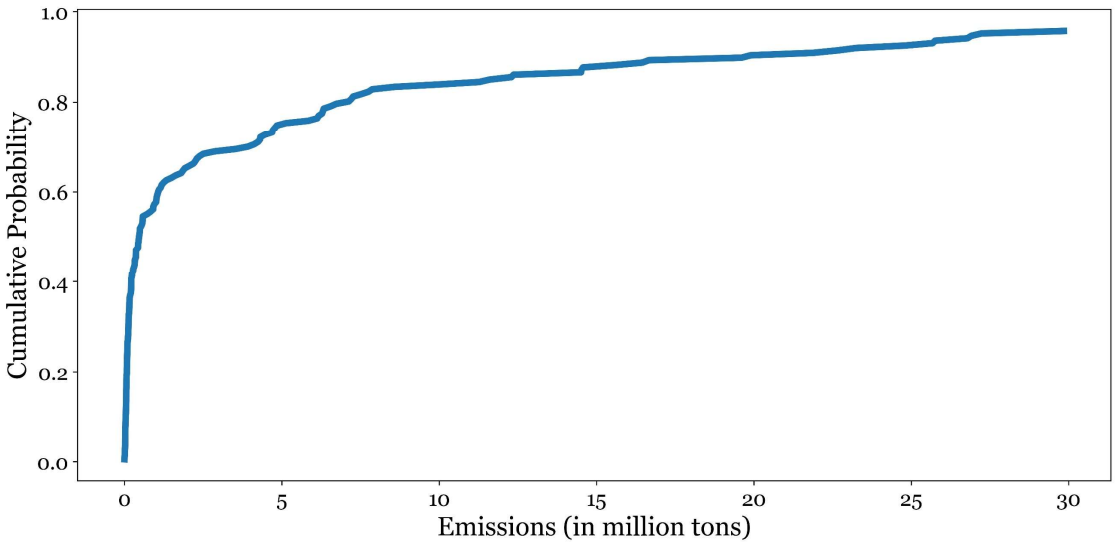
Data on greenhouse gas emissions come from the Environmental Protection Agency's (EPA) Greenhouse Gas Reporting Program (GHGRP). The GHGRP reports facility-level direct (Scope 1) emissions for every facility in the United States emitting at least 25,000 metric tons of carbon dioxide annually. Unless 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 (Figure 1). 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

[10] In contrast, the SEC's February 2025 issuance of SLB 14M, which rescinded SLB 14L, was widely anticipated by corporate governance observers. Because other SLBs were vetted publicly before they are issued, their announcement returns are not informative.

Figure 1. Cumulative Distribution of Firm Carbon Emissions



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 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. 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 B reports summary statistics.

4. Stock Price Reaction Associated with SLB 14L

A. Main Finding

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 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). High emitters accounted for approximately 95 percent of carbon emissions reported in the EPA dataset among publicly traded firms in our sample in 2020.

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 but do not report 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 using Scope 2 emissions.

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

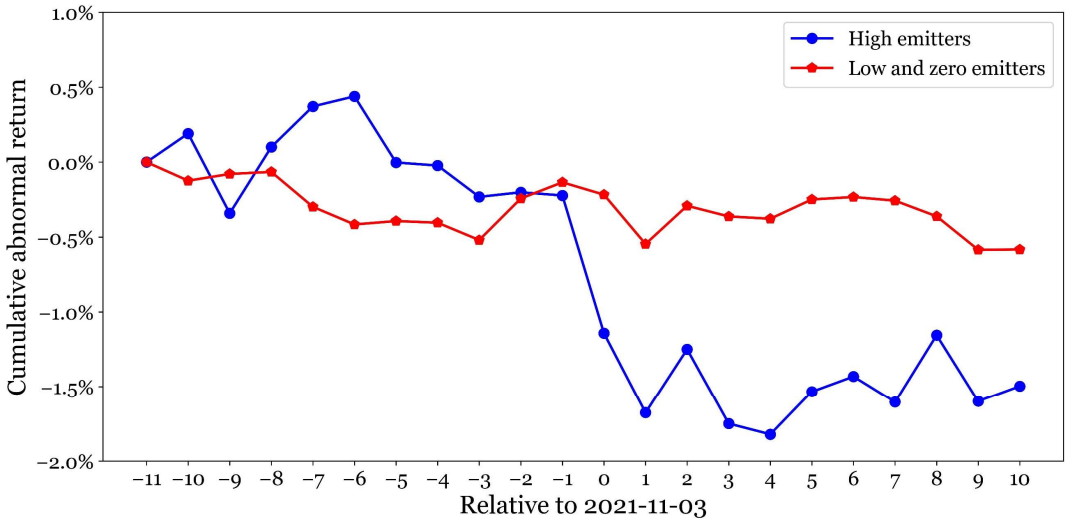
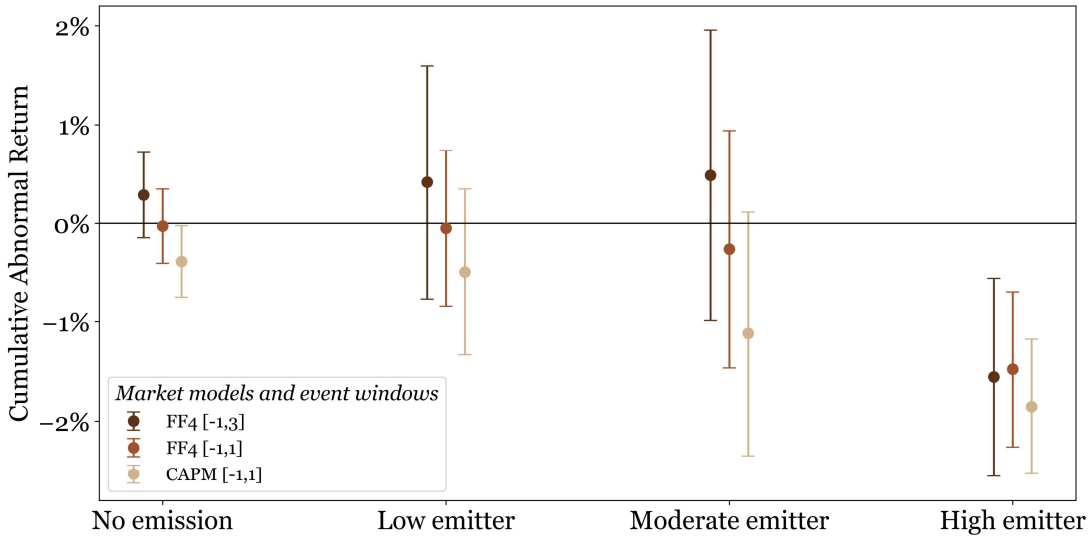


