



**Americans for Financial Reform
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December 2, 2013

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street N.E.
Washington, DC 20549-1090
Re: Dodd-Frank Section 953(b)
File Number: S7-07-13

Dear Ms. Murphy:

On behalf of Americans for Financial Reform (AFR), we thank you for the opportunity to comment on the implementation of Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act. AFR is a coalition of more than 250 national, state, and local groups who have come together to advocate for reform of the financial industry. Members of AFR include consumer, civil rights, investor, retiree, community, labor, faith based, and business groups along with prominent independent experts.

Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act directs the Securities and Exchange Commission (SEC) to amend Item 402 of Regulation S-K to require a) the disclosure of the median of annual total compensation of all employees in publicly-traded companies (excluding the CEO), b) the annual total compensation of CEO, and c) the computation and disclosure of the ratio of the median of total annual compensation of all employees to that of the CEO. These disclosures would not be required of emerging growth companies, smaller reporting companies, or foreign private issuers. AFR strongly supports the Section 953(b) requirement that companies disclose to investors the ratio of CEO pay to that of the median employee's compensation.

Existing disclosure requirements mandate that only the compensation of top executives be made available. In enacting 953(b) and mandating the disclosure of the pay ratio as well, Congress sought to address investor concerns that the old disclosure requirements encouraged companies to focus on peer to peer comparisons when setting CEO pay, the practice of which helped lead to increasingly higher levels of CEO pay. Indeed, executives of public companies have seen their incomes increase at considerably faster rates over the past few decades compared with highly compensated employees in other occupations. In recent decades, CEO compensation overall has

grown to nearly 300 times what typical employees earn.¹ According to Equilar, executive compensation last year increased 16 percent from 2011, with the median pay package totaling \$15.1 million.² Investors should have the ability to consider whether a CEO provides hundreds of times the value of their employees as they weigh whether to invest in a particular firm.

Disclosure rules for executive pay have unfairly prioritized horizontal comparisons among CEOs as opposed to considerations of vertical pay equity within firms. Section 953(b) will shed light on compensation realities that are currently hidden from view, and will add to our critical national dialogue on income inequality and economic mobility. Additionally, runaway CEO pay—particularly in the financial sector—was one of the driving forces behind the misconduct that led to the financial and economic meltdown, the effects of which are still being felt today. The Institute for Policy Studies has found that almost 40 percent of the most highly compensated CEOs over the last twenty years were either fired, bailed-out, or paid fraud-related fines.³

Implementation of the new disclosure rules would clearly be helpful to investors, allowing them to better judge how pay structures can impact company performance. The effective management of human capital resources aids long-term shareholder returns; academic research finds that companies with satisfied employees see larger returns and superior operating performance when compared with companies with dissatisfied employees. As New York City Comptroller John C. Liu stated in response to the SEC proposal, “Bad pay practices undermine employee morale and productivity.”⁴ Strong implementation of this rule will help investors guard against risky bets as runaway pay practices can encourage recklessness, the prioritization of short-term gain over long-term soundness, and unethical acts.

Shareholders would also benefit from a new benchmark against which to measure CEO pay, one which may help them avoid paying unnecessarily large compensation packages in the process of recruiting new, competent executives. AFR believes that companies should welcome the new opportunity for greater company transparency of compensation practices.

Socially responsible funds are a large and growing segment of the investment market.⁵ The Forum for Sustainable and Responsible Investment has found that sustainable and responsible investments have been growing steadily over the last decade; in 2011, \$3.74 trillion in these types of investments was made in the U.S. Even firms that have not historically identified

¹ “Exposing the Pay Gap,” The New York Times, September 24, 2013.

<http://www.nytimes.com/2013/09/25/opinion/exposing-the-pay-gap.html>

² “S.E.C. Proposes Greater Disclosure on Pay for C.E.O.’s,” New York Times, September 18, 2013.

