13 November 2013

Elizabeth M. Murphy
Secretary
United States Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: Comment on Pay Ratio Disclosure (File No. S7-07-13)

Dear Ms. Murphy,

This comment expresses concerns over the proposed SEC rule for implementing the pay ratio disclosure requirement of the Dodd-Frank Wall Street Reform and Consumer Protection Act.[1] I am skeptical of whether pay ratio disclosure is, in itself, effective when presented in isolation without proper context. Simply reporting a single number cannot meaningfully accomplish the objectives of corporate transparency and accountability that underpin Congress's passing of the Act. My concern is that investors would be inclined to rely on the pay ratio as a "headline" number without fully understanding the limitations underlying its computation. Although intuitively appealing, using only one ratio would be a gross oversimplification vulnerable to incorrect inferences. As other commenters have noted, this metric would be prone to abuse and workarounds to artificially lower the ratio, leading to misinformed investor decisions and misalignment of corporate incentives.[2]

This is not to say that disclosing pay ratios is without value—information on employee compensation *can* be useful if used in context with proper explanation. I believe the SEC should incorporate the following suggestions into its final rule to make the ratio more useful to investors:

- **The SEC should require supplementary information to accompany the pay ratio in order to safeguard against overreliance on a single, one-dimensional metric.** While the proposed rules do not preclude registrants from voluntarily presenting additional information,[3] the SEC should consider mandating a set of supplemental information that must also be presented alongside the pay ratio. These could include the mean, median, and variance of employee earnings, or alternate distributional ratios (e.g., the 90-10 ratio). Better yet, a box plot or histogram of earnings should also be considered for visual intuitiveness.

- **Requiring supplementary information would not be unduly burdensome for registrants.** The marginal cost of disclosing supplementary information would be low, given that registrants

[1] Pub. L. No. 111-203, § 953(b), 124 Stat. 1376, 1904 (2010), *amended by* Pub. L. No. 112-106, 126 Stat. 306 (2012).
[2] *See, e.g.*, Letter from Jeffrey D. Morgan, Nat'l Investor Relations Inst., to Elizabeth M. Murphy, SEC (Oct. 17, 2013), *available at* http://www.niri.org/Main-Menu-Category/advocate/Regulatory-Positions/NIRI-Comment-Letter-to-the-SEC-on-Pay-Ratio-Disclosure-October-2013.aspx.
[3] Pay Ratio Disclosure, 78 Fed. Reg. 60,560, 60,576 (Oct. 1, 2013) ("[W]e note that registrants may, at their discretion, present additional ratios to supplement the required ratio.").

would already require access to this information for computation of the pay ratio. The benefits, however, would be significant, since the supplementary information would make the pay ratio a far more meaningful metric.

- **Requiring disclosure of supplementary information would be consistent with the Act's purpose of increasing corporate transparency and accountability.** One of the concerns addressed by the Act is the information asymmetry regarding internal pay disparity and reasonableness of executive compensation.[4] In this way, being comprehensive by requiring additional disclosures would be consistent with the Act's congressional mandate.

In short, the SEC should consider requiring the disclosure of additional supplementary information alongside the pay ratio. Doing so would fulfill the congressional mandate of pay ratio disclosure, while minimizing the risk of misinterpretation or abuse that could arise from overreliance on a single metric.

Thank you for your consideration.

Wesley Sze
Law Student
Stanford Law School
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[4] *See* Letter from Richard T. Trumka, Am. Fed'n of Labor and Cong. of Indus. Orgs., to Elizabeth M. Murphy, SEC (Dec. 13, 2010), *available at* http://www.sec.gov/comments/df-title-ix/executive-compensation/executivecompensation-54.pdf (explaining how wage dispersion information has economic significance that is relevant to investors).