

Data Appendix on Proposals to Restrict Shareholder Voting

Office of Commissioner Robert J. Jackson, Jr.

November 7, 2019

Our research shows:

- The proposed **resubmission thresholds would take important governance proposals** off the corporate ballot, including: independent board chairs, proxy access, stock sale restrictions.
- Under the proposed rule **more than half** of shareholder proposals restricting executive stock sales—designed to align managers’ incentives with investors’ for the long-term—would be excluded from corporate ballots for **three years**.
- Popular ESG proposals including **political spending, board diversity, and climate change** would also be significantly impacted under the proposed rules.
- The proxy process is not perfect: companies with close or contested votes on proposals by frequent individual submitters (so-called “gadflies”) experience **negative stock price reactions and lower long-run firm value**.
- By contrast, proposals from other types of investors—including infrequent individual submitters—have **positive effects on firm value**.

Methodology

- We extract data on shareholder proposals from the ISS Analytics database for each year from 2004 to 2018, resulting in a total sample of 8,319 shareholder proposals. Then we manually clean and normalize shareholder proponent names, following Nikolay Gantchev & Mariassunta Giannetti, *The Costs and Benefits of Shareholder Democracy* (working paper 2019), to identify frequent individual and institutional submitters of proposals. Frequent submitters, individual or institutional, are defined as submitters in the top ten of each proxy season.
- We compute the support for each category of shareholder proposals, conditional on the number of times each proposal has been submitted, in order to evaluate the impact that today’s proposed revisions to the resubmission thresholds would have had on ballot exclusion had those thresholds been applied in previous years.
- In analyzing the effects on firm value, we follow Gantchev and Giannetti (2019) and focus only on close or contested votes. Close votes are those that fall within $\pm 20\%$ of passing and contested votes are votes where management and ISS have opposite recommendations.

Findings

- Figure 1 shows the cumulative support for shareholder proposals on stock retention policies that have been submitted three or more times. The first dotted line is the original 10% threshold, and the second dotted line is the proposed 25% threshold. The proposed 25% threshold would exclude nearly 55% of eligible proposals.
- Those who oppose shareholder proponents and proxy advisors say that shareholder proposals are costly and generate no value. Therefore, we examined stock price reactions to the vote on these shareholder proposals, and the results could not be more clear: while the market reacts negatively to “gadfly” proposals, it takes a neutral or positive view on all other shareholder proposals. (See Figure 2.)

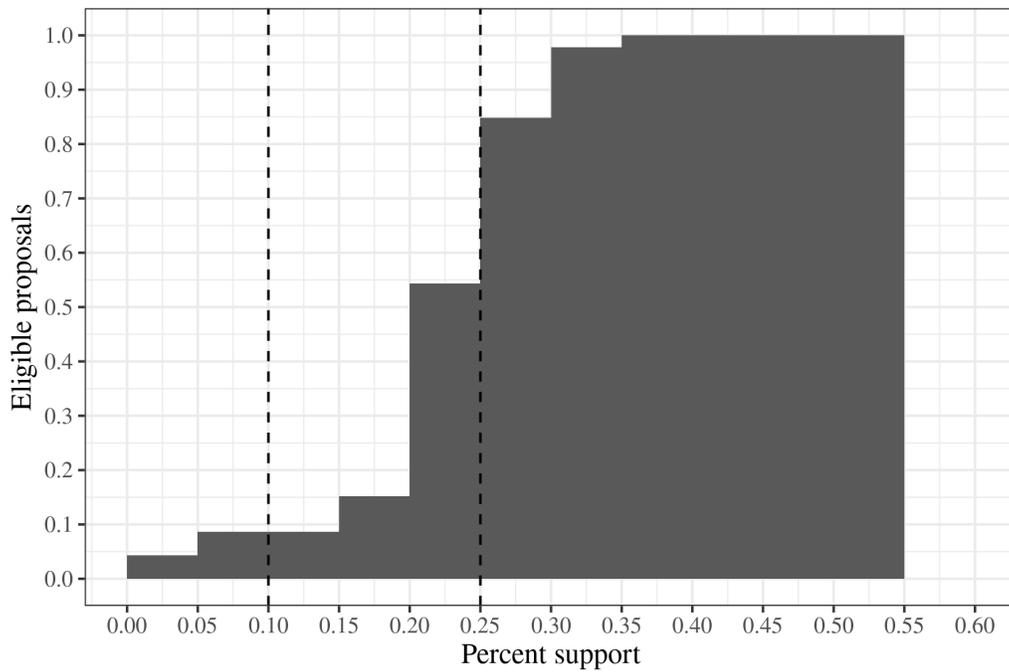


Figure 1: Support for stock retention proposals (3+ submission)