<http://dealbook.nytimes.com/2013/09/18/s-e-c-proposes-new-rule-on-pay-disclosure/>

³ “Executive Excess 2013: Bailed Out, Booted, and Busted,” Institute for Policy Studies, August 28, 2013.

<http://www.ips-dc.org/reports/executive-excess-2013>

⁴ “NYC Comptroller Liu Statement on SEC Proposed Pay Ratio Disclosure Rule,” September 18, 2013.

<http://comptroller.nyc.gov/newsroom/nyc-comptroller-liu-statement-on-sec-proposed-pay-ratio-disclosure-rule/>

⁵ The Forum for Sustainable and Responsible Investment, “Report on Sustainable and Responsible Investing Trends in the United States, 2012,” USSIF Foundation,

http://www.ussif.org/files/Publications/12_Trends_Exec_Summary.pdf.

themselves as using sustainable and responsible investment strategies are more frequently adopting such approaches. ; the Principles for Responsible Investment now have more than 1,000 firms signed on with assets over \$30 trillion, an amount that represents an estimated 20 percent of the total value of capital global markets.⁶ There is ample evidence that socially responsible investment funds in particular are in favor of the pay ratio disclosure. For example the Forum for Sustainable and Responsible Investment, whose members include investment management and advisory firms, mutual fund companies, research firms, financial planners and advisors, broker-dealers, banks, credit unions, community development organizations, non-profit associations, and pension funds, foundations and other asset owners, has praised the SEC for its proposed rule. Walden Asset Management, a division of the Boston Trust & Investment Management Company which invests approximately \$2.5 billion on behalf of its clients, supports the proposed rule because it would “enable better informed investment and proxy voting decisions.”⁷ The Interfaith Center on Corporate Responsibility, a coalition of over 300 faith-based institution investors with combined portfolios worth over \$100 billion strongly supports the proposed rule, calling the ratio of CEO to worker pay “material information for investors.”⁸ Large investors such as CalPERS and CalSTRS have also submitted comments in favor of the proposed rule.

Notably, the proposed rule requires companies to disclose the median pay of *all* of their employees, reflecting the language of the statute. Many companies employ part-time and/or international employees and we believe that it is important, as well as consistent with the statute, that their compensation is included in the pay ratio. Excluding these workers would make the reported ratio less informative and could create a misleading picture of many companies’ true pay structure. The rule appropriately provides firms with the option of providing disclosure of their full time employees pay ratio in addition if they believe it will be useful to investors.

Opponents of 953(b) have argued that disclosing this pay ratio could be a logistically complex, time-consuming, and costly process. However, the SEC proposal gives companies both guidance and flexibility in choosing a method by which to determine the median pay. Companies are provided with relatively simple options for making and reporting the calculations that 953(b) calls for. Furthermore, these are figures that should already be on hand at most companies. Publicly traded companies already disclose executive pay, and all firms collect employee pay data for tax purposes. In fact, knowledge of worker pay is central within companies for management purposes; it is hardly credible that firms cannot make this information available relatively easily.

⁶ Ibid.

⁷ Timothy Smith, Walden Asset Management, Comment to the SEC on Pay Ratio Disclosure, File No. S7-07-13, November 15, 2013. <http://www.sec.gov/comments/s7-07-13/s70713-321.pdf>

⁸ Laura Berry, Interfaith Center on Corporate Responsibility, Comment to the SEC on Pay Ratio Disclosure, File No. S7-07-13, October 17, 2013. <http://www.sec.gov/comments/s7-07-13/s70713-229.pdf>

In sum, we thank you for your work in drafting an effective rule implementing section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Given that three years have passed since the enactment of the law, we urge you to move quickly to put the final rule in place.

Sincerely,

Americans for Financial Reform

Following are the partners of Americans for Financial Reform.

All the organizations support the overall principles of AFR and are working for an accountable, fair and secure financial system. Not all of these organizations work on all of the issues covered by the coalition or have signed on to every statement.

