

United States Senate

WASHINGTON, DC 20510

November 26, 2013

The Honorable Mary Jo White
Chair
United States Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549
Re: Pay Ratio Disclosure – File No. S7-07-13

Dear Chair White:

We write in support of the Securities and Exchange Commission's proposed rule to require publicly traded companies to disclose the ratio between the compensation of their CEO and median worker as directed by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Wall Street Reform Act"). It has been more than three years since Dodd-Frank was enacted and we are pleased that the SEC is acting to implement the CEO-to-worker pay ratio disclosure. We urge the SEC to continue moving forward to finalize the rule as soon as possible.

This disclosure provides important, material information to investors. Executive compensation in recent years has been stuck in an upward spiral that generates questionable value for investors. According to one estimate, the average American CEO now makes 354 times as much as the average worker (up from a 42-to-1 ratio in 1982),¹ with one company paying its CEO over 1,795 times as much as its average worker.² Too often, investors and corporate boards lack benchmarks for evaluating a chief executive's compensation package beyond comparing to what managers at other companies receive. But since no company wants a leader who is "below average," reliance on peer compensation alone can too often drive CEO pay upward without clear links to additional value created.

Investors need better information and better metrics, and the CEO-to-worker pay ratio will provide an additional, valuable tool for setting appropriate compensation and measuring the relative value a chief executive creates.

As you are aware, income and wealth inequality are growing concerns for many Americans. Over the last twenty years, incomes for the top 1 percent of earners have grown by more than 86 percent, while incomes for the other 99 percent have grown by less than 7 percent.³ Even as our economy has started to recover from the financial crisis, the top 1 percent have captured 95

¹ AFL-CIO Executive Paywatch, <http://www.aflcio.org/Corporate-Watch/CEO-Pay-and-You>.

² Elliot Blair Smith and Phil Kuntz, "CEO Pay 1,795-to-1 Multiple of Wages Skirts U.S. Law," *Bloomberg*, April 30, 2013 (<http://www.bloomberg.com/news/2013-04-30/ceo-pay-1-795-to-1-multiple-of-workers-skirts-law-as-sec-delays.html>).

³ Emmanuel Saez, "Striking It Richer: The Evolution of Top Incomes in the United States" (updated with 2012 estimates), Sept. 3, 2013, <http://elsa.berkeley.edu/~saez/saez-UStopincomes-2012.pdf>.

percent of the income gains over the last three years,⁴ while real median income remains 9 percent below 1999 levels.⁵ Especially in this environment, investors need to know to what extent skyrocketing disparities between CEO and worker pay are justified based on performance or simply reflect value capture by insiders. Section 953(b) was intended to bring much-needed transparency in this area.

The SEC's proposal for implementing disclosure of the CEO-to-worker pay ratio gives companies considerable flexibility in how they can determine the median worker pay for purposes of calculating the ratio, while at the same time following the intention of the law and ensuring that the pay ratio disclosure will still be meaningful to investors. Importantly, it provides companies with relatively simple and efficient options for making and reporting the required calculations, including accounting for all employees, without diluting the effectiveness of the disclosure. With the flexibility afforded by the proposal, we would very skeptically view further calls to delay or obstruct a final rulemaking based on cost or complexity.

In addition, with respect to the SEC's solicitation of comments about the costs and benefits of the proposed rule, we appreciate the SEC's work to maximize the benefits and reduce the costs associated with implementation of the statutory requirements. We caution, however, against those who would use a distorted or exaggerated cost-benefit analysis as a means for blocking implementation or supporting a rule that is inconsistent with the statute or with Congress's weighing of the benefits and costs in enacting Section 953(b).

We commend the SEC under your leadership for proposing a rule to implement the CEO-to-worker pay ratio disclosure requirement and once again urge the SEC to expeditiously move forward without delay to finalize implementation.

Sincerely,



⁴ *Id.*

⁵ Annie Lowrey, "Household Incomes Remain Flat Despite Improving Economy," *The New York Times*, Sept. 17, 2013 (<http://www.nytimes.com/2013/09/18/us/median-income-and-poverty-rate-hold-steady-census-bureau-finds.html?pagewanted=all>).

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