SEC Suspicion of Shareholder Proposals Hurts Corporate Democracy

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By Daniel Stone December 22, 2025

The Trump administration's view is that companies should prioritize increasing shareholder value rather than address stockholder proposals—particularly those related to environmental, social, and governance issues.

The White House issued an executive order in December to limit the ability of these proxy advisers to make shareholder recommendations.

The Securities and Exchange Commission appears to have adopted that view in recent public statements, but that position could undermine corporate democracy by curtailing shareholder proposals to comport with that view.

SEC Chair Paul Atkins explained his goal to refocus shareholder meetings on "significant corporate matters" during a keynote address in October. He argued that non-binding stockholder proposals consume substantial management time and impose unnecessary costs on a company.

Atkins' comments presuppose that a company's directors and managers' views on what constitute "significant corporate matters" should carry more weight than the company's stockholders. He presumes that many stockholders—the actual owners of the business to whom directors owe fiduciary duties—are provocateurs seeking to distract directors.

This view is outdated. Shareholder proposals, once primarily used by social activists, are now a common tool for institutional investors who want to promote good corporate governance

Such proposals provide a cost-effective way for stockholders to voice their opinions without launching a costly and complex campaign to replace board members. They're an efficient tool for shareholders to communicate with directors that is much more nuanced than the blunt instrument of directorial elections.

Despite this, the SEC under Atkins appears to view all shareholder proposals with suspicion. Its Division of Corporation Finance last month announced a substantial change to how it is approaching Rule 14a-8, which normally restricts a company's ability to exclude procedurally valid shareholder proposals.

For the 2025–2026 proxy season, the Division of Corporate Finance will accept any company's representation that it had a "reasonable basis" to exclude a proposal and won't object to that exclusion.

This effectively gives companies unrestricted power to reject shareholder proposals without SEC review. It means management's perspective on corporate policy will be the only one expressed during the upcoming proxy season.

SEC Commissioner Caroline Crenshaw said the announcement "is the latest in a parade of actions by this Commission that will ring the death knell for corporate governance and shareholder democracy, deny voice to the equity owners of corporations, and elevate management to untouchable status."

Crenshaw's summary is apt—the SEC's new stance reverses the traditional notion that management is accountable to shareholders.

Although Rule 14a-8 proposals are typically non-binding and can't force directors to act, they serve an important purpose: They allow shareholders to give directors guidance on their preferred course of action. Most shareholder proposals provide directors with valuable information at a fraction of the cost of a contested board election.

This upcoming proxy season, with likely fewer shareholder proposals, will produce valuable data. If the SEC's policy causes proposals to plummet, we can better assess the validity of concerns about management distraction and costs.

For example, companies can compare the costs of managing their annual meetings this year, with fewer shareholder proposals, with the cost of annual meetings with numerous shareholder proposals, and actually determine just how marginally expensive shareholder proposals are for companies. Likewise, directors claims of distraction, while subjective, can be put to the test.

However, shareholders who disagree with the directors' managerial decisions may be forced into more expensive and distracting proxy fights to replace directors.

It will be interesting to see whether the decision to effectively eliminate shareholder proposals leads to closer collaboration between directors and those shareholders with large shareholdings or personal relationships to directors, who can still communicate their managerial preferences to the board with a shareholder vote.

Assuming companies provide unbiased reports on cost differences from shareholder meetings and board impacts, this data will be crucial.

With trustworthy information on the actual costs and benefits of shareholder proposals, both sides can have a better educated debate on whether these proposals are a legitimate tool for corporate democracy or a method of harassing corporate boards.

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