- AARP
- A New Way Forward
- AFL-CIO
- AFSCME
- Alliance For Justice
- American Income Life Insurance
- American Sustainable Business Council
- Americans for Democratic Action, Inc
- Americans United for Change
- Campaign for America's Future
- Campaign Money
- Center for Digital Democracy
- Center for Economic and Policy Research
- Center for Economic Progress
- Center for Media and Democracy
- Center for Responsible Lending
- Center for Justice and Democracy
- Center of Concern
- Center for Effective Government
- Change to Win
- Clean Yield Asset Management
- Coastal Enterprises Inc.
- Color of Change
- Common Cause
- Communications Workers of America
- Community Development Transportation Lending Services
- Consumer Action
- Consumer Association Council
- Consumers for Auto Safety and Reliability
- Consumer Federation of America
- Consumer Watchdog
- Consumers Union
- Corporation for Enterprise Development
- CREDO Mobile
- CTW Investment Group
- Demos
- Economic Policy Institute

- Essential Action
- Green America
- Greenlining Institute
- Good Business International
- HNMA Funding Company
- Home Actions
- Housing Counseling Services
- Home Defender's League
- Information Press
- Institute for Agriculture and Trade Policy
- Institute for Global Communications
- Institute for Policy Studies: Global Economy Project
- International Brotherhood of Teamsters
- Institute of Women's Policy Research
- Krull & Company
- Laborers' International Union of North America
- Lawyers' Committee for Civil Rights Under Law
- Main Street Alliance
- Move On
- NAACP
- NASCAT
- National Association of Consumer Advocates
- National Association of Neighborhoods
- National Community Reinvestment Coalition
- National Consumer Law Center (on behalf of its low-income clients)
- National Consumers League
- National Council of La Raza
- National Council of Women's Organizations
- National Fair Housing Alliance
- National Federation of Community Development Credit Unions
- National Housing Resource Center
- National Housing Trust
- National Housing Trust Community Development Fund
- National NeighborWorks Association
- National Nurses United
- National People's Action
- National Urban League
- Next Step
- OpenTheGovernment.org
- Opportunity Finance Network
- Partners for the Common Good
- PICO National Network
- Progress Now Action
- Progressive States Network

- Poverty and Race Research Action Council
- Public Citizen
- Sargent Shriver Center on Poverty Law
- SEIU
- State Voices
- Taxpayer's for Common Sense
- The Association for Housing and Neighborhood Development
- The Fuel Savers Club
- The Leadership Conference on Civil and Human Rights
- The Seminal
- TICAS
- U.S. Public Interest Research Group
- UNITE HERE
- United Food and Commercial Workers
- United States Student Association
- USAction
- Veris Wealth Partners
- Western States Center
- We the People Now
- Woodstock Institute
- World Privacy Forum
- UNET
- Union Plus
- Unitarian Universalist for a Just Economic Community

List of State and Local Partners

- Alaska PIRG
- Arizona PIRG
- Arizona Advocacy Network
- Arizonans For Responsible Lending
- Association for Neighborhood and Housing Development NY
- Audubon Partnership for Economic Development LDC, New York NY
- BAC Funding Consortium Inc., Miami FL
- Beech Capital Venture Corporation, Philadelphia PA
- California PIRG
- California Reinvestment Coalition
- Century Housing Corporation, Culver City CA
- CHANGER NY
- Chautauqua Home Rehabilitation and Improvement Corporation (NY)
- Chicago Community Loan Fund, Chicago IL
- Chicago Community Ventures, Chicago IL
- Chicago Consumer Coalition
- Citizen Potawatomi CDC, Shawnee OK

