



**Americans for Financial Reform**  
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March 23<sup>rd</sup>, 2011

Ms. Elizabeth M. Murphy  
Secretary Securities and Exchange Commission  
100 F Street, N.E.  
Washington, DC 20549-1090

**Re: Dodd-Frank Section 953(b)**

Dear Ms. Murphy:

On behalf of Americans for Financial Reform, thank you for the opportunity to comment on the implementation of Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Americans for Financial Reform (AFR) is an unprecedented coalition of over 250 national, state and local groups who have come together to reform the financial industry. Members of our coalition include consumer, civil rights, investor, retiree, community, labor, religious and business groups as well as leading economists.

AFR strongly supports the Section 953(b) requirement that companies disclose to investors the ratio of CEO pay to the median employee's compensation at the company. By enacting Section 953(b), Congress sought to address investor concerns with existing SEC disclosure requirements for CEO pay. Existing requirements mandate disclosure of top executive compensation only, encouraging companies to focus unduly on peer to peer comparisons when setting CEO pay. These comparisons help lead to ever increasing levels of CEO pay by virtue of a "Lake Wobegon" effect, where nearly all CEOs claim to be above the average CEO quality level.

Disclosure of CEO-to-worker pay ratios will encourage Boards of Directors to also consider vertical pay equity within firms. Such vertical pay equity is also vital to proper human resources practices.<sup>1</sup> SEC disclosure rules should not unfairly privilege horizontal comparisons to other CEOs over considerations of vertical pay equity.

Pay disparity information is clearly material to investors. According to the Social Investment Forum, the major association of socially responsible investment funds, more than 80 percent of member funds consider labor relations issues in making their investment choices, and half of member funds consider executive pay in making their investment decisions.<sup>2</sup> Socially responsible funds are a significant and rapidly growing segment of the investment market.<sup>3</sup>

<sup>1</sup> Hinchcliffe, Brian, "The Juggling Act: Internal Equity and Market Pricing," Workspan, Scottsdale, Az. World at Work, Feb. 2003, pp.46-8.

<sup>2</sup> [Performance of Social Investment Forum Member Mutual Funds](#), Social Investment Forum, December 31, 2009.

Academic research also indicates that ratio of CEO pay to that of other employees within the firm can affect firm performance. As one team of academics put it, “extreme wage differentials between workers and management discourage trust and prevent employees from seeing themselves as stakeholders.”<sup>4</sup> And this information clearly bears directly on the important public policy issues of pay equity and income inequality.

It is important to ensure that reported within-firm CEO pay ratios include all corporate employees, including foreign and part-time workers. Excluding these workers would make the ratio less informative to the investing public and may create incentives to move jobs offshore or convert full-time jobs into part-time jobs. Excluding the foreign workforce would create a significantly misleading picture of a multinational company’s true pay structure. To take just a few examples, PepsiCo employs 68 percent of its 203,000 employees outside the U.S., Ingersoll-Rand Co. employs 54 percent of its 57,000 employees outside of the U.S., and Intel employs 45 percent of its 79,800 employees outside the U.S. The statutory intent of Section 953(b) is clearly to report the pay of all workers, including overseas or part-time employees. The legislation refers to “all” employees of the issuer, and the legislators responsible for the provision have made their intention clear.<sup>5</sup>

To make statistics more comparable and compliance easier, ratios can be reported separately for full-time U.S. workers and global workforces. Pay for part-time workers can also be translated into full-time-equivalent (FTE) compensation based on a simple formula using hours worked. Companies should also be encouraged to provide a narrative discussion of their CEO-to-worker pay ratios.

Some critics of the proposal object that CEO-to-worker pay ratios will not be meaningful to investors because hiring practices and worker skills differ significantly across industries. It is true that employment and employee compensation patterns differ significantly across industries. However, this same “apples to oranges” criticism can be made of all financial ratios. Requiring that this information be disclosed will help investors compare companies’ employee compensation practices to their industry peers. The reporting firm can provide additional disclosure along these lines to give investors more context to interpret this information.