Figure 3. CARs for Different Emission Levels and Windows



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 firm-specific concurrent events (earnings announcements, stock buybacks, executive change, and

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 climate proposal	…	0.61	…	…	…
		(0.43)			
Dummy = 1 if high emitter & received climate 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

other).[11] 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 a climate-related proposal prior to 2021.[12] If the past is a guide to the present, firms that received climate-related proposals in the past would be more at risk of receiving proposals in the future. High-emitting firms with a history of receiving climate 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 sizeable 4.36 percent compared to non-emitting firms that had not received a proposal previously. The stock

[11] The key coefficients remain negative and statistically significant for other windows, including [-1,1] and [0,1]. We cannot meaningfully include detailed industry controls because high emitters are mainly in a handful of industries, specially oil and energy. About 70 percent of firms had at concurrent event.

[12] 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.

price return for low or zero-emitters that received climate-related proposals in the past is positive but not statistically distinguishable from zero.

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 a climate-related 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 climate 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 point estimate, the total dollar loss for high emitters on the announcement date was approximately $26 billion. The SEC created Rule 14a-8 under authority set forth in section 14 of the Securities Exchange Act of 1934. The Act had two overarching purposes: "protecting investors engaged in securities transactions and assuring public confidence in the integrity of the securities markets."[13] If the SEC's regulation of shareholder democracy is intended to increase value for shareholders, it 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

[13] 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.

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 or took some other actions that eventually improved climate outcomes. We turn to this issue – the effect of SLB 14L on carbon emissions – after discussing a potential confounding event and describing the responses in terms of shareholder proposals and voting.

B. Potential Confounding Event

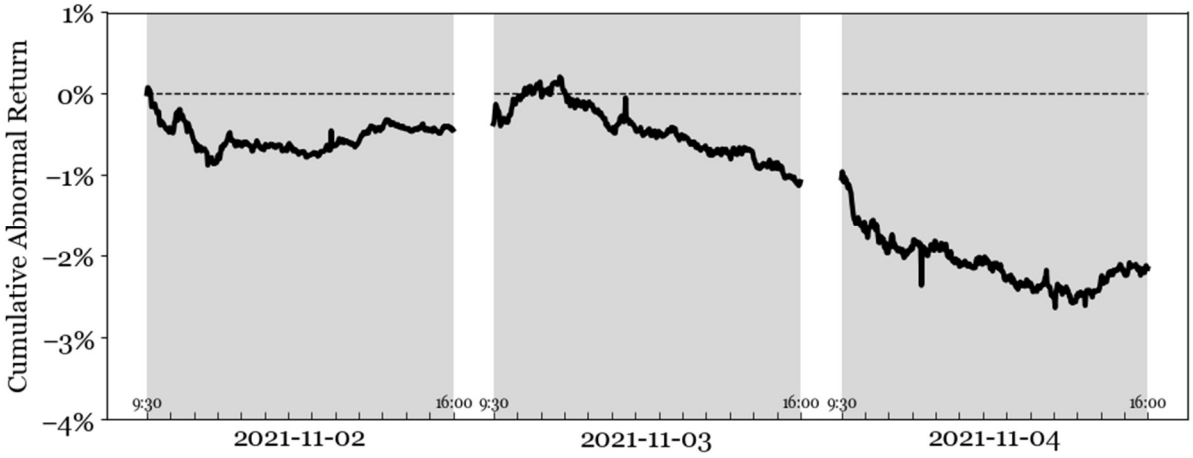
In interpreting the announcement return on November 3, 2021, it is important to be confident that there was not a confounding event in the event window. We searched media stories in the days surrounding November 3 and identified one event of potential concern: on November 2, during the United Nations Climate Change Conference (COP26) in Belfast, President Joe Biden announced a new plan to control the emissions of methane, a greenhouse gas. The administration's Proposed Methane Rule under the Clean Air Act 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.

There are several reasons to doubt that our estimated CARs are in fact capturing a reaction to the methane announcement. For one thing, the key elements of the methane plan had been widely discussed for months 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.