- Colorado PIRG
- Coalition on Homeless Housing in Ohio
- Community Capital Fund, Bridgeport CT
- Community Capital of Maryland, Baltimore MD
- Community Development Financial Institution of the Tohono O'odham Nation, Sells AZ
- Community Redevelopment Loan and Investment Fund, Atlanta GA
- Community Reinvestment Association of North Carolina
- Community Resource Group, Fayetteville A
- Connecticut PIRG
- Consumer Assistance Council
- Cooper Square Committee (NYC)
- Cooperative Fund of New England, Wilmington NC
- Corporacion de Desarrollo Economico de Ceiba, Ceiba PR
- Delta Foundation, Inc., Greenville MS
- Economic Opportunity Fund (EOF), Philadelphia PA
- Empire Justice Center NY
- Empowering and Strengthening Ohio's People (ESOP), Cleveland OH
- Enterprises, Inc., Berea KY
- Fair Housing Contact Service OH
- Federation of Appalachian Housing
- Fitness and Praise Youth Development, Inc., Baton Rouge LA
- Florida Consumer Action Network
- Florida PIRG
- Funding Partners for Housing Solutions, Ft. Collins CO
- Georgia PIRG
- Grow Iowa Foundation, Greenfield IA
- Homewise, Inc., Santa Fe NM
- Idaho Nevada CDFI, Pocatello ID
- Idaho Chapter, National Association of Social Workers
- Illinois PIRG
- Impact Capital, Seattle WA
- Indiana PIRG
- Iowa PIRG
- Iowa Citizens for Community Improvement
- JobStart Chautauqua, Inc., Mayville NY
- La Casa Federal Credit Union, Newark NJ
- Low Income Investment Fund, San Francisco CA
- Long Island Housing Services NY
- MaineStream Finance, Bangor ME
- Maryland PIRG
- Massachusetts Consumers' Coalition
- MASSPIRG
- Massachusetts Fair Housing Center
- Michigan PIRG

- Midland Community Development Corporation, Midland TX
- Midwest Minnesota Community Development Corporation, Detroit Lakes MN
- Mile High Community Loan Fund, Denver CO
- Missouri PIRG
- Mortgage Recovery Service Center of L.A.
- Montana Community Development Corporation, Missoula MT
- Montana PIRG
- Neighborhood Economic Development Advocacy Project
- New Hampshire PIRG
- New Jersey Community Capital, Trenton NJ
- New Jersey Citizen Action
- New Jersey PIRG
- New Mexico PIRG
- New York PIRG
- New York City Aids Housing Network
- New Yorkers for Responsible Lending
- NOAH Community Development Fund, Inc., Boston MA
- Nonprofit Finance Fund, New York NY
- Nonprofits Assistance Fund, Minneapolis M
- North Carolina PIRG
- Northside Community Development Fund, Pittsburgh PA
- Ohio Capital Corporation for Housing, Columbus OH
- Ohio PIRG
- OligarchyUSA
- Oregon State PIRG
- Our Oregon
- PennPIRG
- Piedmont Housing Alliance, Charlottesville VA
- Michigan PIRG
- Rocky Mountain Peace and Justice Center, CO
- Rhode Island PIRG
- Rural Community Assistance Corporation, West Sacramento CA
- Rural Organizing Project OR
- San Francisco Municipal Transportation Authority
- Seattle Economic Development Fund
- Community Capital Development
- TexPIRG
- The Fair Housing Council of Central New York
- The Loan Fund, Albuquerque NM
- Third Reconstruction Institute NC
- Vermont PIRG
- Village Capital Corporation, Cleveland OH
- Virginia Citizens Consumer Council
- Virginia Poverty Law Center

- War on Poverty - Florida
- WashPIRG
- Westchester Residential Opportunities Inc.
- Wigamig Owners Loan Fund, Inc., Lac du Flambeau WI
- WISPIRG

Small Businesses

- Blu
- Bowden-Gill Environmental
- Community MedPAC
- Diversified Environmental Planning
- Hayden & Craig, PLLC
- Mid City Animal Hospital, Pheonix AZ
- The Holographic Repatterning Institute at Austin
- UNET