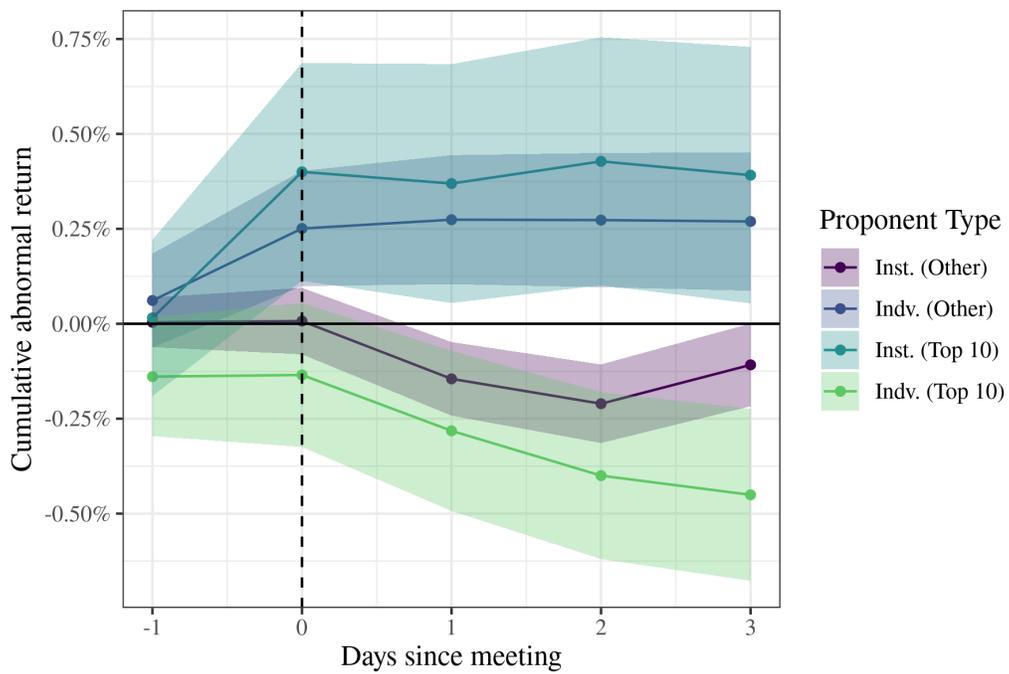


Figure 2: Cumulative abnormal returns around meeting date by proponent type

- In addition, we conduct a one-year firm value analysis comparing frequent versus infrequent individual submitters which shows a strikingly predictable pattern: the market takes a negative view on individual “gadfly” proposals, but takes a positive view on proposals from other individual submitters. (See Figure 3.)

