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# Protected Corporations Act

## Comprehensive Legislative Proposal Package

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### Prepared By:

Steering Committee for the Protected Corporations Act

State of Texas

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### Submitted To:

Texas State Legislature

Governor of Texas

Relevant Stakeholders and Public Advocacy Groups

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# Executive Summary Preface

## Introduction

The proposed **Protected Corporations Act** introduces a comprehensive legal framework aimed at enhancing corporate governance, financial transparency, and ethical management practices for corporations electing to be governed by this chapter. The Act is designed to balance the interests of various stakeholders, including shareholders, employees, and the broader community, by promoting fair compensation practices, robust financial reporting, and a strong commitment to ethical conduct.

## Significant Aspects of the Act and Strategic Rationale

The **Protected Corporations Act** addresses critical challenges facing modern corporations by introducing robust protections and governance requirements. The Act is built on the premise that long-term corporate sustainability and success are inextricably linked to ethical governance, fair compensation practices, and financial transparency. The key reasons for adopting this broad strategy include:

### 1. Promoting Long-Term Value Creation:

- By capping executive compensation and ensuring a fair distribution of income across all organizational tiers, the Act seeks to align the interests of executives with those of the broader workforce and stakeholders. This approach is designed to mitigate short-termism and encourage decisions that promote sustainable, long-term value creation.

### 2. Enhancing Financial Transparency:

- The Act mandates comprehensive financial reporting, including the adoption of mark-to-market accounting principles and the provision of supplemental unofficial balance sheets. This level of transparency is intended to provide stakeholders with a clear and accurate picture of the corporation's financial health, reducing the risk of financial mismanagement and fostering investor confidence.

### 3. Strengthening Ethical Governance:

- With provisions for a code of conduct, whistleblower protections, and a Stakeholder Advisory Council, the Act aims to create a corporate culture rooted in ethical behavior and accountability. These measures are designed to prevent unethical practices, reduce legal risks, and build trust among stakeholders.

### 4. Protecting Corporate Integrity:

- The Act's requirement for blockchain-based tracking of stock ownership and strict controls on stock sale and transfer processes are intended to safeguard the integrity of corporate operations. By preventing tampering and ensuring transparency in stock transactions, the Act protects both the corporation and its shareholders from fraud and manipulation.

## **5. Ensuring Fair and Proportional Compensation:**

- The Act's approach to executive compensation, which includes capping CEO and C-Suite pay based on the size of the company and the base salary of the lowest tier, is designed to promote equity within the organization. This strategy not only addresses income disparity but also ensures that executives are rewarded in a manner that reflects the overall performance and well-being of the corporation.

## **6. Encouraging Stakeholder Engagement:**

- By establishing a Stakeholder Advisory Council and emphasizing the importance of stakeholder input in corporate decisions, the Act seeks to create a more inclusive governance framework. This approach recognizes that the success of a corporation is dependent not just on shareholders, but on a wide range of stakeholders, including employees, customers, and the community at large.

These significant aspects of the Act are intended to create a more resilient and sustainable corporate environment, where the interests of all stakeholders are protected and the long-term success of the corporation is prioritized.

## **Conclusion**

The Protected Corporations Act represents a significant step forward in corporate governance, promoting transparency, fairness, and ethical management practices. By adopting the provisions outlined in this chapter, corporations can demonstrate a strong commitment to their stakeholders and the broader community, ensuring long-term sustainability and success.

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## **Key Provisions of the Protected Corporations Act**

The Protected Corporations Act is divided into several subchapters, each addressing critical aspects of corporate governance and management. The key provisions are as follows:

### **1. Subchapter A: General Provisions**

- Establishes the short title of the Act and defines key terms.
- Outlines the applicability of other laws and the procedures for a corporation to elect or withdraw from being governed by this chapter.

### **2. Subchapter B: Formation and Conversion**

- Details the requirements for forming a Protected Corporation and the process for existing corporations to convert to this status.
- Includes the requirement for registration with the SEC for participation in the Protected Corporation Stock Exchange.

### **3. Subchapter C: Corporate Governance**

- Defines the structure and responsibilities of the Board of Directors, including provisions for tier-based representation and external members.
- Introduces the **CEO and C-Suite Executive Compensation Cap**, establishing a fair and proportional compensation framework based on the size of the company.
- Introduces the **Separation of Compensation and Shareholder Benefits**, ensuring that executive compensation is distinct from returns derived from share ownership.

### **4. Subchapter D: Organizational Pay Structure**

- Introduces the **Base Salary Factor and Tier Compensation Distribution** to ensure equitable distribution of compensation across all levels of a corporation.
- Mandates compliance and annual review of compensation structures to maintain fairness and alignment with company size categories.
- Requires transparency in compensation distribution and penalties for non-compliance.