Additional evidence can be found by looking more granularly at the intraday returns of high-emitting companies on November 2, 3, and 4. 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 we have 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. The figure shows no pronounced downward trend on November 2, with prices at the start of November 3 about

Figure 4. Mean Hourly CARs for High Emitters



the same as they were at the start of November 2. This is consistent with contemporary accounts that markets had already anticipated the Proposed Methane Rule.

The first media story on SLB 14L appears to have been a story on PoliticoPro that was published at 12:50 pm EDT; a Reuters story was published at 3:30 pm EDT. It seems SLB 14L was released in late morning or early afternoon. Figure 4 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_2e 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 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. Changes in Shareholder Proposal Activity

Observers expected SLB 14L to increase the number of climate-related proposals. Here we offer descriptive evidence suggesting that this is in fact what happened. For a more extensive analysis that reaches the same conclusion, see Khoo and Tallarita (forthcoming).[14]

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:

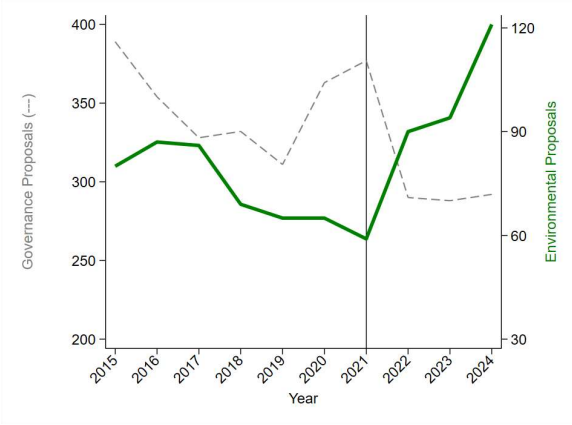
> Resolved: Shareholders support the Company, by an advisory vote, to go beyond current plans, further accelerating the pace of emission reductions in the medium-term for its greenhouse gas (GHG) emissions across Scope 1, 2, and 3, and to summarize new plans, targets, and timetables. (ExxonMobil vs.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

Figure 5 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 did not expect to be affected by SLB 14L. Panel A shows that the number of environmental proposals rose sharply after the new guidance was issued, with no similar increase in governance proposals. 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. Panel B shows that while firms were more aggressive in

[14] In addition to noting the increased number of proposals in 2022, media commentary at the time mentioned that more than 100 companies negotiated agreements with climate activists in exchange for their proposals being withdrawn or not proposed (Sciammacco 2022). As noted above, theoretically the ability to threaten and withdraw a proposal can be just as effective in pressuring managers as actually bringing a proposal to a vote (Matsusaka and Ozbas 2017).

Figure 5. Shareholder Proposals Activity 2015-2024

A. Number of Proposals



B. Fraction of Proposals with No-Action Letter Request

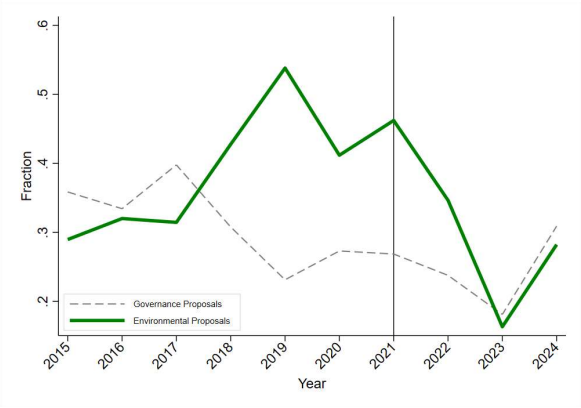


Table 2. DID Regressions of Environmental Proposal Activity and Shareholder Support

In columns (1) and (2), the unit of observation is a meeting during 2015-2024; in column (3), the unit of observation is a proposal. Dependent variables are 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.

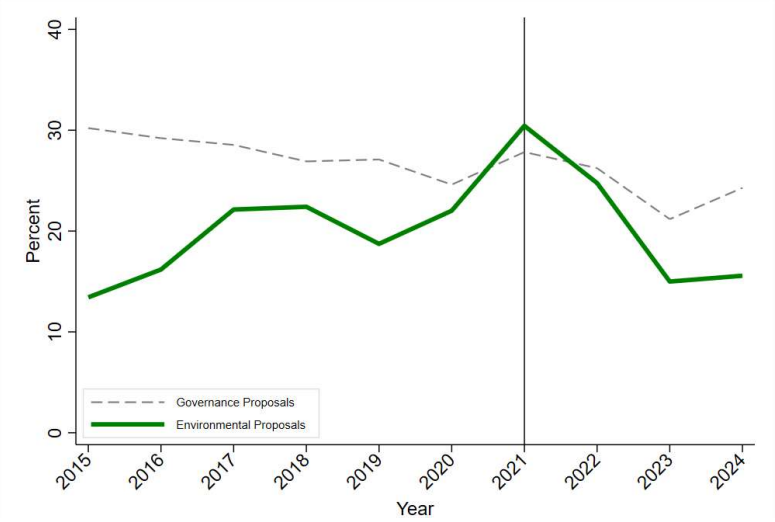
	# Environmental proposals (1)	Indicator for at least one environmental proposal (2)	%Vote in favor of environmental proposal (3)
$Treat \times Post$	-0.01	0.03	-4.35**
	(0.063)	(0.04)	(1.90)
N	10,139	10,139	738

challenging environmental proposals than governance proposals in the years leading up to SLB 14L, challenges become less frequent for environmental proposals afterwards. Presumably, companies became more pessimistic about no-action letter challenges, and therefore less inclined to seek relief from the SEC.[15]

Table 2 estimates whether the new SEC guidance led to more environmental proposals targeted at high emitters. All sorts of firms may receive environmental proposals,

[15] 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 Appendix C).