Other critics claim that the reporting requirement is not practical because it is too difficult to calculate median employee pay. However, all firms collect employee pay data for tax purposes. It should be straightforward to identify median employee cash compensation using information already collected for IRS W-2s and the corresponding tax filings for foreign jurisdictions, and then calculate this median employee’s total compensation as required by Section 953(b). We believe that this approach would be consistent with the intent of Congress. We also note that

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<sup>3</sup> Social Investment Forum, [Report on Social Investment Trends In The United States, 2010](#), Social Investment Forum Foundation, 2010.

<sup>4</sup> Eileen Applebaum, Thomas Bailey, Peter Berg, and Arne L. Kalleberg, *Manufacturing Advantage: Why high-performance work systems pay off*. Ithaca, New York: Cornell University Press, 2000, 44.

<sup>5</sup> See [January, 19 2011 comment by Senator Robert Menendez](#), the author of the provision.

worker pay is a central data item for management purposes and it is hardly credible that firms do not have access to extensive information about how much they pay their employees.

In sum, Section 953(b) of the Dodd-Frank Act requires the reporting of significant data that is material to investors and relatively straightforward for firms to report. AFR strongly supports the 953(b) reporting requirement and urges the SEC to move quickly to implement this section of the Act.

Sincerely,

Americans for Financial Reform

## **Following are the partners of Americans for Financial Reform.**

*All the organizations support the overall principles of AFR and are working for an accountable, fair and secure financial system. Not all of these organizations work on all of the issues covered by the coalition or have signed on to every statement.*

- A New Way Forward
- AARP
- AFL-CIO
- AFSCME
- Alliance For Justice
- Americans for Democratic Action, Inc
- American Income Life Insurance
- Americans for Fairness in Lending
- Americans United for Change
- Calvert Asset Management Company, Inc.
- Campaign for America's Future
- Campaign Money
- Center for Digital Democracy
- Center for Economic and Policy Research
- Center for Economic Progress
- Center for Media and Democracy
- Center for Responsible Lending
- Center for Justice and Democracy
- Center of Concern
- Change to Win
- Clean Yield Asset Management
- Coastal Enterprises Inc.
- Color of Change
- Common Cause
- Communications Workers of America
- Community Development Transportation Lending Services
- Consumer Action
- Consumer Association Council
- Consumers for Auto Safety and Reliability
- Consumer Federation of America
- Consumer Watchdog
- Consumers Union
- Corporation for Enterprise Development
- CREDO Mobile
- CTW Investment Group
- Demos
- Economic Policy Institute
- Essential Action
- Greenlining Institute

- Good Business International
- HNMA Funding Company
- Home Actions
- Housing Counseling Services
- Information Press
- Institute for Global Communications
- Institute for Policy Studies: Global Economy Project
- International Brotherhood of Teamsters
- Institute of Women's Policy Research
- Krull & Company
- Laborers' International Union of North America
- Lake Research Partners
- Lawyers' Committee for Civil Rights Under Law
- Move On
- NASCAT
- National Association of Consumer Advocates
- National Association of Neighborhoods
- National Community Reinvestment Coalition
- National Consumer Law Center (on behalf of its low-income clients)
- National Consumers League
- National Council of La Raza
- National Fair Housing Alliance
- National Federation of Community Development Credit Unions
- National Housing Trust
- National Housing Trust Community Development Fund
- National NeighborWorks Association
- National People's Action
- National Training and Information Center/National People's Action
- National Council of Women's Organizations
- Next Step
- OMB Watch
- OpenTheGovernment.org
- Opportunity Finance Network
- Partners for the Common Good
- PICO
- Progress Now Action
- Progressive States Network
- Poverty and Race Research Action Council
- Public Citizen
- Sargent Shriver Center on Poverty Law
- SEIU
- State Voices
- Taxpayer's for Common Sense
- The Association for Housing and Neighborhood Development
- The Fuel Savers Club
- The Leadership Conference on Civil and Human Rights
- The Seminal
- TICAS

- U.S. Public Interest Research Group
- United Food and Commercial Workers
- United States Student Association
- USAction
- Veris Wealth Partners
- Western States Center
- We the People Now
- Woodstock Institute
- World Privacy Forum
- UNET
- Union Plus
- Unitarian Universalist for a Just Economic Community