### **5. Subchapter E: Shareholder Rights and Meetings**

- Outlines the rights of shareholders, the process for holding annual and special meetings, and the voting rights associated with common stock.
- Introduces the requirement for blockchain-based tracking of stock ownership to ensure transparency and accuracy.

### **6. Subchapter F: Stock Sale and Transfer**

- Establishes procedures for the sale and transfer of stock, including restrictions on short selling and mandatory lockup periods for newly purchased shares.

**7. Subchapter G: Financial Reporting, Balance Sheet Requirements, and Audits**

- Requires Protected Corporations to prepare both official and supplemental balance sheets, incorporating mark-to-market accounting principles where applicable.
- Details the calculation of excess capitalization and market capital premium (deficit), and mandates independent audits of financial statements.

**8. Subchapter H: Compliance and Enforcement**

- Mandates compliance with all relevant state and federal regulations, with oversight provided by a compliance committee established by the Board of Directors.
- Provides the Attorney General of Texas with the authority to enforce the provisions of the Act.

**9. Subchapter I: Ethical Governance and Risk Management**

- Requires the adoption of a code of conduct, whistleblower protections, and a comprehensive risk management framework.
- Emphasizes the responsibility of the Board of Directors for secure technology and data management.

**10. Subchapter J: Stakeholder Engagement**

- Establishes a Stakeholder Advisory Council to ensure that the interests of various stakeholder groups are considered in corporate decisions.

**11. Subchapter K: Periodic Review and Amendment**

- Mandates a periodic review of the statute by the Texas Legislature every five years, with provisions for amendments to be proposed and approved by the Legislature.

**12. Subchapter L: Transitional Provisions**

- Provides a two-year grace period for newly formed Protected Corporations to fully comply with the provisions of the Act, with quarterly progress reports required during this period.

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# Implementation and Advocacy Strategy

## 1. Legislative Strategy

- **Draft and Refine:** Finalize the Act's language and ensure legal alignment.
- **Legislative Support:** Engage lawmakers to sponsor and advocate for the Act in the legislature.

## 2. Stakeholder Engagement

- **Business Outreach:** Educate businesses on the benefits of the Protected Corporations structure.
- **Public Advocacy:** Run campaigns to raise public awareness and support for the Act.

## 3. Implementation Roadmap

- **Phased Rollout:** Set a timeline for key milestones, including regulatory guidelines and pilot programs.
- **Regulatory Prep:** Work with state agencies to establish rules and enforcement mechanisms.

## 4. Education and Training

- **Company Training:** Offer workshops and materials to help businesses transition to Protected Corporations.
- **Regulatory Training:** Equip legal and regulatory professionals with the knowledge to enforce the Act.

## 5. Monitoring and Evaluation

- **Ongoing Review:** Regularly assess the Act's effectiveness and make necessary adjustments.
- **Feedback Channels:** Establish ways for stakeholders to provide input on the Act's implementation.

## 6. Federal Advocacy

- **Promote Nationally:** Advocate for the adoption of the Protected Corporations concept at the federal level, including potential integration with existing federal laws and regulations.

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## Timeline Action Plan

### Phase 1: Legislative and Regulatory Framework (Q3 2026 - 2027)

1. **Q3 - Q4 2026: Drafting and Introduction of Legislation**
  - Finalize the draft of the Protected Corporations Act.
  - Introduce the Act to the Texas Legislature for review and discussion.
  - Begin consultations with key stakeholders, including representatives from the business community, labor organizations, and financial regulators.
2. **Q1 - Q2 2027: Legislative Approval**
  - Work with legislative committees to refine the Act based on feedback and expert testimony.
  - Secure approval from the Texas Legislature.
  - The Act is signed into law by the Governor of Texas.
3. **Q3 - Q4 2027: Initial Regulatory Development**
  - Begin drafting regulations to implement the provisions of the Act.
  - Establish the Protected Corporations Compliance Office within the Texas Secretary of State's office.
  - Start preliminary planning for the Protected Corporation Stock Exchange, setting the foundation for integration with the Texas Stock Exchange by 2028.

### Phase 2: Implementation and Corporate Transition (2028 - 2029)

1. **Q1 - Q2 2028: Corporate Awareness and Outreach**
  - Launch a statewide campaign to inform corporations about the benefits and requirements of electing to become a Protected Corporation.
  - Provide guidance and resources to assist corporations in the conversion process.
  - Begin initial consultations with technology partners to develop the technical infrastructure for the Protected Corporation Stock Exchange.
2. **Q3 2028 - Q2 2029: Initial Corporate Conversions**
  - Begin processing applications from corporations electing to be governed by the Protected Corporations Act.
  - Monitor and support the initial conversions to ensure compliance with the new regulatory framework.
  - Launch training programs for corporate boards and executives on the new governance and compensation requirements.

### **3. Q3 2029: Regulatory and Technical Preparation for Integration**

- Finalize the regulatory framework required for the integration of the Protected Corporation Stock Exchange with the Texas Stock Exchange.
- Develop and test the blockchain infrastructure necessary for stock serialization and tracking.
- Begin coordinating with the Texas Stock Exchange on the integration timeline and requirements.