Figure 6. Vote Support for Shareholder Proposals

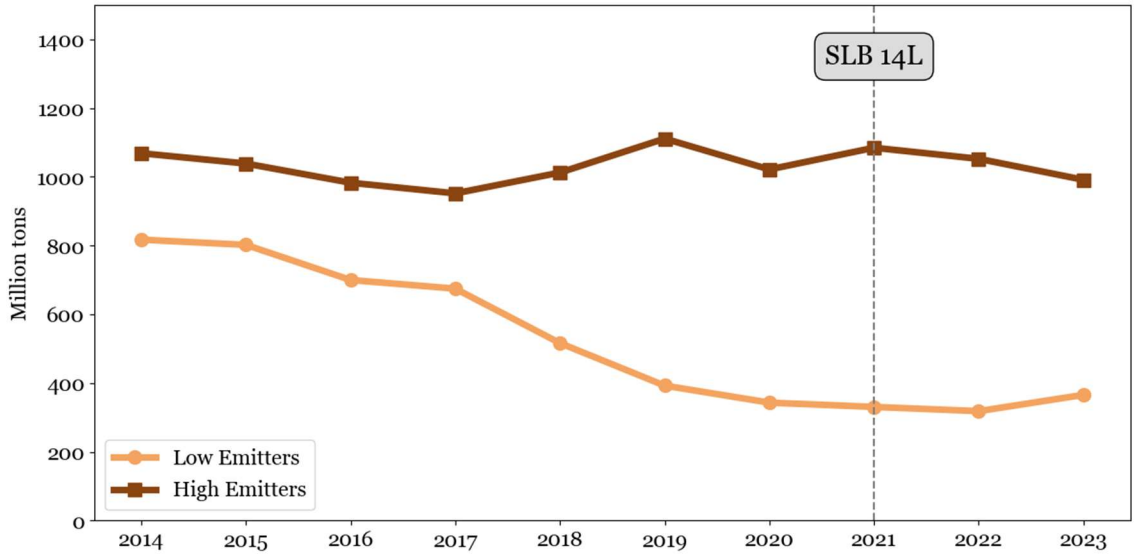


but the small set of high emitters received one-third of them during the period 2015-2021. We estimate firm-level difference-in-differences models using two dependent variables: the number of environmental proposals per annual meeting, and an indicator for whether the annual meeting had at least one environmental proposal. $Treat$ is a dummy for high emitters, and $Post$ is the years 2022-2024.

The coefficient on the interaction term $Treat \times Post$ in the first column implies that high emitters received 0.01 fewer proposals per year after SLB 14L, relative to low and zero emitters, an effect that is statistically insignificant. The coefficient in the second column 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, we cannot reject the view that incremental proposals flowed to both high and low emitters in roughly equal amount.

Figure 6 shows the approval rate for environmental proposals over time. Shareholder support for environmental proposals declined after SLB 14L, reversing a previous trend of growing support. 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 (forthcoming) argue and provide text-based evidence that investors disliked the new proposals because they were overly prescriptive. The regression in column (3) of Table 2, in which the dependent variable is the percentage of votes in favor of an environmental proposal, shows that the tendency toward proposals that

Figure 7. Annual Greenhouse Gas Emissions



did not appeal to shareholders was especially pronounced at high emitters, with post-SLB 14L environmental proposals attracting 4.36 percentage points less support.

6. Real 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, 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. If shareholder proposals were effective through either channel, we would expect to see reduced emissions after SLB 14L.

Figure 7 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

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

emissions after 2021. The figure shows a gradual decline in emissions for low emitters, also with no obvious break point in 2021.

Table 3 reports 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 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 – 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.[16]

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

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, admittedly a crude measure but useful for detecting big shifts. 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 companies could take a while to react to shareholder pressure. This is a valid concern, but Kahn et al. (2024) 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.[17]

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 pledge 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 reflect intentions rather than binding commitments.[18]

Table 4 presents difference-in-differences regressions analogous to those previously reported. In Panel A, column (1) shows that, on average, high emitters pledged to reduce emissions by 5.80 percentage points less than the control group after SLB 14L, statistically significant at the 10 percent level. High emitters made less ambitious carbon reduction

[17] 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 ("greenwashing"), which would produce an average effect of zero, but there are too few within-group asset sales to support this explanation.

[18] 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.

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

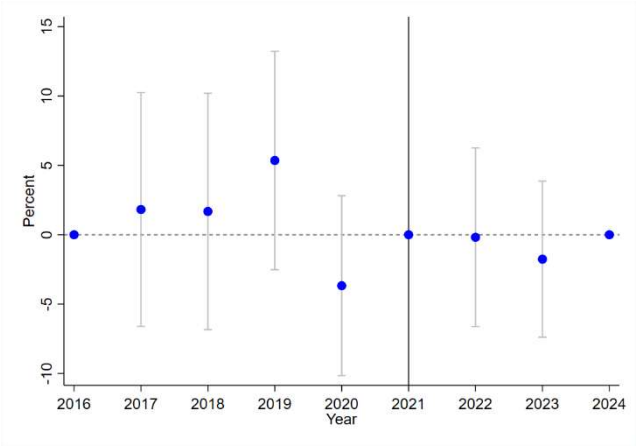
pledges after SLB 14L than other firms. Column (2) adds fixed effects for each pledge horizon, and column (3) includes pledge horizon as a control variable (because pledge horizon is significantly associated with more aggressive pledges). Across these specifications, the coefficients on the $Treat \times Post$ 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.