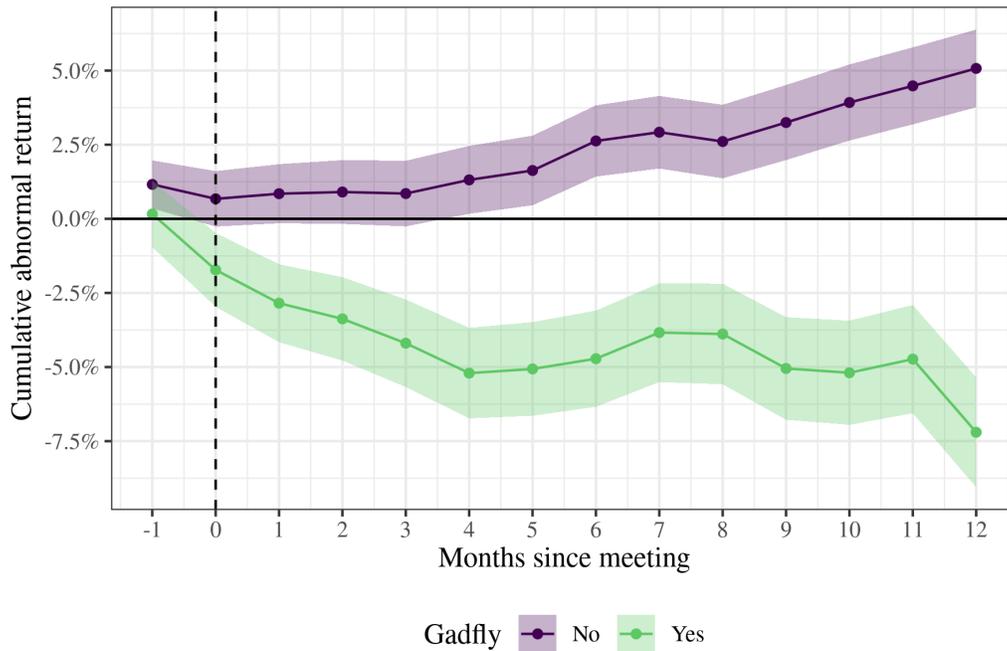


Figure 3: One-year firm value (individual submitters)

- We make no causal inferences from our analysis. To be sure, it could be that individual “gadflies” target poor performing companies, or those with systematically poor corporate governance who continue to experience declines in market value.

Other shareholder proposals

- The proposed rules would also exclude up to 35% of independent Chair shareholder proposals, 40% of proxy access proposals, 50% of board diversity proposals, and nearly 65% of report on climate change proposals, and 40% of political spending disclosure proposals.

