Dēmos

AN EQUAL SAY AND AN EQUAL CHANCE FOR ALL

November 22, 2013

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

RE: File Number S7-07-13—Proposed Amendments to Item 402 of Regulation S-K

Dēmos commends the SEC's proposed amendments to Item 402 of Regulation S-K (the "Proposed Amendments"). The Proposed Amendments implement Section 953(b) of the Dodd-Frank Act that requires publicly traded companies to disclose the ratio between CEO pay and the median salary of all employees. Current compensation disparities with respect to these two categories of workers throughout our economy reflect a lack of synergy between the business community, government and rank-and-file employees in rebuilding a strong and stable middle class. Pay ratio disclosure is an important step within efforts to reframe prevalent narratives and policies that both perpetuate economic inequality as well as situate business and government as less committed to the ideal of shared responsibility for cultivating our nation's economic health.

Respect for labor, which includes decent, livable pay and benefits, is a key tenet in sustaining a strong middle class. In order for Americans to have equal opportunity to thrive in our economy, trust between employees and those who are charged to lead them must become an enduring value that reflects a common belief in shared prosperity. This social contract fueled our nation's greatest achievement—the largest middle class known to man. Over the past 40 years, however, expansion to include groups of citizens previously excluded from this upward mobility ideal parallels the fraying of this compact.

Correspondingly, public frustration with a growing chasm between CEOs' compensation and the salaries of nonexecutive/managerial employees stridently illustrates this unraveling. Facts tell us that as this gap widens, worker morale and productivity decrease while employee turnover increases. Ironically and unfortunately, many executive compensation packages are negotiated by means of peer group benchmarking, which emphasizes the assumed values of retaining of a CEO and/or the diminution of the company's prestige relative to other companies.

The SEC's proposed disclosure mandate is valuable and necessary in that its implementation evidences government's recognition of the dangers of disparity in gross pay strata. The Proposed Amendments presuppose that effective remedies moving forward require transparent methodologies by which performance is measured and compensation is allocated. Disclosure will inform shareholders' investment decisions, as this data will allow for more robust analyses of company efficiency, productivity and in some cases, overall solvency. Perhaps most saliently, pay ratio disclosure brings forward a vital conversation regarding relationships between hefty compensation packages and executives' incentives to make business decisions comparable to the calamitous practices that wrought us the 2007-2008 financial collapse. If used effectively, compensation committees will use CEO pay ratio data to better moderate pay packages and reduce this hazard.

As currently constituted, the Proposed Amendments will undoubtedly make inroads in achieving the stated goals of its implementation, which Dēmos applauds. That said, in order for this regulation to have the most effective impact, Dēmos urges the SEC to reconsider its current methodology with respect to its criteria of groups of workers to include within the pay ratio matrix. Dēmos believes that the designation of third party employees (which include leased and temporary employees, as well as independent contractors) as sets of workers exempt from calculations of the median salary establishes a precedent that if abused might not only result in companies circumventing the true spirit of compliance, but more perniciously, create incentive to employ fewer workers. In our view, these groups of workers and the economic considerations they bring to bear position them too prominently to be omitted. This concern especially resonates by evidence of increasing federal scrutiny over companies' abuse of the independent contractor designation, which is causing billions of dollars in losses to the Federal Government. The presently proposed CEO pay ratio formula could exacerbate this abuse, such that fewer full-time workers are hired or retained and/or workers become re-classified under these third party designations for the purpose of maintaining a higher median salary. Dēmos proposes that the SEC designs a metric that includes third party employees, by developing a full-time-employee equivalency coefficient or algorithm that proportionately accounts for: 1) the number of hours worked; and/or 2) the total number of employees that are classified within the third party taxonomies described above. In short, the Dēmos proposal is to include outsourced employment in the Proposed Amendments calculation as if employees did the work, especially if the employer is unable to demonstrate that the outsourcing decision is independent of the requirements of the Proposed Amendments.

CEO pay ratio disclosure serves as an important step in the process to align business interests with public interests. Despite the claims of opponents, it stands as far more than a symbolic and unsubstantial gesture. In the face of eroding public trust for many of our financial institutions amidst the belief that the business sector exploits too many resources for the sole sake of profits, Dēmos is hopeful that these Item 402 amendments not only serve their intended purposes, but additionally re-catalyze and reinvigorate dialogue about the ways in which entities of the business sector can alternately recalibrate their roles in serving a balanced function to America's economic growth.

Sincerely,

Miles Rapoport

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President, Dēmos