### **4. Q4 2029: Pilot Testing and Final Adjustments**

- Conduct pilot testing of the Protected Corporation Stock Exchange operations within the Texas Stock Exchange environment.
- Address any technical or regulatory issues that arise during the pilot phase.
- Make final adjustments to the framework and infrastructure based on pilot testing feedback.

## **Phase 3: Full Implementation and Launch (2030)**

### **1. Q1 2030: Full Integration and Launch of Protected Corporation Stock Exchange**

- Officially launch the Protected Corporation Stock Exchange as part of the Texas Stock Exchange.
- Ensure all registered Protected Corporations are fully compliant and integrated into the new exchange.
- Promote the launch to attract additional corporations and investors.

### **2. Q2 - Q4 2030: Ongoing Support and Compliance Monitoring**

- Provide continuous support to Protected Corporations as they navigate the new governance and reporting requirements.
- Monitor compliance with the Act and enforce penalties for non-compliance where necessary.
- Facilitate quarterly reporting by newly converted corporations to track their progress and adherence to the Act.

## **Phase 4: Long-Term Review and Amendment (2031 and Beyond)**

### **1. 2031: Legislative and Corporate Review**

- Initiate the first periodic review of the Act by the Texas Legislature, as mandated in Subchapter K.
- Gather input from corporations, stakeholders, and regulators on the effectiveness of the Act.
- Propose any necessary amendments to the Act based on the review.

## **2. 2032 and Beyond: Continued Monitoring and Expansion**

- Continue monitoring compliance and the effectiveness of the Act.
- Explore opportunities to expand the Protected Corporations framework to other states or to apply similar principles to other sectors of the economy.
- Evaluate the potential for further integration with national and international stock exchanges.

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# Protected Corporations Act

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## **Subchapter A: General Provisions**

### **Sec. 24.001. Short Title.**

This chapter may be cited as the "Protected Corporations Act."

### **Sec. 24.002. Definitions.**

In this chapter:

1. **"Protected Corporation"**: A corporation that has elected to be governed by this chapter in accordance with the provisions outlined herein.  
*(Reference: Tex. Bus. Orgs. Code § 1.002(18))*

2. "**Board**": The Board of Directors of the Protected Corporation.  
(Reference: *Tex. Bus. Orgs. Code § 21.401*)
3. "**Stakeholder- 4. "**Protected Corporation Stock Exchange(Reference: *Securities Exchange Act of 1934, 15 U.S.C. § 78a*)**
- 5. "**Common Stock(Reference: *Tex. Bus. Orgs. Code § 21.152*)**
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compensation package), deferred compensation, and any other benefits or perks of substantial economic value directly tied to their role as an executive.

16. **"Exclusion of Shareholder Benefits"**: Any financial gain or benefit derived from share ownership, including dividends, capital gains, or any other returns on investment, shall be explicitly excluded from the definition of compensation for services.

**Sec. 24.003. Applicability of Other Laws.**

(a) Except as otherwise provided in this chapter, a Protected Corporation is subject to all other applicable provisions of this title.

(*Reference: Tex. Bus. Orgs. Code § 1.008*)

(b) This chapter shall not be construed to conflict with any federal law or regulation. In the event of any such conflict, federal law shall prevail.

(*Reference: U.S. Const. art. VI, cl. 2*)

**Sec. 24.004. Election to be Governed by this Chapter.**

(a) A corporation may elect to be governed by this chapter by including in its certificate of formation a statement that the corporation elects to be governed by this chapter.

(*Reference: Tex. Bus. Orgs. Code § 3.005*)

(b) The election must be approved by a two-thirds vote of the board of directors and a majority vote of the shareholders.

(*Reference: Tex. Bus. Orgs. Code § 21.364*)

**Sec. 24.005. Withdrawal of Election.**

(a) A Protected Corporation may withdraw its election to be governed by this chapter by amending its certificate of formation to remove the statement required by Section 24.004.

(*Reference: Tex. Bus. Orgs. Code § 3.059*)

(b) Withdrawal must be approved by a two-thirds vote of the board of directors and a majority vote of the shareholders.

(*Reference: Tex. Bus. Orgs. Code § 21.364*)

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**Subchapter B: Formation and Conversion**

**Sec. 24.101. Formation Requirements.**

(a) A corporation may be formed as a Protected Corporation by filing articles of incorporation with the Secretary of State that meet the requirements of this chapter.

(*Reference: Tex. Bus. Orgs. Code § 21.051*)

(b) The articles of incorporation must include:

1. A statement electing to be governed by this chapter.  
(*Reference: Tex. Bus. Orgs. Code § 3.005*)
2. Provisions for the issuance of only one class or series of common stock.  
(*Reference: Tex. Bus. Orgs. Code § 21.152*)
3. A cap on executive compensation as defined in Section 24.202.
4. A governance structure as described in Section 24.201.