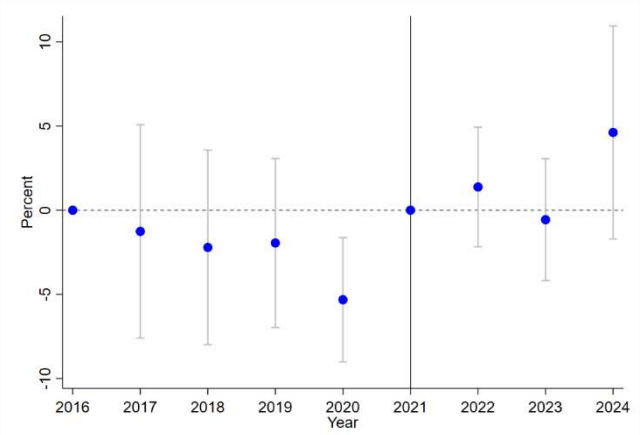
To examine the timing of any potential effects, we investigate the year-by-year impact of SLB 14L on corporate carbon pledges. Figure 8 plots the year-by-year coefficients from a regression of pledged reduction percentage on the interaction between our two treatment definitions and year indicators, with 2021 serving as the reference year. The

Figure 8. Pledges and Announcement of SLB 14L

A. $Treat = 1$ if high emitters



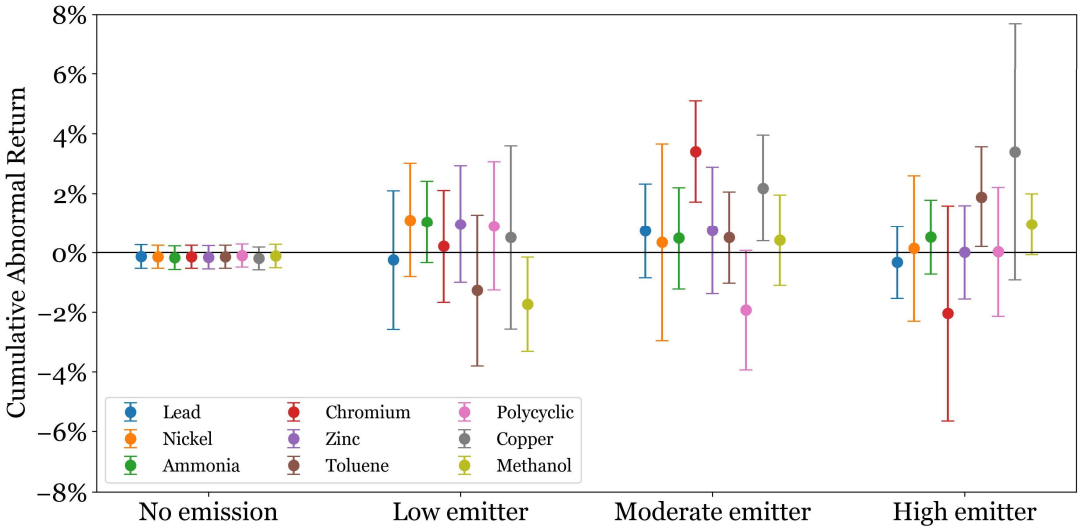
B. $Treat = 1$ if $CAR < 0$



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 (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 greenhouse gases. A proposal may ask a company to address damages caused by its toxic waste or

Figure 9. CARs for Different Toxic Chemical Emission Levels



establish plans to limit chemical emissions.[19] Based on proposal 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 9 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 to find measurable divestitures of polluting assets; we do not find an increase in such divestitures in the year after SLB 14L (Appendix E).

[19] For example, in Tesla's 2021 proxy statement, a 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."

7. Managerial Distraction

A. Evidence

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 limited evidence that speaks to this hypothesis. Matsusaka et al. (2021) show 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) provide 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.

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.[20] 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.

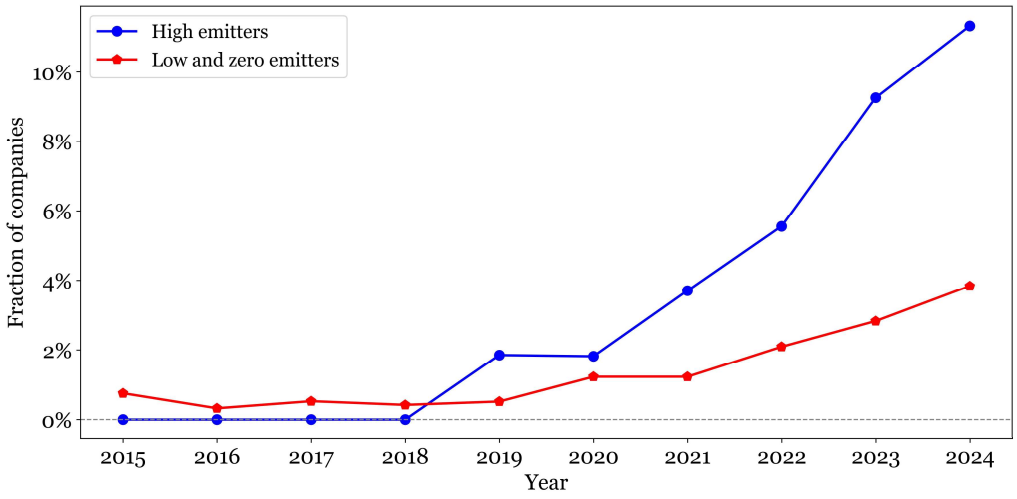
An example of engagement with stakeholders (Edison International 2021):

> "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."

