Kingsdale Governance Advisory Update

June 24, 2025

Anticipating the Impact of Texas Senate Bill 2337 on Proxy Advisors and Corporate Issuers

On June 20, 2025, Governor Greg Abbott signed into law Senate Bill 2337 ("**SB 2337**" or the "**Bill**"), titled "*An Act Relating to the Regulation of the Provision of Proxy Advisory Services*". SB 2337, which takes effect on September 1, 2025, establishes a regulatory framework that introduces new disclosure requirements for proxy advisors when making recommendations concerning companies:

- Headquartered in Texas;
- Incorporated under the laws of Texas; or
- Re-domesticating to Texas.

Understanding Texas SB 2337

The Bill introduced a new Chapter 6A to the Texas Business Organizations Code, defining key terms such as "proxy advisor", "proxy advisory service," and "company proposal." SB 2337 also stipulates that if a proxy advisor provides a voting recommendation regarding a Texas company that is not provided solely in the financial interest of the shareholders of a company, the proxy advisor shall:

1. Include a disclosure that conspicuously states that the proxy advisory service is not being provided solely in the financial interest of shareholders because it is based wholly or partly on non-financial factors. The disclosure must also detail the basis of the advice rendered for each recommendation and that the advice subordinates the financial interests of shareholders to other objectives, including sacrificing investment returns or undertaking additional investment risk to promote nonfinancial factors (e.g., environmental, social, and governance (ESG) factors, diversity, equity, and inclusion (DEI) initiatives, and/or social credit/sustainability scores);
2. Immediately provide a copy of the disclosure to the company that is the subject of the voting recommendations; and
3. Conspicuously disclose on the front page of the proxy advisor's publicly accessible Internet website that its services include advice and recommendations not based solely on the financial interest of shareholders.

Additionally, SB 2337 introduces a requirement indicating that if a proxy advisor provides materially different voting advice to different clients on the same proposal, the proxy advisor shall:

1. Notify all relevant parties (shareholders, their representatives, the subject company, and the Texas Attorney General) of the conflicting advice; and
2. Disclose which of the conflicting advice or recommendations was provided solely in the financial interest of the shareholders; and supported by any specific financial analysis performed or relied on by the proxy advisory firm.

Market Reactions

Through the legislative review process for SB 2337 within the Texas State Legislature, several market participants raised concerns about the contents of the Bill and what it implies for their activities going forward. Leading proxy advisor, **Glass Lewis (GL)**, maintained a critical stance on how SB 2337 would "conflict with existing federal securities laws", which may be an issue in adapting future stakeholder engagement practices to measure and ensure compliance with the Bill. which complicates compliance among advisors and clients. The **International Corporate Governance Network (ICGN)** and **Minerva Analytics** shared similar sentiments in SB 2337's potential role in adversely impacting "investors' ability to make voting decisions at Texas-domiciled companies" and "investor's freedom of choice" respectively. It appears that SB 2337 went into law without addressing any of the concerns aforementioned.

The Bill is not without its advocates as the Texas Association of Business (a state-designated affiliate of the National Association of Manufacturers) championed its passage (during "One of the Most Pro-Business Legislative Sessions in Texas History").

Kingsdale's View

SB 2337 is part of a broader initiative to reform corporate governance in Texas, including several amendments to the Texas Business Organizations Code in 2025. These reforms seek to attract corporations considering incorporating or reincorporating in Texas.

While corporate issuers may welcome the changes introduced by SB 2337 due to passing the responsibility of providing greater transparency on proxy voting recommendations onto the proxy advisors, participants such as GL, the ICGN, and Minerva Analytics have publicly raised their respective concerns. These include conflicting with existing federal securities laws, creating unnecessary costs for proxy advisors and their institutional clients, and presenting risks to the competitiveness of Texas companies.

Although the full impact of these reforms remains to be seen, Kingsdale anticipates that the new regulatory regime will have broad implications beyond Texas, potentially affecting proxy advisors' recommendation methodologies, operational practices and regulatory compliance obligations. As the scope of SB 2337 also applies to shareholders, the potential impact of the changes would extend beyond the territorial boundaries of Texas, implying a greater need for both advisors and their clients to adapt.

For more information about navigating the implications of Texas SB 2337 for your organization, please contact Kingsdale Advisors.

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