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SEC and Ye Shall Find

SEC Chairman Paul Atkins is delivering the proxy voting reform that was long overdue.

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Published February 20, 2026
prospraligned.com

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Atkins is delivering the proxy voting reform that was long overdue.

The SEC's recent policy pivots on shareholder proposal rules are refocusing corporate governance on quality over quantity – and fiduciaries need to take note. In February 2025, the SEC's staff issued **Staff Legal Bulletin (SLB) 14M**, tightening the rules so companies can more readily dismiss low-relevance or "nuisance" proposals from their proxy statements. Then, in late 2025, the SEC announced it would **pause most no-action reviews and decline to enforce certain shareholder proposal decisions** – essentially stepping back from its traditional role as referee over which proposals go to a vote. These moves aim to curb agenda-driven proxy battles and restore focus on core business issues. Yet they also raise a fundamental question for pension trustees, state treasurers, and public fund managers: **Will this "flight to quality" in shareholder engagement help protect our beneficiaries' returns – or might it go too far and box out the investor oversight needed to keep companies on track?** Let's unpack what changed, why it matters for fiduciaries, and how to navigate this new landscape.

What Happened: SLB 14M & the No-Action Pause

Back to Business in Proxyland. On February 12, 2025, the SEC's Division of Corporation Finance issued **SLB 14M**, sharply reversing course on the guidance from 2021. Under former Chair Gary Gensler, the SEC had **lowered the drawbridge for ESG-oriented proposals** by broadening the definition of "significant social policy." The Commission directed its staff to consider an issue's **broad societal impact** even if it was **not clearly tied to a company's business**. This was intended to accommodate more progressive environmental, social, and governance (ESG) and diversity, equity & inclusion (DEI) proposals – effectively flinging open the gates for shareholder activism on hot-button social issues.

Unintended Consequences. Crucially, the broad "social concern" standard created an opening for a wave of counter-activism. **Bowyer Research** and allies like the **Alliance Defending Freedom (ADF)** began filing proposals aimed at **de-politicizing corporate policies**. These resolutions – on topics like viewpoint discrimination and ideologically driven "debanking" – invoked the same expansive social-policy rationale to justify their inclusion on proxies. In one striking case, the SEC refused to let a tech giant exclude a shareholder proposal seeking a report on the company's content moderation policies, forcing an unprecedented vote on an issue of free speech. In short, the prior rules designed to amplify ESG voices inadvertently empowered dissenting shareholders to bring new issues into the boardroom.

Narrowing the Scope & Blocking Micromanagement. SLB 14M put a stop to this expansive approach. The bulletin **reinstated a strict company-specific test**: a proposal on a social policy must demonstrate a clear, material connection to the company's own business – broad ethical or political concerns alone no longer suffice. SLB 14M also **broadened the definition of "micromanagement,"** allowing companies to reject shareholder requests that delve too deeply into operations or prescribe complex strategies and timelines. Finally, it re-emphasized the **"economic relevance" 5% rule**, reminding everyone that a proposal can be excluded if it deals with a matter accounting for less than 5% of a company's business (unless the proponent shows a significant business impact). In plain terms, the SEC gave boards a stronger basis to **keep peripheral or prescriptive proposals off the ballot**. For example, under SLB 14M a tech company can now more easily exclude a shareholder request that it publicly weigh in on state **abortion laws** – a politically charged topic with no clear link to its core operations. In contrast, a proposal squarely addressing a company's supply-chain risk or customer service practices would still be fair game. The message from Atkins' SEC to investors: bring us your big, relevant ideas, but leave the ideological side-issues and micromanagement at the door.

No-Action "Safe Harbor" Hits Pause. The second major change came on November 17, 2025, when the SEC's staff announced that for the **2026 proxy season, it would stop issuing most no-action decisions**. Previously, companies seeking to exclude a shareholder proposal would get a "no-action" letter from the SEC staff – essentially a permission slip saying regulators wouldn't pursue enforcement if the proposal was left off the ballot. To clear a backlog (and amidst legal debates about precatory proposals), the SEC is temporarily **suspending these detailed responses**, except in very narrow cases involving conflicts with state law. Going forward, companies must still notify the SEC of an intended exclusion, and they can receive a brief letter stating that the agency "will not object" – but they won't get the full legal analysis and comforting stamp of approval they used to.

Without the assurance of an SEC safe harbor, *excluding proposals has become a riskier call*. Many general counsels are now advising CEOs to take the safer path: when in doubt, **include the proposal and let shareholders decide**. Some companies may still push the envelope and omit anything they think they can justify, but early anecdotal evidence suggests many boards are being cautious. In short, companies can no longer count on the SEC to shield them from contentious shareholder issues. They have to weigh the consequences and potential fallout themselves – which, in practice, often means working things out with proponents or simply putting the issue to a vote. Even before these changes, a number of companies were opting to negotiate with serious shareholders rather than seek no-action relief. Now, that trend is accelerating under the new regime.