[20] 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.

Figure 10. Companies that Mentioned Engagement in Proxy Statement

A. Engagement with Proponents



B. Engagement with Stakeholders

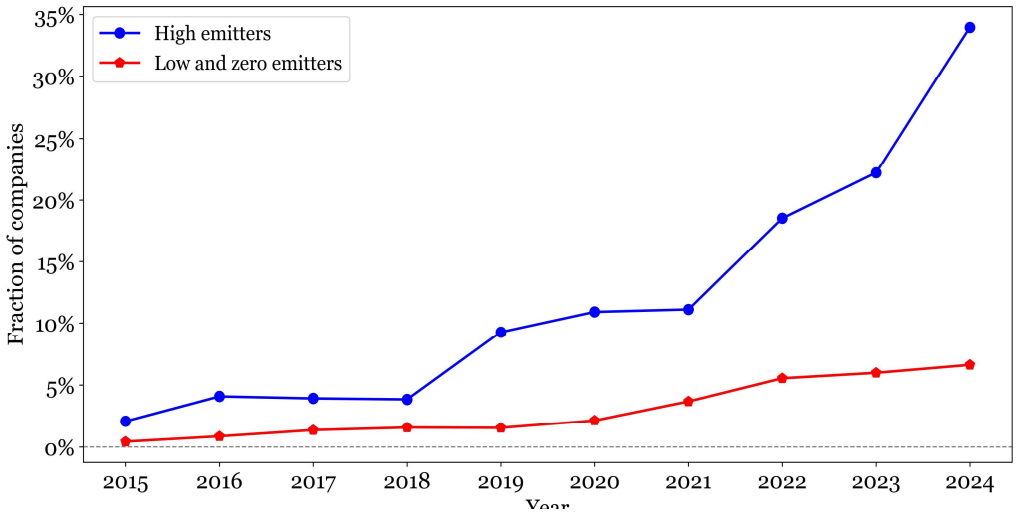


Figure 10 shows the fraction of companies that mentioned engagement over time, distinguishing high emitters from low and zero emitters. Panel A, which plots engagement with proposal sponsors, shows growing engagement over time from both groups of firms, with engagement by high emitters accelerating in 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. 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.

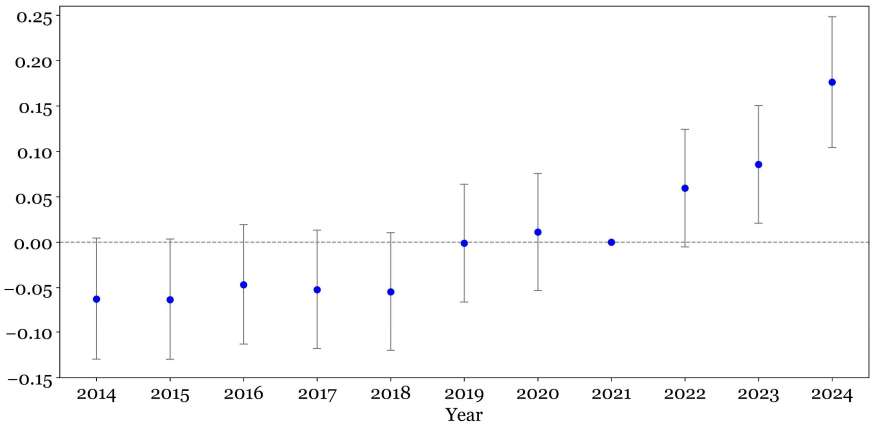
	Dependent = Engaged with Proponents		Dependent = Engaged with Stakeholders	
	$Treat =$ High Emitter	$Treat =$ CAR < 0	$Treat =$ High Emitter	$Treat =$ CAR < 0
	(1)	(2)	(3)	(4)
$Treat \times Post$	0.06*	0.02**	0.12***	0.02*
	(0.03)	(0.01)	(0.04)	(0.01)
N	9,192	9,192	9,192	9,192

Table 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.

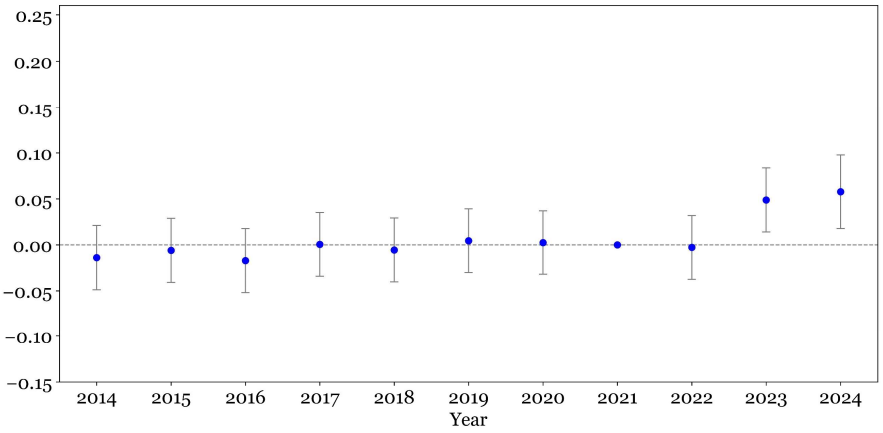
Figure 11 reports regression coefficients that test the parallel trends assumption. The dependent variable is a dummy indicating engagement with stakeholders, and the independent variables are interactions of the treatment variable (high emitters in Panel A and $CAR < 0$ in Panel B) with each year. Although 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

