

Texas Governor Signs Law to Raise the Bar for Shareholder Proposals

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On May 19, 2025, the Texas Governor Greg Abbott signed Senate Bill 1057 (SB 1057), a law that heightens the threshold for shareholder proposals at certain Texas-based public companies. The law is set to take effect on September 1, 2025. The law is part of a larger effort to position Texas as a competitive place for corporate domicile.

Key Provisions of SB 1057

The new law amends the Texas Business Organizations Code to allow certain Texas corporations to adopt heightened thresholds in their governing documents for shareholders seeking to submit proposals for a vote at annual or special meetings.

Under SB 1057, to submit a proposal for consideration at a shareholder meeting, a shareholder of a company that opts into the new thresholds must meet three key requirements:

1. **Ownership Threshold:** The shareholder, or group of shareholders, must hold at least the lesser of (i) \$1 million in market value of the corporation's voting shares or (ii) 3% of the corporation's voting shares.
2. **Holding Period:** The shareholder must maintain continuous ownership of those shares for at least six months prior to and through the date of the shareholder meeting at which the proposal would be considered.
3. **Solicitation Requirement:** The shareholder must solicit the holders of at least 67% of the voting power of shares entitled to vote on the proposal.

The above requirements do not apply to director nominations or procedural resolutions ancillary to the conduct of the meeting.

These requirements are generally more stringent than the federal requirements set forth in Rule 14a-8 under the Securities Exchange Act of 1934, as amended, which otherwise would apply to Texas corporations in the absence of SB 1057. While Rule 14a-8 requires a longer holding period (a minimum of one year, compared to six months in SB 1057), it imposes an ownership threshold that is significantly lower than that of SB 1057 in most cases, and it does not contain any solicitation requirement.

The law applies to corporations that:

- are formed under Texas law,
- have a class of equity securities registered under Section 12(b) of the Securities Exchange Act of 1934,
- are listed on a national securities exchange, and
- either (i) have their principal office in Texas or (ii) are listed on a Texas-based stock exchange approved by the state.

A corporation that meets the above criteria could opt into the heightened shareholder proposal standards by (i) amending its governing documents to opt in and (ii) providing notice to shareholders in a proxy statement.

IMPLICATIONS AND BROADER LEGISLATIVE CONTEXT

SB 1057 aims to significantly reduce shareholder influence over public Texas corporations by imposing stricter ownership requirements on shareholder proposals. This heightened standard allows corporations to forgo considering shareholder proposals from smaller investors. Opponents of the legislation argue that the law undermines corporate accountability.

Together with the recent passage of Senate Bill 29—a sweeping law that, among other things, codifies a variation of the business judgment rule and permits certain Texas corporations to implement higher thresholds for derivative actions and designate Texas courts as the exclusive forum for “internal disputes”—SB 1057 reflects Texas’s broader strategy to attract more corporations to the state. The Senate Committee Report indicated that SB 1057 could “serve as an incentive for more corporations to incorporate in Texas, reinforcing the state’s pro-business environment.” In a press release issued on February 3, 2025, Texas State Senator Tan Parker, the law’s author, stated that this law, along with others, would “demonstrate that Texas is eager [to] support a robust economic environment . . .” and “[i]t’s time for the bull market to come home to Main Street in Texas.” Whether this approach will succeed in shifting the balance of corporate power away from Delaware remains to be seen.

Winston’s Capital Markets and Securities Law Watch will continue to monitor developments and will provide our readers with additional updates as they become available.

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