*Partial list of State and Local Signers*

- Alaska PIRG
- Arizona PIRG
- Arizona Advocacy Network
- Arizonans For Responsible Lending
- Association for Neighborhood and Housing Development NY
- Audubon Partnership for Economic Development LDC, New York NY
- BAC Funding Consortium Inc., Miami FL
- Beech Capital Venture Corporation, Philadelphia PA
- California PIRG
- California Reinvestment Coalition
- Century Housing Corporation, Culver City CA
- CHANGER NY
- Chautauqua Home Rehabilitation and Improvement Corporation (NY)
- Chicago Community Loan Fund, Chicago IL
- Chicago Community Ventures, Chicago IL
- Chicago Consumer Coalition
- Citizen Potawatomi CDC, Shawnee OK
- Colorado PIRG
- Coalition on Homeless Housing in Ohio
- Community Capital Fund, Bridgeport CT
- Community Capital of Maryland, Baltimore MD
- Community Development Financial Institution of the Tohono O'odham Nation, Sells AZ
- Community Redevelopment Loan and Investment Fund, Atlanta GA
- Community Reinvestment Association of North Carolina
- Community Resource Group, Fayetteville A
- Connecticut PIRG
- Consumer Assistance Council
- Cooper Square Committee (NYC)

- Cooperative Fund of New England, Wilmington NC
- Corporacion de Desarrollo Economico de Ceiba, Ceiba PR
- Delta Foundation, Inc., Greenville MS
- Economic Opportunity Fund (EOF), Philadelphia PA
- Empire Justice Center NY
- Enterprises, Inc., Berea KY
- Fair Housing Contact Service OH
- Federation of Appalachian Housing
- Fitness and Praise Youth Development, Inc., Baton Rouge LA
- Florida Consumer Action Network
- Florida PIRG
- Funding Partners for Housing Solutions, Ft. Collins CO
- Georgia PIRG
- Grow Iowa Foundation, Greenfield IA
- Homewise, Inc., Santa Fe NM
- Idaho Nevada CDFI, Pocatello ID
- Idaho Chapter, National Association of Social Workers
- Illinois PIRG
- Impact Capital, Seattle WA
- Indiana PIRG
- Iowa PIRG
- Iowa Citizens for Community Improvement
- JobStart Chautauqua, Inc., Mayville NY
- La Casa Federal Credit Union, Newark NJ
- Low Income Investment Fund, San Francisco CA
- Long Island Housing Services NY
- MaineStream Finance, Bangor ME
- Maryland PIRG
- Massachusetts Consumers' Coalition
- MASSPIRG
- Massachusetts Fair Housing Center
- Michigan PIRG
- Midland Community Development Corporation, Midland TX
- Midwest Minnesota Community Development Corporation, Detroit Lakes MN
- Mile High Community Loan Fund, Denver CO
- Missouri PIRG
- Mortgage Recovery Service Center of L.A.
- Montana Community Development Corporation, Missoula MT
- Montana PIRG
- Neighborhood Economic Development Advocacy Project
- New Hampshire PIRG
- New Jersey Community Capital, Trenton NJ
- New Jersey Citizen Action
- New Jersey PIRG
- New Mexico PIRG
- New York PIRG
- New York City Aids Housing Network
- NOAH Community Development Fund, Inc., Boston MA

- Nonprofit Finance Fund, New York NY
- Nonprofits Assistance Fund, Minneapolis M
- North Carolina PIRG
- Northside Community Development Fund, Pittsburgh PA
- Ohio Capital Corporation for Housing, Columbus OH
- Ohio PIRG
- OligarchyUSA
- Oregon State PIRG
- Our Oregon
- PennPIRG
- Piedmont Housing Alliance, Charlottesville VA
- Michigan PIRG
- Rocky Mountain Peace and Justice Center, CO
- Rhode Island PIRG
- Rural Community Assistance Corporation, West Sacramento CA
- Rural Organizing Project OR
- San Francisco Municipal Transportation Authority
- Seattle Economic Development Fund
- Community Capital Development
- TexPIRG
- The Fair Housing Council of Central New York
- The Loan Fund, Albuquerque NM
- Third Reconstruction Institute NC
- Vermont PIRG
- Village Capital Corporation, Cleveland OH
- Virginia Citizens Consumer Council
- Virginia Poverty Law Center
- War on Poverty - Florida
- WashPIRG
- Westchester Residential Opportunities Inc.
- Wigamig Owners Loan Fund, Inc., Lac du Flambeau WI
- WISPIRG