Figure 11. Parallel Trends in Engagement with Stakeholders

A. $Treat = 1$ if high emitters



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



CARs on the SLB 14L announcement date. The test using engagement with proponents as the dependent variable produces similar pictures.

B. Back-of-the-Envelope Magnitudes

Our estimates build a circumstantial case that the market's negative reaction to the new guidance was due in part to an expectation that corporate value would be dissipated by managers being distracted by "frivolous" proposals, as argued by corporate advocacy groups. This explanation, even if correct, does not preclude the possibility that the market's reaction compounded other factors. For example, the market may have viewed SLB 14L as a harbinger of other SEC actions and rules that would reduce value in the future. In order 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 value 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 annuity 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 by 3,250.[21] For each firm, we average the hourly wage rate across the top officers, typically the top five officers.

[21] Compensation data for the top five officers are from Execucomp. We use the total compensation, valuing 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).

Table 6. Imputed Value Loss Associated with Managerial Distraction (in $Millions)

	Hours of Time Lost Due to Distraction from One Proposal					
	$H = 5$	$H = 10$	$H = 20$	$H = 50$	$H = 100$	$H = 150$
$r = 0.01$	17.4	34.9	69.7	174.3	348.6	522.8
$r = 0.03$	5.8	11.6	23.2	58.1	116.2	174.3
$r = 0.05$	3.5	7.0	13.9	34.9	69.7	104.6
$r = 0.07$	2.5	5.0	10.0	24.9	49.8	74.7
$r = 0.09$	1.9	3.9	7.7	19.4	38.7	58.1
$r = 0.11$	1.6	3.2	6.3	15.8	31.7	47.5

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, 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). To adjust for the fact that we are imputing the cost of time based on salaries of top officials, one should scale down the effective hours to some degree.

For p, Figure 2 suggests a sizeable increase in climate-related proposals, but there is not enough data to make confident claims about the exact number. 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 discount rate 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 5 percent, which spans the equity premium estimates of academic professionals reported by Welch (2008). For N, we use the number of high-emitting firms, 62.

Table 6 shows the estimates of $N \cdot \Delta V$ for different values of r and H. We emphasize that these numbers are intended only 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 1 percent discount rate, the total imputed loss is $522.8 million. Under more reasonable assumptions, such as (perhaps) a 5 percent discount rate and 50 hours of distraction, the aggregate cost is approximately $34.9 million. This suggests that while distraction costs may be real and may have played a role in the market's reaction to SLB 14L, such costs were not the main determinant. We discuss other factors in the concluding section.

8. Conclusion

The SEC's mission is "protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation."[22] Its regulation of shareholder democracy is intended to advance these goals by ensuring that investors are informed when they vote, are treated fairly, and have sufficient voting rights to protect their interests. Our evidence raises questions about the alignment of the SEC's actions with its mission, as well as the consequences of shareholder democracy for corporate behavior, and the role of shareholder proposals in advancing social goals.

Our main finding is a sharply negative market reaction among carbon-emitting firms to the SEC's 2021 issuance of new guidelines that encouraged climate-related proposals. The negative announcement returns suggest that investors expected the regulations to reduce the profitability of these firms. One might expect future profits to decline if firms are pressed into costly emissions abatement; however, we find no evidence that high-emission firms subsequently reduced their carbon output or increased their pledges to reduce emissions.

It is somewhat puzzling that the value of high-emitting companies fell when SLB 14L was issued, given that companies did not subsequently reduce or plan to reduce their emissions. Perhaps 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

[22] SEC mission statement: https://www.sec.gov/about/mission (December 2025).

time and resources addressing frivolous proposals, instead of focusing on core operational 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.[23] It appears that businesses are not crying wolf when they complain about the costs of complying with shareholder proposals. However, the size of the negative CARs relative to the plausible magnitude of distraction costs suggests that distraction costs are not the main story. We conjecture, but are unable to place on an empirical footing, another possibility: that a portion of the negative response to SLB 14L may have been what it signaled about future SEC regulatory and enforcement actions. Investors may have interpreted the new guidance as a harbinger of future SEC actions that would disadvantage high emitters.

Another puzzle is why proponents would introduce environmental proposals if the proposals had no effect on emissions and reduce firm value? A possible answer is: to get attention. Proponents often have very low stakes in the companies they target, and their overall 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 any changes their proposal brings about in the company's behavior.[24] Whether this is a socially desirable use of the proxy process is open for debate, but it is not a stated purpose of the process.

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, and allowed activists to call for

[23] 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.
[24] 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."

votes on more proposals, our evidence suggests that this had little effect on emissions, while it did increase managerial costs of dealing with 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 managerial costs without resulting in meaningful changes in corporate policies. This is not to say that shareholder democracy in general is counterproductive, but that the regulatory details matter, and allowing more proposals may not always be a good thing.

