

Proposed Rule Change: Proportional Voting of Uninstructed Shares

Overview:

- The Texas Stock Exchange has filed a proposed amendment to Rule 13.003 that would require members to vote uninstructed retail shares in proportion to the instructions they receive from participating shareholders. The proposal was filed with the SEC on May 27, 2026, and is subject to the standard SEC review and public comment process.

The problem

- Retail investors hold roughly 30% of the U.S. equity market but consistently under participate in proxy votes. Data from Broadridge shows as little as 28% of retail holders vote in any given year. When retail shareholders do not vote on non-routine matters, their shares are left unvoted under legacy exchange rules.
- This retail participation gap increases the practical influence of proxy advisory firm recommendations by leaving a larger share of the voting outcome to institutional holders whose votes are often shaped by those recommendations.
- Broker non-votes and absent shares can create quorum risk, effectively raise approval thresholds, and function as practical opposition, causing proposals to fail not because shareholders opposed them, but because too many never responded.
- The current system relies on proposal-by-proposal classifications under NYSE Rule 452, even for issuers that are not listed on NYSE. For non-NYSE companies, market participants and proxy processors often apply NYSE ruling precedent by analogy. That creates an unavoidable risk of inconsistent treatment across proposals and issuers, which can lead to invalid votes if an issuer incorrectly labels a proposal non-routine.

What our proposed rule does

TXSE's proposed rule closes the retail participation gap by ensuring uninstructed shares reflect the expressed preferences of participating retail "street-name" shareholders. If a broker holds 1,000,000 retail shares and receives instructions on 700,000 of them on a specific proposal, with 60% voting FOR, 25% voting AGAINST, and 15% ABSTAINING, the remaining 300,000 uninstructed shares would be voted in the same 60/25/15 ratio on that proposal. No discretion is granted to the broker. The allocation is mathematical and transparent.

What our proposed rule does not do

- Does not take away any shareholder's vote. Every retail investor retains the right to vote, abstain, withhold, or remain silent.
- Does not grant brokers any discretion on how to vote shares. Allocations are mechanical and proportional.
- Does not entrench management. If voting shareholders oppose a proposal, uninstructed shares are allocated against it in the same proportion.
- Does not change any disclosure, solicitation, or issuer obligation.