**Sec. 24.102. Conversion of Existing Corporations.**

(a) An existing corporation may convert to a Protected Corporation by filing restated articles of incorporation that comply with this chapter.

(Reference: *Tex. Bus. Orgs. Code § 10.101*)

(b) The conversion must be approved by a two-thirds vote of the board of directors and a majority vote of the shareholders.

(Reference: *Tex. Bus. Orgs. Code § 21.364*)

(c) The corporation must file a notice of conversion with the Secretary of State and the SEC.

(Reference: *Tex. Bus. Orgs. Code § 4.051 and Securities Exchange Act of 1934, 15 U.S.C. § 78l*)

**Sec. 24.103. Registration with the SEC.**

(a) A Protected Corporation must register with the SEC to participate in the Protected Corporation Stock Exchange.

(Reference: *Securities Exchange Act of 1934, 15 U.S.C. § 78m*)

(b) The registration must include provisions for compliance with federal regulations governing the auction-based stock transactions.

(Reference: *Securities Exchange Act of 1934, 15 U.S.C. § 78m and § 78n*)

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**Subchapter C: Corporate Governance****Sec. 24.201. Board of Directors.**

(a) The Board of Directors of a Protected Corporation must include:

1. Members elected by each organizational tier within the corporation.
2. External members elected by shareholders who are not employees of the corporation.

(Reference: *Tex. Bus. Orgs. Code § 21.401*)

(b) Directors serve at the will of the members who elected them and may be removed by a majority vote on a quarterly basis.

(Reference: *Tex. Bus. Orgs. Code § 21.409*)

(c) The Chief Executive Officer (CEO) or President shall be elected by the board and shall serve as an ex-officio member of the board.

(Reference: *Tex. Bus. Orgs. Code § 21.408*)

(d) The board must meet at least quarterly and maintain minutes of each meeting, which must be made available to shareholders upon request.

(Reference: *Tex. Bus. Orgs. Code § 21.407*)

**Sec. 24.202. CEO and C-Suite Executive Compensation Cap.**

(a) Compensation for the CEO and C-suite executives shall be capped based on the following multipliers, relative to the base salary factor ("x"), with a defined target range for each company size:

1. Small Companies (1 to 999 FTEs): Cap at 60x, target range 40x to 50x.
2. Medium-Small Companies (1,000 to 9,999 FTEs): Cap at 80x, target range 60x to 70x.
3. Medium Companies (10,000 to 49,999 FTEs): Cap at 100x, target range 70x to 80x.
4. Large Companies (50,000 to 99,999 FTEs): Cap at 120x, target range 80x to 100x.

5. Very Large Companies (100,000 and above FTEs): Cap at 150x, target range 100x to 110x.

(b) The base salary factor ('x') is defined as the median or average salary of Tier 1 employees within the organization.

(c) The total compensation for the CEO and C-suite executives shall include all forms of monetary and non-monetary remuneration, including base salary, bonuses, stock options, deferred compensation, and any other benefits.

(d) Under no circumstances shall the total CEO or C-suite compensation exceed the maximum multiplier for the respective company size category, regardless of the specific circumstances.

(e) The Board of Directors shall ensure that the compensation structure complies with the specified caps and target ranges. If compensation exceeds the target range, the Board shall provide a detailed justification, with an explanation for deviations.

(f) The Board of Directors shall review the compensation structure for CEOs and C-suite executives annually to ensure compliance with this section and make adjustments as necessary to align with the principles of fairness and proportionality outlined herein.

(g) Protected Corporations shall disclose the CEO and C-suite compensation, including the applied cap, the base salary factor ('x'), and the total number of FTEs, in the annual financial reports provided to shareholders and the public.

*(Reference: Tex. Bus. Orgs. Code § 21.414)*

**Sec. 24.203. Separation of Compensation and Shareholder Benefits.**

(a) Compensation for services rendered by CEOs and C-Suite executives as employees shall be distinct from any benefits derived from share ownership in the company.

(b) Compensation for services rendered includes all forms of monetary and non-monetary remuneration provided to a CEO or C-Suite executive for their role and duties as an employee of the corporation.

*(Reference: Tex. Bus. Orgs. Code § 21.401)*

(c) Any financial gain or benefit derived from share ownership, including dividends, capital gains, or any other returns on investment, shall be explicitly excluded from the definition of compensation for services.

(d) Protected Corporations shall disclose the separation of compensation for services and shareholder benefits in their annual financial reports, providing clear documentation of what is included in executive compensation and what is attributed to share ownership.

*(Reference: Tex. Bus. Orgs. Code § 21.414)*

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**Subchapter D: Organizational Pay Structure**

**Sec. 24.301. Base Salary Factor and Tier Compensation Distribution.**

(a) The base salary factor ("x") shall be determined by the median or average salary of Tier 1 employees within the organization.