Why It Matters for Fiduciaries

Less Noise, More Focus. For fiduciaries overseeing public assets, these changes strike at the core of the **duties of loyalty and prudence**. By raising the bar for what gets on the ballot, the SEC is steering corporate boards away from political detours and back toward their central mission: **maximizing shareholder value**. In recent years, proxy ballots were packed with proposals on broad social issues that had little connection to company performance. This flood of "side-show" resolutions diverted management's attention and resources. The previous SEC stance effectively said that if an issue was in the headlines – climate policy, diversity controversies, political spending, you name it – it likely deserved a shareholder vote at every company, no matter how tenuous the link to the business. From a fiduciary perspective, that was worrisome: it risked distracting companies from their core mission and even creating brand or legal hazards, all for negligible benefit to shareholders.

Atkins' reforms are a deliberate correction. By **reinstating strict materiality standards and curbing micromanagement**, SLB 14M lets corporate leaders refocus on what truly matters. With slimmer proxy dockets, boards can spend more time on legitimate issues of strategy, performance, and risk – and less on symbolic politics. This should ultimately help protect the value of our investments. In fact, many investors were already signaling fatigue with politicized or immaterial proposals: average support for social and environmental resolutions dropped into the teens (percentage-wise) by 2024, and not one passed at a major company that year. By trimming those distractions, the SEC is bolstering good governance: companies will devote their time to decisions that actually affect their bottom line, which aligns with what their owners – retirees, taxpayers, and future beneficiaries – genuinely need.

How Far Is Too Far? The key for fiduciaries now is to make sure the pendulum doesn't swing from one extreme to the other. The concern is not that Atkins' current reforms have frozen the status quo – clearly they haven't, as we'll see below – but that a future SEC could be tempted to **dismantle the shareholder proposal process entirely**. Atkins himself has mused that companies might simply **disregard nonbinding proposals** on the grounds that shareholders have no power to mandate such actions. If a subsequent Commission were to effectively **kill Rule 14a-8**, it would halt the constructive wave of engagement that is currently helping to roll back some of the politicized corporate commitments of the past decade. Removing the shareholder proposal avenue altogether would shield management from nuisance and legitimate proposals alike – insulating entrenched practices from investor input. So far, Atkins' measured approach has been a welcome rebalancing, snipping off the long tail of frivolous proposals while still allowing serious shareholder issues to be heard. As fiduciaries, we should embrace this balanced approach and remain vigilant against any future overreach that could silence shareholders completely.

Evidence from Engagement – A Flight to Quality

Companies Pulling Back from Politics. One promising sign is that many companies are now **voluntarily dialing down partisan or activist-driven practices**, in part due to heightened investor scrutiny. We've seen a broad retreat from controversial third-party "social scorecards" and political pledges. For example, the Human Rights Campaign's once-prestigious **Corporate Equality Index** just reported a 65% **drop in Fortune 500 participation**, as hundreds of companies quietly stopped submitting to the program's DEI surveys. Likewise, corporations are distancing themselves from the Southern Poverty Law Center's contentious "hate group" list after public criticism of its biases. Meanwhile, major banks and asset managers have exited climate alliances (a **"CLEXIT"** of sorts) like the Net-Zero Banking Alliance and the Net Zero Asset Managers initiative, wary that coordinated emissions pledges might conflict with antitrust laws or fiduciary duties. All these moves suggest that, in the absence of one-sided pressure, **companies naturally gravitate toward neutrality** – avoiding divisive causes that don't directly contribute to their business goals and may pose reputational or legal risks.

Good Proposals Still Get Through. Just as important, the SEC's new approach hasn't ended shareholder engagement – instead, it's **raising the quality bar**. Our own experience in recent proxy seasons is instructive. In 2025, every proposal we backed to address politicized corporate behavior *either* went to a vote *or* was voluntarily resolved in our favor; virtually none of substance were blocked by regulators. In 2026, we have filed significantly more proposals on behalf of clients – and thus far, nearly all are being **included on ballots or actively settled through dialogue**. To date, only one of our proposals has failed to reach a ballot, and that was due to a minor procedural issue. By contrast, in well over a dozen cases this season, we've withdrawn proposals after companies proactively made the changes we requested. This confirms that the new rules have not led to a mass silencing of shareholder voices. If anything, **companies are more willing to engage in good faith on serious proposals** now that they can't simply count on an SEC staff veto to do the job for them.

A telling example is **The Walt Disney Company**. Initially, Disney tried to stonewall a 2026 shareholder proposal we filed urging the company to return to political neutrality – even rebuffing our requests to discuss it. But after the SEC's no-action pause was announced, Disney's stance shifted: the company agreed to meet with us and **ultimately withdrew its no-action request**. Our proposal is now slated for a vote at Disney's 2026 annual meeting. That reversal – essentially an A/B test of corporate behavior before and after the SEC's policy change – suggests that removing the automatic "safe harbor" has made companies more reluctant to simply dismiss shareholder concerns. Instead of relying on regulators to swat away proposals, boards are more inclined to either address the issues privately or let

shareholders have their say at the meeting. From a fiduciary standpoint, that's a win-win: the frivolous proposals fall away, but meaningful ones still get a hearing (and often spur progress through engagement).