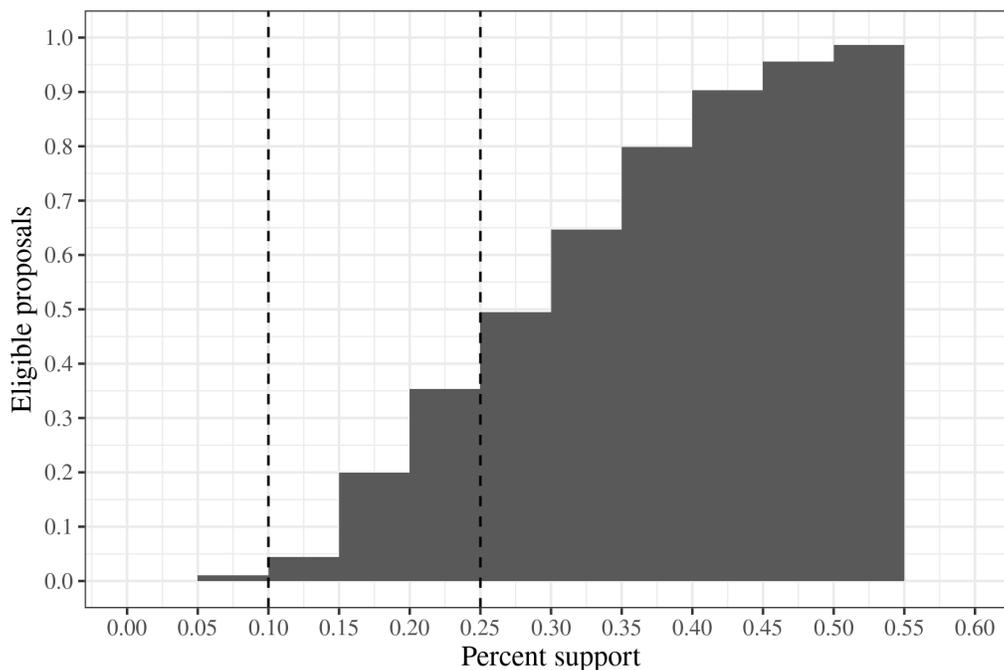


Figure 4: Proposals to separate Chairman and CEO roles

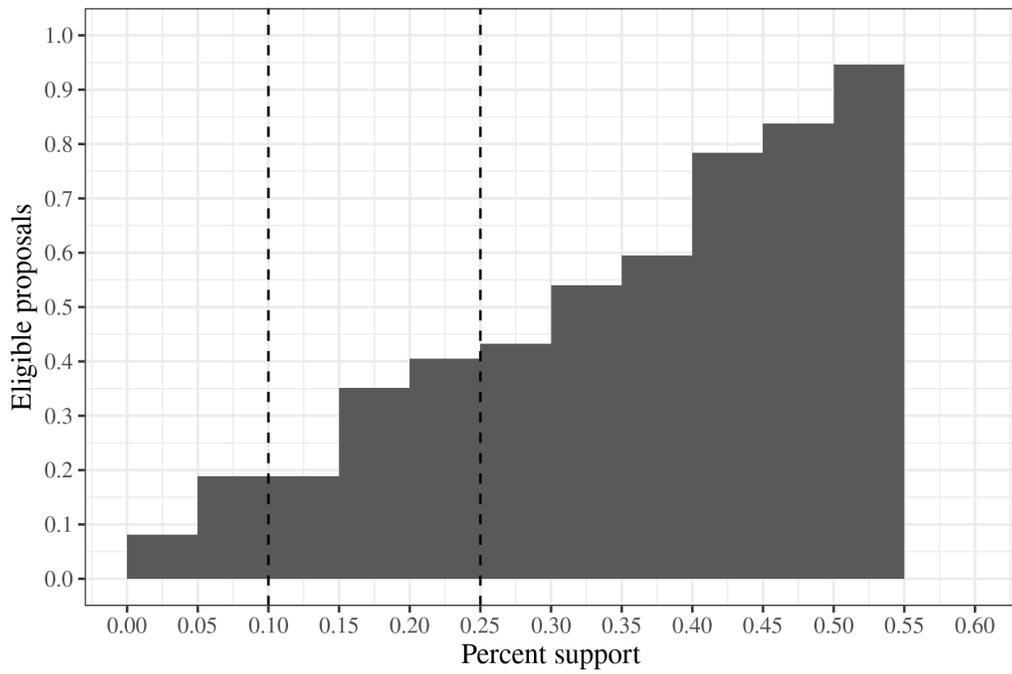


Figure 5: Proxy access proposals

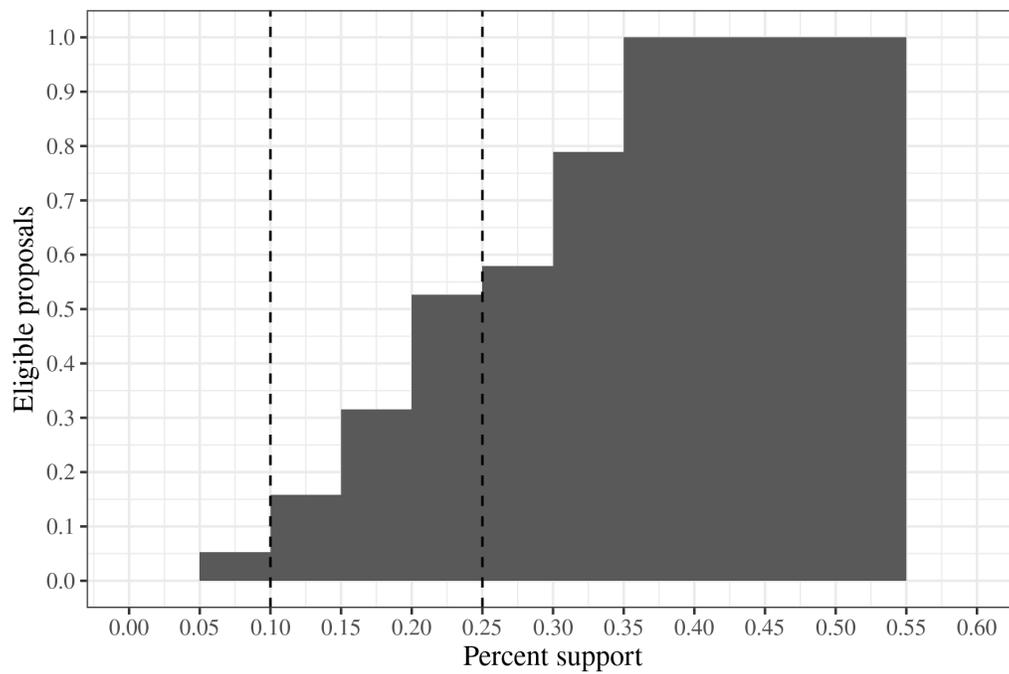