(b) The total average compensation across tiers shall be distributed with a simple addition of 1x for each tier as follows:

1. Tier 1: 1x the base salary factor ("x");

2. Tier 2: 2x the base salary factor ("x");
3. Tier 3: 3x the base salary factor ("x");
4. Additional tiers, if present, will continue the progression with 4x, 5x, 6x, and 7x, up to a maximum of 7 tiers.

*(Reference: Tex. Bus. Orgs. Code § 21.409)*

(c) The average compensation for a given tier (n) is calculated by multiplying the base salary factor ("x") by the tier number (n).

(d) A variance of plus or minus three percent (+/- 5%) from the target compensation distribution for each tier is allowable to provide flexibility while maintaining the overall equity of the compensation structure.

(e) Example tier structure:

Tier 1: Entry-Level/Support Staff  
Tier 2: Junior Professionals/Technicians  
Tier 3: Mid-Level Management/Experienced Professionals  
Tier 4: Senior Management/Directors  
Tier 5: Executive Management (e.g., Vice Presidents, Senior Directors)  
Tier 6: C-Suite Executives (including CEO and potentially other top executives, with compensation for these roles determined separately in Section 24.202).

*(Reference: Tex. Bus. Orgs. Code § 21.401)*

#### **Sec. 24.302. Compliance and Annual Review.**

(a) The Board of Directors shall review the compensation structure annually to ensure that the distribution of salaries across tiers aligns with the mandated range for each company size category, accounting for the allowable +/- 5% variance.

*(Reference: Tex. Bus. Orgs. Code § 21.414)*

(b) If the organization adds or removes tiers, the compensation structure must be adjusted accordingly to maintain the normalized distribution within the allowable variance.

*(Reference: Tex. Bus. Orgs. Code § 21.409)*

#### **Sec. 24.303. Disclosure and Penalties for Non-Compliance.**

(a) Protected Corporations shall disclose the distribution of salaries across all tiers in their annual financial reports, including the base salary factor, the applied normalization formula, and any variances from the target distribution.

(b) The Board of Directors shall provide a written explanation of the tier structure and its alignment with the mandated range for each company size category, particularly if adjustments are made to the number of tiers or if the allowable variance is utilized.

(c) Non-compliance with the provisions of this section shall result in penalties, including but not limited to fines, sanctions, or other measures as determined by the relevant regulatory body.

*(Reference: Tex. Bus. Orgs. Code § 21.415)*

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### **Subchapter E: Shareholder Rights and Meetings**

#### **Sec. 24.401. Common Stock.**

(a) A Protected Corporation may only issue one class or series of common stock. Preferred shares are prohibited.

(Reference: *Tex. Bus. Orgs. Code* § 21.152)

(b) All common stock must be serialized and tracked using blockchain technology. This serialization ensures transparency and accuracy in ownership records, forming the backbone of the Protected Corporation Stock Exchange.

(Reference: *Tex. Bus. Orgs. Code* § 21.155)

(c) Ownership information must be made publicly available and searchable via the blockchain ledger.

(Reference: *Securities Exchange Act of 1934*, 15 U.S.C. § 78m)

#### **Sec. 24.402. Annual Shareholder Meeting.**

(a) A Protected Corporation must hold an annual meeting of shareholders for the election of directors and to address other corporate matters.

(Reference: *Tex. Bus. Orgs. Code* § 21.351)

(b) Notice of the annual meeting must be provided to all shareholders at least 30 days in advance.

(Reference: *Tex. Bus. Orgs. Code* § 21.353)

(c) Shareholders may vote in person, by proxy, or via secure electronic means.

(Reference: *Tex. Bus. Orgs. Code* § 21.357)

#### **Sec. 24.403. Special Shareholder Meetings.**

(a) Special meetings of shareholders may be called by the board of directors, the CEO, or by shareholders holding at least 10% of the corporation's voting shares.

(Reference: *Tex. Bus. Orgs. Code* § 21.352)

(b) Notice of special meetings must be provided at least 10 days in advance.

(Reference: *Tex. Bus. Orgs. Code* § 21.353)

#### **Sec. 24.404. Voting Rights.**

(a) Each share of common stock entitles the holder to one vote on matters submitted to a vote of the shareholders.

(Reference: *Tex. Bus. Orgs. Code* § 21.155)

(b) Cumulative voting is permitted in the election of directors.

(Reference: *Tex. Bus. Orgs. Code* § 21.360)

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### **Subchapter F: Stock Sale and Transfer**

#### **Sec. 24.501. Stock Sale Procedure.**

(a) The sale of stock shall be conducted through a simple auction process facilitated by the Protected Corporation Stock Exchange.

(b) Shares may be tendered for sale with a closing time of 24 hours, subject to a ten-minute cancellation period.

(c) Bids may be submitted until closing time, with a five-minute extension added for last-minute bids.