State & Institutional Angle – Walking the Talk

The SEC's reforms create both challenges and opportunities for public-sector fiduciaries. On one hand, you can expect fewer time-wasting proposals that do nothing but push political agendas. On the other, you must be ready to **actively support the proposals that *do* enhance shareholder value or restore neutrality** – because those are precisely the ones more likely to appear under the new rules. The convergence of SEC reform and a rising tide of pro-neutrality shareholder activism means that in the coming seasons, public funds will be voting on more proposals urging companies to undo prior political excesses. This is a pivotal moment: if state pension funds that have decried "woke" corporate behaviors end up voting with management to squash every anti-ESG or neutrality proposal, they'll be vulnerable to charges of lip service. Conversely, these proposals give public fiduciaries a chance to **practice what they preach** – aligning their proxy votes with their pro-shareholder-value, anti-politicization commitments.

Here are some steps to consider as you navigate the new landscape:

- **Update Your Policies and Guidelines:** Revise your **Investment Policy Statement (IPS)** and proxy voting guidelines to clearly reflect your fiduciary principles. For example, include provisions that your fund will **vote against any shareholder proposal (or management-sponsored proposal) that pushes the company into partisan or social activism**, and **support proposals that aim to depoliticize corporate policies or roll back prior politicized commitments when they serve the company's long-term value**. By codifying such rules – as some funds have begun doing, even writing proxy voting policies into their IPS – you set a firm expectation that your fund's votes will consistently favor neutrality and financial materiality.
- **Audit and Align Your Voting Record:** Perform a **proxy voting audit** to see if your fund's recent voting history aligns with your stated values. You may find instances where external managers or proxy advisors, left on autopilot, backed proposals that conflict with your fiduciary stance. Identifying these gaps is the first step to closing them. Once you have clarity, consider publishing a brief annual report on your proxy voting, explaining how your votes advanced your beneficiaries' economic interests and remained free of political considerations.

- **Hold Managers Accountable (or Reclaim Your Votes):** If you delegate proxy voting to asset managers or utilize third-party advisors, communicate your updated guidelines and insist on compliance. Many public funds are now inserting contract language requiring managers to follow the fund's voting policies, with the threat of termination if they don't. An even more assertive approach is to **take back your voting authority** – either bringing it in-house or hiring an independent proxy voting fiduciary to execute votes according to your instructions. The bottom line is that you, as a fiduciary, must ensure that every vote cast with your fund's shares is on the side of your beneficiaries' financial interests.
- **Engage and Collaborate:** Don't stop at voting. Use your voice proactively by engaging with companies outside of proxy season. If you spot a company in your portfolio doing something that looks like **mission drift or political pandering**, reach out with a respectful but candid inquiry. You may be surprised at how much traction you can get. We've seen retailers rethink controversial sponsorships, banks reconsider their account closure policies, and corporations quietly leave partisan alliances – all after concerned investors raised sensible questions. Consider partnering with experienced engagement allies (for instance, working with **Prospr Aligned** or joining forces with fellow public funds) to present a unified front and share best practices. By stepping into the engagement arena, you fill the void left by a hands-off SEC and demonstrate to companies that their broad investor base expects a focus on business, not politics.

Close & Call to Action

At long last, the SEC is delivering proxy reforms that reaffirm a simple principle: **shareholder engagement should stick to issues of material business impact and avoid partisan agendas**. By cutting down on low-quality proposals, Chairman Atkins is freeing companies and investors alike to concentrate on long-term value, not political theater. Early signs are encouraging – we're already seeing fewer distractions on proxies and more willingness by companies to address legitimate shareholder concerns.

Yet, even as we commend this more balanced approach, we must remain vigilant stewards. The ultimate safeguard for our investments isn't just the SEC's rules – it's **our own commitment as fiduciaries** to keep politics out of our portfolio decisions. That means aligning our voting with our values, holding our managers to high standards of neutrality and diligence, and continuing the fight to correct misguided corporate policies that don't serve shareholders. The recent wins by engaged investors show that real change is possible when we make our voices heard in a focused, responsible way.

If you could use guidance in bringing your fund's **proxy voting and engagement practices** in line with your fiduciary duties, **Prospr Aligned can help**. We offer services like proxy voting policy reviews, vote audits, and hands-on engagement support to help you protect your beneficiaries' returns while de-politicizing investment risk. The SEC's reforms have opened the door to a smarter era of shareholder engagement. By acting now – with clear policies and proactive involvement – public fiduciaries can ensure that companies "find religion" on staying neutral and value-focused, to the benefit of those we serve.