Our evidence also raises questions about the alignment of the SEC's regulations with its mission. Climate abatement, meritorious or not, is not part of the Commission's statutory mandate (that would be a responsibility of the EPA and other agencies). The SEC's mission is to protect investors and facilitate capital formation. SLB 14L appears to have imposed a financial cost on some investors, and raised the cost of capital for high-emitters, neither or which is immediately consistent with the mission.

From a legal perspective, it is also interesting that 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. 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 – which is enabled by the ability of advisories to bypass the APA's 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. Business groups increasingly complain about policy whiplash when administrations change, and scholars have noted growing volatility in regulations.[25]

[25] 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.

As a coda to this analysis, shortly after the first draft of this paper was released, the SEC announced that it was, for most intents and purposes, exiting the no-action letter business for shareholder proposals. Its stated intent was to turn the issue of proxy eligibility over to the states, but it also suggested that many proposal topics may well be inadmissible under state law.

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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.

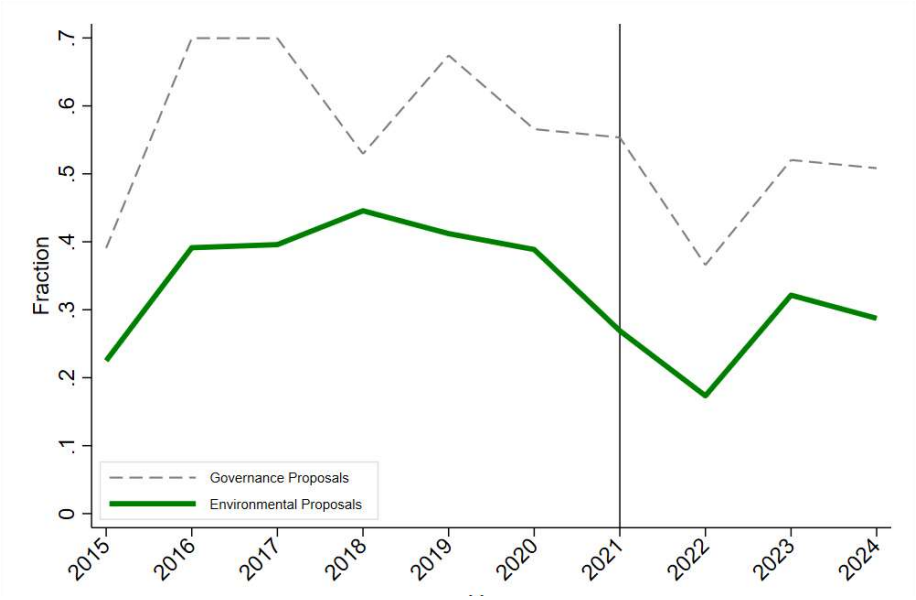
SLB	Date	Rules	Description	Favors
14	7/13/2001	All	General explanation	
14A	7/12/2002	14a-8(i)(7)	Allows exclusion of proposals seeking shareholder approval of exec comp plans that would result in material dilution of stock.	Shareholders
14B	9/15/2004	14a-8(i)(3); 14a-8(j)	Prohibits exclusion based on 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. 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

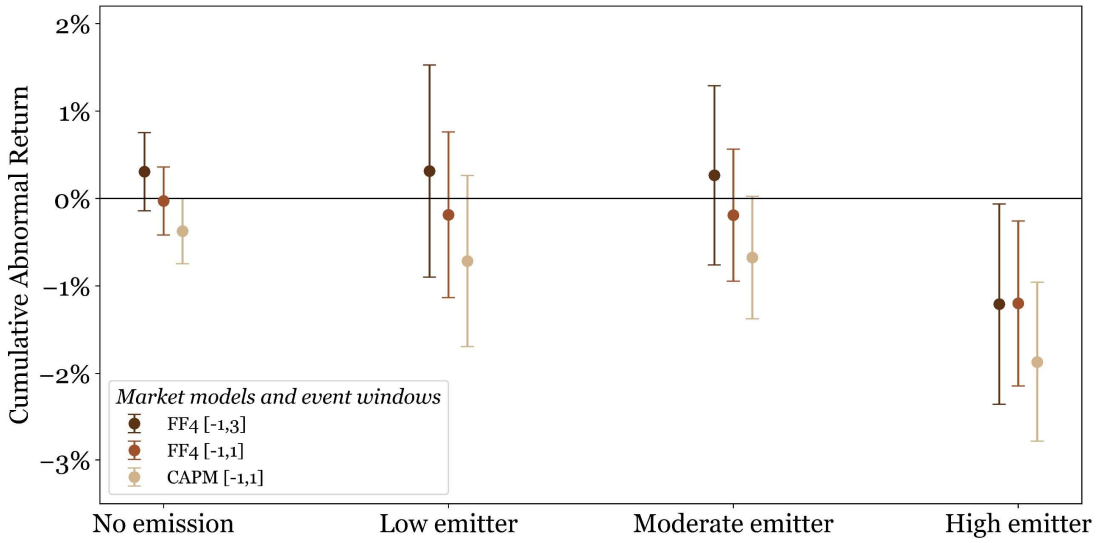
Appendix C

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



Appendix D

Figure D. CARs for Different Emission Levels and Windows, using Scope 1 and Scope 2 Emissions



Appendix E

Figure E. Number of Divested Facilities