(d) All transactions must be recorded and tracked using blockchain technology, ensuring transparency and preventing tampering.

(Reference: *Tex. Bus. Orgs. Code* § 21.156 and *Securities Exchange Act of 1934*, 15 U.S.C. § 78m)

#### **Sec. 24.502. Stock Transfer Restrictions.**

(a) Stock transfers are only permitted via the Protected Corporation Stock Exchange, ensuring all transactions are tracked on the blockchain.

(b) Short selling of shares is strictly prohibited.

(c) A ten-business-day lockup period is mandatory for newly purchased shares before they can be resold.  
(Reference: *Tex. Bus. Orgs. Code* § 21.157)

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## **Subchapter G: Financial Reporting, Balance Sheet Requirements, and Audits**

### **Sec. 24.601. Balance Sheet Requirements for Protected Corporations.**

(a) A Protected Corporation shall prepare and provide a balance sheet as part of its quarterly and annual financial reporting. This balance sheet shall be prepared in accordance with generally accepted accounting principles (GAAP) as required by applicable federal and state laws.

(Reference: *Tex. Bus. Orgs. Code* § 21.403 and SEC Regulation S-X, 17 C.F.R. § 210)

(b) In addition to the balance sheet required under Subsection (a), a Protected Corporation shall prepare and provide a supplemental unofficial balance sheet that includes the market capitalization of the corporation. This supplemental balance sheet is for informational purposes only and shall not replace or supersede the official balance sheet prepared under Subsection (a).

(Reference: *Securities Exchange Act of 1934*, 15 U.S.C. § 78m)

### **Sec. 24.602. Calculation of Excess Capitalization and Market Capital Premium (Deficit).**

(a) The "Excess Capitalization" and "Market Capital Premium (Deficit)" entries on the supplemental unofficial balance sheet shall be calculated as follows:

1. Determine the volume-weighted average price (VWAP) of all auctions of the corporation's common stock based on a rolling window of the following percentage of total outstanding shares sold, based on the corporation's number of full-time employees (FTEs) as of the end of the reporting period:
  - (i). for companies with fewer than 1,000 FTEs, a 10 percent threshold;
  - (ii). for companies with between 1,000 and 9,999 FTEs, a 15 percent threshold; and
  - (iii). for companies with 10,000 or more FTEs, a 20 percent threshold.
2. Multiply the VWAP by the total number of common shares outstanding as of the end of the reporting period.
3. Subtract from this amount the sum of the existing "Common Stock" and "Paid-in Capital" entries as recorded on the official balance sheet.
4. The result shall be recorded as the "Excess Capitalization" under the assets section of the supplemental balance sheet.
5. An equal value shall be recorded as the "Market Capital Premium (Deficit)" under the equity section of the supplemental balance sheet.

(Reference: *Tex. Bus. Orgs. Code* § 21.403)

(b) If the percentage of the outstanding shares have not yet been sold on the Protected Corporation Stock Exchange, the requirement to calculate market capitalization based on volume-weighted average price (VWAP) shall be waived.

(Reference: SEC Regulation S-K, 17 C.F.R. § 229.10)

**Sec. 24.603. Transition to Mark-to-Market Balance Sheet Requirements.**

(a) Upon the issuance of federal regulations that allow Protected Corporations to apply a mark-to-market approach to their balance sheets, the following provisions shall take effect:

1. The corporation shall transition from providing a supplemental unofficial balance sheet to incorporating mark-to-market adjustments directly into the official balance sheet.
2. The "Excess Capitalization" and "Market Capital Premium (Deficit)" entries shall be incorporated into the corporation's official balance sheet, in accordance with the federal regulations and any applicable guidance provided by the Securities and Exchange Commission (SEC).  
*(Reference: SEC Regulation S-X, 17 C.F.R. § 210.4-01)*
3. The corporation shall cease the preparation of a separate supplemental unofficial balance sheet and shall report all relevant information in the official balance sheet.

(b) The corporation shall ensure compliance with all applicable federal and state regulations during the transition period. The corporation's management is responsible for ensuring that the transition to a mark-to-market balance sheet is conducted in a manner that is transparent, accurate, and consistent with industry standards.

*(Reference: SEC Regulation S-X, 17 C.F.R. § 210)*

**Sec. 24.604. Reporting and Disclosure Requirements.**

(a) A Protected Corporation shall disclose in its financial statements the existence of the supplemental unofficial balance sheet and the methodology used to calculate the "Excess Capitalization" and "Market Capital Premium (Deficit)" entries.

*(Reference: SEC Regulation S-K, 17 C.F.R. § 229.303)*

(b) The corporation shall provide a clear explanation of the difference between the official balance sheet prepared under generally accepted accounting principles (GAAP) and the supplemental unofficial balance sheet, including a discussion of the significance of the market capitalization entries.

(c) Following the transition to a mark-to-market balance sheet, as described in Section 24.603, the corporation shall update its disclosure policies to reflect the changes in reporting requirements and to ensure that stakeholders are informed of the new financial reporting framework.

