



December 2, 2013

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

Re: Pay Ratio Disclosure, File No. S7-07-13

Dear Ms. Murphy,

Trillium Asset Management LLC (“Trillium”) is an investment firm based in Boston, Massachusetts specializing in sustainable and responsible investment. We currently manage approximately \$1.3 billion for institutional and individual clients. Trillium writes today in strong support of Dodd-Frank Section 953(b), the law requiring CEO-to-worker pay ratio disclosure, and the Commission’s proposed implementation rule because this data will benefit investors as well as other stakeholders.

The ratio of CEO to worker pay at individual companies is material information for investors. High pay disparities inside a company can hurt employee morale and productivity, and have a negative impact on a company’s overall performance. Moreover, disclosure of the median employee pay will help investors better understand companies’ overall compensation approach to developing their human capital.

Numerous studies have demonstrated the materiality of this information:

- 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.¹
- Extreme disparities between CEO and employee pay have been shown to produce significant deterioration in the quality of products produced by employees.²
- In companies where CEO compensation is strongly disproportionate to that of other employees, the negative impacts extend at least ten levels down the chain of command, resulting in higher employee turnover and lower job satisfaction.³

¹ See e.g. Jeffrey Pfeffer, Human Resources from an Organizational Behavior Perspective: Some Paradoxes Explained, *Journal of Economic Perspectives*, Vol. 21 (2007).

² Douglas Cowherd and David Levine, Product Quality and Pay Equity Between Lower-Level Employees and Top Management, *Administrative Science Quarterly*, Vol. 37 (1992).

³ Matt Bloom and John Michel, The Relationships Among Organizational Context, Pay Dispersion, and Managerial Turnover, *Academy of Management Journal*, (2002). See also James Wade, Charles O’Reilly III, and Timothy Pollock,

- Firms with high levels of CEO pay relative to other top executives have reduced performance.⁴
- Impacts of pay disparities are particularly strong in industries based on technology, creativity, and innovation.⁵

Investors will also be able to use CEO-to-worker pay ratios as an additional metric for evaluating say-on-pay votes and other executive compensation issues. Pay ratio disclosure helps investors evaluate CEO pay levels in the context of companies' internal compensation structures. Investors will be able to see how the ratio changes over time at individual companies and compare companies within industries.

As required by Dodd-Frank Section 953(b), the proposed rule appropriately requires companies to disclose the median pay of *all* of their employees. Given recent labor market trends, many publicly traded companies employ a majority of international employees or part-time employees. Investors will receive an incomplete picture of their company's pay practices if these employees are excluded from the disclosure.

We commend the Commission for proposing to reduce compliance costs as much as possible without reducing the benefits to investors. The proposed rule gives companies considerable flexibility through sampling or using payroll data to calculate the median. We also support the Commission's proposal to permit companies to provide supplemental disclosure on their overall workforce compensation practices.

Please act swiftly to adopt the final rule implementing Section 953(b) of the Dodd Frank Act. Investors and other stakeholders will benefit from this disclosure in proxy voting on executive compensation and in making investment decisions based on workforce considerations. Thank you for taking our views into consideration for your final rulemaking.

Sincerely,



Jonas Kron
Director of Shareholder Advocacy

Overpaid CEOs and Underpaid Managers: Fairness and Executive Compensation, *Organization Science* (2006), finding the same effects stretching down at least five levels down the chain of command.

⁴ Lucian Bebchuk, Martijn Cremers, and Urs Peyer, *The CEO Pay Slice*, September 2010, forthcoming in the *Journal of Financial Economics*.

⁵ See Phyllis Siegel and Donald C. Hambrick, *Pay Disparities Within Top Management Groups: Evidence of Harmful Effects on Performance of High-Technology Firms*, *Organization Science*, Vol. 16 (2005). See also Aneika L. Simmons, *Organizational Justice: A Potential Facilitator or Barrier to Individual Creativity*, Doctoral Dissertation, Texas A&M University, December 2006.