November 13, 2013

Via Electronic Submission

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

RE: Adding Quartiles to the Pay Ratio Disclosure
[File Number S7-07-13]

Dear Ms. Murphy,

I am writing in response to Request for Comment 41 of the Pay Ratio Disclosure proposed rule. To adhere to the purposes of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC should require registrants to disclose two additional metrics about the total compensation of all employees (or of the statistical sample if one is used): the upper and lower quartiles. These metrics, in addition to the median, will be extremely useful to investors, and they can be provided by registrants without additional cost or at a low cost once the median has been identified.

The phrase "lies, damn lies, and statistics" encapsulates the potential for numbers to deceive; for instance, when a figure (the median) is put forth to represent an entire data set (the set of all employees' compensations excluding the CEO). Consider the following example:

- Company A has 4,999 employees earning $90,000 per year and 5,000 employees earning $30,000, and the CEO is paid $600,000. The median of the annual total compensation of all employees (excluding the CEO, as per the rule) is $30,000, and the pay ratio is 1:20.
- Company B has 4,999 employees earning $16,000 and 5,000 employees earning $30,000, and the CEO is paid $600,000. The median of the annual total compensation of all employees is $30,000 and the pay ratio is 1:20.

Given only two data points, the median compensation and the CEO compensation, Company A and Company B look identical. But clearly they are not, and any investor who cares about pay ratios must also care about the difference between Companies A and B. As the AFL-CIO reported in *Dodd-Frank Section 953(b): Why CEO-to-Worker Pay Ratios Matter For Investors*, "[t]he ratio of CEO-to-worker pay can affect the performance of companies . . . It is well documented that organizations with a high disparity of pay between top earners and those at the bottom suffer a decline in employee morale and commitment to the organization." Company B has a much higher disparity of pay between the CEO and "those at the bottom" than does Company A, and therefore Company B is more likely to be adversely affected by the factors identified in the AFL-CIO's report. Yet an investor, given just the medians and ratios mandated by this proposed rule, would have no way of distinguishing between the two.

This problem is easily remedied by requiring the addition of just two more data points, the lower and upper quartiles, to the companies' disclosures. The SEC's assumption that these metrics could be provided without additional cost or at a low cost once the median has been identified is correct, since any method that produces a median, whether by statistical sampling or not, can also produce the quartiles. And the information gained by just those two points can be significant, giving investors a far more complete picture of a company's compensation distribution than the median alone. It is not mere chance that Figure 1 on page 88 of the proposed rule itself uses quartiles as well as medians to display pay ratio distributions in various industries; the additional data points are crucial to understanding the spread of any distribution.

Thank you for your consideration of this comment.

Sincerely,

Rebecca Vogel
Stanford Law Student
Class of 2015