*(Reference: SEC Regulation S-K, 17 C.F.R. § 229.303)*

(d) All disclosures required under this section shall be made in a manner that is consistent with applicable federal and state securities laws and regulations, including those enforced by the Securities and Exchange Commission (SEC).

*(Reference: Securities Act of 1933, 15 U.S.C. § 77g)*

**Sec. 24.605. Audit Requirements for Protected Corporations.**

(a) The financial statements of a Protected Corporation, including the official balance sheet and the supplemental unofficial balance sheet, shall be subject to an independent audit on an annual basis.

*(Reference: Tex. Bus. Orgs. Code § 21.413 and SEC Regulation S-X, 17 C.F.R. § 210.2-02)*

(b) The independent auditor shall review the calculations and methodology used to prepare the "Excess Capitalization" and "Market Capital Premium (Deficit)" entries on the supplemental balance sheet to ensure accuracy and consistency with industry standards.

*(Reference: SEC Regulation S-X, 17 C.F.R. § 210.2-02)*

(c) The results of the audit shall be reported to the corporation's board of directors, and a summary of the audit findings shall be included in the corporation's annual report to shareholders.

*(Reference: Tex. Bus. Orgs. Code § 21.414)*

(d) The audit report shall include an opinion on whether the financial statements, including the supplemental unofficial balance sheet, fairly present the financial position of the corporation in accordance with the provisions of this subchapter.

*(Reference: Tex. Bus. Orgs. Code § 21.414 and SEC Regulation S-X, 17 C.F.R. § 210.2-02)*

#### **Sec. 24.606. Federal Accounting Exception for Protected Corporations.**

(a) A Protected Corporation shall be eligible for a federal accounting exception, allowing the corporation to apply a mark-to-market approach to its balance sheet as described in Section 24.603, upon the issuance of relevant federal regulations by the Securities and Exchange Commission (SEC) or other applicable federal regulatory bodies.

*(Reference: SEC Regulation S-X, 17 C.F.R. § 210.4-01)*

(b) The federal accounting exception shall enable the Protected Corporation to align its financial reporting with the unique characteristics of its market capitalization and equity structure as reflected in the supplemental unofficial balance sheet.

*(Reference: SEC Regulation S-X, 17 C.F.R. § 210)*

(c) The corporation shall comply with all requirements set forth by federal regulatory bodies to qualify for and maintain the federal accounting exception. This includes adhering to any specific guidelines, disclosures, or audit requirements imposed as part of the exception.

(d) Upon receiving approval for the federal accounting exception, the corporation shall promptly notify its shareholders and provide updated financial statements reflecting the changes in its accounting practices, including the transition to a mark-to-market balance sheet.

*(Reference: SEC Regulation S-X, 17 C.F.R. § 210.4-01)*

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### **Subchapter H: Compliance and Enforcement**

#### **Sec. 24.701. Compliance Requirements.**

(a) A Protected Corporation must comply with all state and federal regulations applicable to corporations, in addition to the specific requirements of this chapter.

*(Reference: Tex. Bus. Orgs. Code § 21.001)*

(b) The board of directors must establish a compliance committee responsible for ensuring adherence to these regulations.

*(Reference: Tex. Bus. Orgs. Code § 21.414)*

#### **Sec. 24.702. Enforcement.**

(a) The Attorney General of Texas has the authority to enforce the provisions of this chapter.

*(Reference: Tex. Bus. Orgs. Code § 21.565)*

(b) Any shareholder or stakeholder may file a complaint with the Attorney General alleging a violation of this chapter.

(c) Penalties for non-compliance may include fines, suspension of the corporation's charter, or dissolution.

*(Reference: Tex. Bus. Orgs. Code § 21.601)*

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### **Subchapter I: Ethical Governance and Risk Management**

**Sec. 24.801. Code of Conduct and Ethical Governance.**

(a) The board of directors must adopt a code of conduct that outlines the ethical responsibilities of all employees, officers, and directors.

(Reference: *Tex. Bus. Orgs. Code § 21.414, Code of Conduct Requirements; Tex. Gov't Code § 572.051, Standards of Conduct for Officers and Employees*)

(b) The code of conduct must include provisions for conflict of interest, confidentiality, and fiduciary duties.

(Reference: *Tex. Bus. Orgs. Code § 21.418, Conflicts of Interest and Fiduciary Duties; Tex. Gov't Code § 572.058, Confidentiality Requirements*)

(c) Violations of the code of conduct must be reported to the board's compliance committee, and appropriate disciplinary action must be taken.

(Reference: *Tex. Bus. Orgs. Code § 21.414, Reporting and Compliance Procedures; Tex. Gov't Code § 572.054, Compliance and Disciplinary Action*)

**Sec. 24.802. Whistleblower Protections.**

(a) A Protected Corporation must establish a whistleblower policy to protect employees who report illegal or unethical behavior.

