

CLIENT ALERT

Navigating Compensation Governance

Texas Enacts Landmark Law Targeting Proxy Advisory Firms

Texas has enacted a first-of-its-kind law that imposes disclosure and notification requirements on proxy advisory firms.

Effective September 1, 2025, the law seeks to limit the influence of nonfinancial considerations – such as ESG and DEI factors – in proxy voting recommendations concerning public companies with significant ties to Texas.

Key Aspects of the Law

The new Texas law imposes new disclosure and notice requirements on proxy advisory firms that provide “proxy advisory services” to any public company organized in Texas, headquartered in the state or proposing redomicile to Texas. These new disclosure and notice requirements are summarized below.

New Disclosure Requirements Imposed on Proxy Advisory Firms

Summarized below are the new disclosure requirements imposed on proxy advisory firms.

- **Definition of Proxy Advisory Services.** Defines proxy advisory services (i.e., proxy advice) to include voting recommendations (and/or research and analysis) on shareholder or company proposals, ratings or research on corporate governance or development of proxy voting recommendations or policies.
- **Proxy Advice Triggering Additional Disclosures.** Requires additional disclosures by a proxy advisory firm if its proxy advice (i) is based wholly or partly on nonfinancial factors, (ii) subordinates the financial interests of shareholders to other objectives, (iii) opposes board nominated directors (unless advice based on financial interests of shareholders) or (iv) conflicts with board recommendations on shareholder proposals absent economic analysis of financial impact of proposal on shareholders.
- **Additional Disclosure Obligations for Proxy Advisors.** Requires a proxy advisor to make the following disclosures when triggered:
 - Disclose to shareholders that its proxy advice is not based solely on shareholder financial interests,
 - Explain the basis of its proxy advice,
 - Provide a copy of the above disclosures to the subject company, and
 - Include on its public website disclosure that its proxy advice is not based solely on the financial interests of shareholders.

New Notice Requirements Imposed on Proxy Advisory Firms

Summarized below are the new disclosure requirements imposed on proxy advisory firms.

- **Proxy Advice Triggering Notice.** Requires a proxy advisory firm to comply with new notice requirement if the firm recommends that one or more clients (i) vote on a proposal in opposition to the recommendation of the company's management or (ii) vote differently from one or more other clients on a proposal and the clients have not expressly requested services for a nonfinancial purpose.
- **Notice Requirement.** Requires a proxy advisory firm to notify shareholders, the subject company and the Texas Attorney General of such conflicting advice or recommendations and disclose which of the conflicting advice or recommendations is provided solely in the financial interest of the shareholders and supported by any specific financial analysis performed or relied on by the advisor.

Enforcement

If a proxy advisor violates the Texas law, any of the following affected parties may bring a lawsuit seeking injunctive relief: (i) the company that is the subject of the proxy advisory services, (ii) a recipient of the proxy advisory services or (iii) any of the company's shareholders.

The law also authorizes the Texas Attorney General to intervene in such a claim. Additionally, the consumer protection division of the Attorney General's office may pursue civil penalties for violations of the law.

Meridian comments. ISS and Glass Lewis are likely to trigger Texas's new disclosure and notice requirements based on their current practices in providing proxy advice. The firms often include analyses and vote recommendations that are based on a mix of financial and nonfinancial factors. That approach is adopted with respect to director elections, Say on Pay and shareholder proposals. The new obligations under Texas law will add complexity to their internal processes and add operational costs, which may lead to increased prices incurred by their institutional clients.

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