November 27, 2013

Elizabeth M. Murphy, Secretary
U.S. Securities and Exchange Commission,
100 F Street, NW
Washington, DC 20549

RE: File no. S7-07-13 Pay Ratio Disclosure

Dear Ms. Murphy:

As New York State Comptroller, I am Trustee of the New York State Common Retirement Fund (“Fund”) and am responsible for the investment of its assets, currently valued in excess of $160 billion. The Fund is a significant long-term shareholder of more than 1,500 publicly traded domestic companies. I am writing in support of the Securities and Exchange Commission’s (“Commission”) proposed rule (“Rule”) that would amend Item 402 of Regulation S-K to implement the CEO-to-worker pay ratio disclosure required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”). Section 953(b) directs the Commission to amend Item 402 to require disclosure by certain issuers of the median of the annual total compensation of all employees (excluding the chief executive officer (CEO), the annual total compensation of the chief executive officer, and the ratio of the median disclosed to the annual total compensation of the chief executive officer.

The Council of Institutional Investors has stated that, “executive compensation should be transparent and tied tightly to corporate performance, create value for the long-term and advance the company’s strategic goals. Executive compensation is the most critical and visible aspect of a company’s corporate governance.” I agree. The Rule, as presently formulated, would increase transparency by providing useful information for investors to consider when making investment decisions.

In a great many instances, CEO pay has escalated while workers’ wages have stagnated, resulting in an ever-widening compensation gap. Employees who experience a high disparity of pay between their salaries and that of top-level executives may suffer a decline in morale, commitment, and loyalty to their employer. This, in turn, can affect company performance. These disclosures would help the Fund to identify companies that are being run for the enrichment of a few executives, rather than being operated efficiently for the benefit of all their shareholders.

The comparative information on companies’ internal compensation structures required by the Rule would provide the Fund with another criterion to consider in evaluating the governance, performance and sustainability of its portfolio companies. The enhanced transparency provided by the Rule also would help inform our proxy voting, including decisions concerning “say on pay,” equity compensation plans, director elections, and other shareholder proposals.
I support the Commission’s decision to draft the Rule to require that companies disclose the median pay of their total employee base. This is especially important because in some U.S. publicly traded companies, a majority of employees are either employed internationally or on a part-time basis. Without this requirement, a pay ratio disclosure could become a misleading metric for investors to evaluate compensation practices or conduct relevant peer comparisons. The Rule does allow companies to disclose supplemental information, such as country-specific data.

The Rule also provides companies with flexibility in selecting the methodology employed to calculate the median and exempts emerging growth companies and smaller reporting companies. I believe that in fulfilling its legal obligation under Section 953(b) of the Dodd-Frank Act, the Commission has effectively balanced concerns of compliance costs for companies with the benefits of the disclosure to investors.

Additionally, as an investor and in my capacity as chief fiscal officer of the State of New York, I have an interest in identifying companies that do not make human capital management a priority and pay less than a living wage to employees. A September 24, 2013 New York Times editorial observed, “[The Rule] would help . . . alert taxpayers to companies where work forces are underpaid, even as executive pay soars, a circumstance that often requires taxpayer dollars to be spent on assistance to low-wage earners. . . . Company specific data on pay gaps will force chief executives and their boards to justify just how out of kilter pay scales have become.” If companies are shifting the cost of doing business to taxpayers by underpaying their workers, there is a significant risk of reputational harm to those companies and their brands. Further, allowing a widening compensation gap may well impair those companies from conducting business in certain markets.

I urge the Commission to adopt the Rule as final so that shareholders and the marketplace will benefit from a more robust disclosure of 2014 company information in 2015.

Sincerely,

Thomas P. DiNapoli
State Comptroller