(Reference: *Tex. Gov't Code § 554.002, Texas Whistleblower Act*)

(b) The policy must ensure that whistleblowers are protected from retaliation and have access to an independent body to review their concerns.

(Reference: *Tex. Gov't Code § 554.003, Protection Against Retaliation*)

(c) Reports of whistleblower activities must be disclosed in the corporation's annual report.

(Reference: *Tex. Bus. Orgs. Code § 21.414, Disclosure Requirements*)

**Sec. 24.803. Risk Management and Contingency Planning.**

(a) A Protected Corporation must develop a risk management framework to identify, assess, and mitigate potential risks to the corporation.

(Reference: *Tex. Bus. Orgs. Code § 21.414, Duties of the Board; Risk Management*)

(b) The board must oversee the development of contingency plans for crises, including financial downturns, legal challenges, and natural disasters.

(Reference: *Tex. Bus. Orgs. Code § 21.401, Board Responsibilities*)

(c) The risk management framework and contingency plans must be reviewed and updated annually.

(Reference: *Tex. Bus. Orgs. Code § 21.414, Annual Review Requirements*)

**Sec. 24.804. Responsibility for Secure Technology and Data Management.**

(a) A Protected Corporation must adopt and implement policies to ensure the security and privacy of its internal data systems, particularly those that manage shareholder information, corporate governance, and financial reporting.

(Reference: *Tex. Bus. Orgs. Code § 21.401, Data Security Policies*)

(b) The corporation must ensure that all transactions and interactions conducted through the Protected Corporation Stock Exchange are carried out in compliance with the exchange's security protocols and any applicable federal regulations.

(Reference: *Securities Exchange Act of 1934, 15 U.S.C. § 78m, SEC Regulation S-K 17 C.F.R. § 229.10*)

(c) While the Protected Corporation is not responsible for the overall security and resilience of the Protected Corporation Stock Exchange itself, it must adhere to best practices and regulatory requirements when using the exchange to ensure the integrity of its own operations.

(Reference: *Tex. Bus. Orgs. Code § 21.414*)

(d) The board of directors is responsible for overseeing the implementation of these policies, ensuring compliance with state and federal laws, and reporting any breaches or failures that directly impact shareholder rights or corporate governance.

(Reference: *Tex. Bus. Orgs. Code § 21.414*)

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## **Subchapter J: Stakeholder Engagement**

### **Sec. 24.901. Stakeholder Advisory Council.**

(a) A Protected Corporation may establish a Stakeholder Advisory Council composed of representatives from each stakeholder group (employees, shareholders, creditors, etc.).

(Reference: *Tex. Bus. Orgs. Code § 21.408, Advisory Roles in Governance*)

(b) The council shall provide recommendations to the board on issues affecting stakeholders and ensure that their interests are considered in corporate decisions.

(Reference: *Tex. Bus. Orgs. Code § 21.418, Stakeholder Consultation*)

(c) The council must meet at least semi-annually, and minutes of its meetings must be made available to the board and shareholders.

(Reference: *Tex. Bus. Orgs. Code § 21.407, Meeting Minutes and Disclosures*)

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## **Subchapter K: Periodic Review and Amendment**

### **Sec. 24.1001. Periodic Review and Amendment of Statute.**

(a) The provisions of this chapter must be reviewed by the Texas Legislature every five years to ensure they remain relevant and effective.

(Reference: *Tex. Gov't Code § 311.036, Review of Statutes*)

(b) Amendments to this chapter may be proposed by the board of directors, the Attorney General, or the Legislature and must be approved by a majority vote of the Legislature.

(Reference: *Tex. Gov't Code § 311.034, Amendment Procedures*)

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## **Subchapter L: Transitional Provisions**

### **Sec. 24.1101. Transitional Provisions for New Corporations.**

(a) Newly formed Protected Corporations shall have a grace period of two years to fully comply with all provisions of this chapter.

(Reference: *Tex. Bus. Orgs. Code § 21.707, Transitional Provisions for New Entities*)

(b) During this period, the corporation must provide quarterly reports to the Secretary of State detailing its progress toward full compliance.

(Reference: *Tex. Bus. Orgs. Code § 21.708, Reporting Requirements for New Corporations*)

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**Conclusion:**

This comprehensive package provides all necessary materials to support the introduction, passage, and implementation of the Protected Corporations Act. It outlines a detailed legislative and regulatory strategy that includes the establishment of a new class of corporation within the State of Texas, designed to meet modern governance challenges, ensure fair and proportional compensation, and promote long-term sustainability. The package also addresses the integration of the Protected Corporations Stock Exchange into the Texas Stock Exchange, scheduled for 2028, ensuring a seamless transition and broad acceptance among stakeholders. This approach will foster a more transparent, equitable, and resilient corporate environment in Texas, setting a standard for responsible corporate governance nationwide.