Figure 6: Board diversity proposals

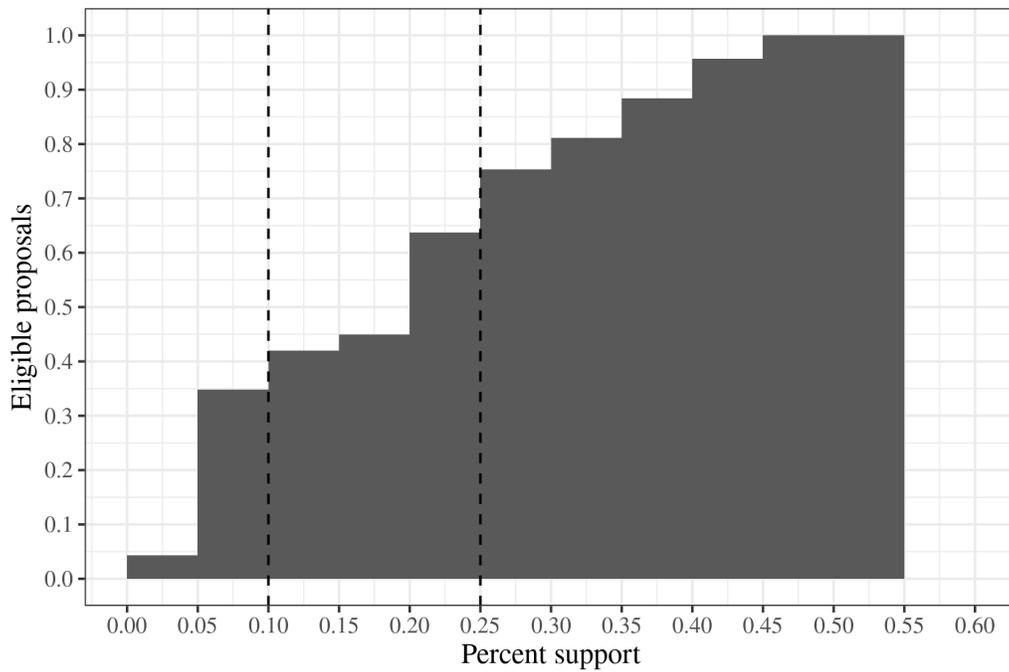


Figure 7: Climate change report proposals

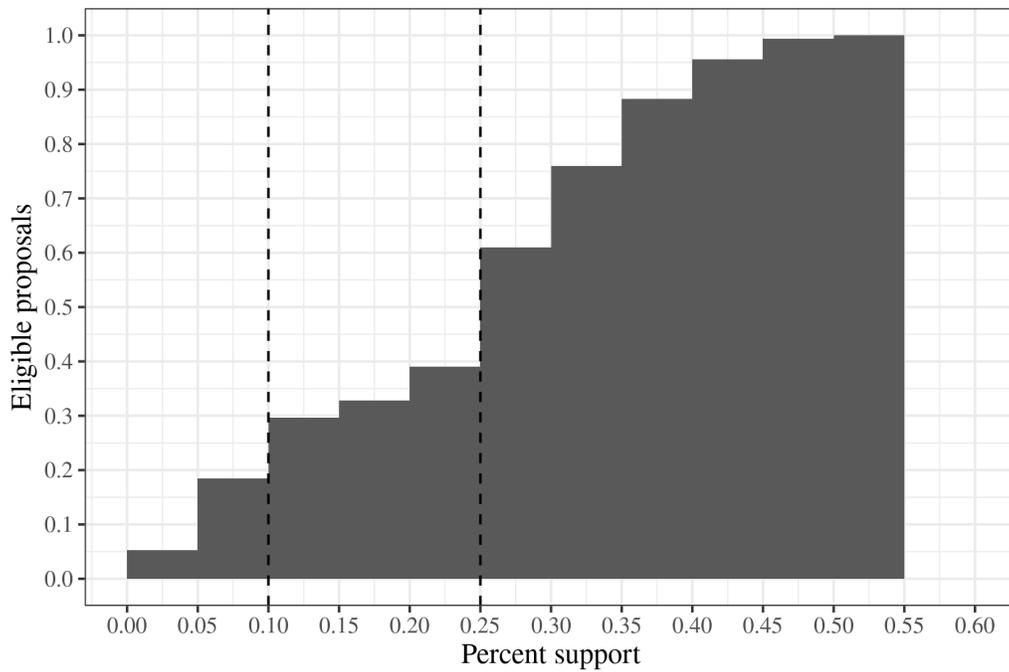


Figure 8: Political spending disclosure proposals