Domini
SOCIAL INVESTMENTS®

The Way You Invest Matters®

November 27, 2013

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

Re: *File Number S7-07-13: Proposed rule to implement Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act*

Dear Ms. Murphy:

I am writing on behalf of Domini Social Investments LLC, a registered investment adviser, in strong support of the Commission's proposed rule to implement Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Domini manages a family of mutual funds for individual and institutional investors that wish to integrate social and environmental standards into their investment decisions. We have had longstanding concerns about the growing disparity between CEO compensation and employee wages. Over the years, we have expressed these concerns through our proxy voting policies, which guide us to vote against what we regard as excessive CEO compensation and against the election of outside CEOs that sit on compensation committees, and through support of shareholder proposals tying executive compensation to broader measures of long-term value creation, including social and environmental metrics. We have also filed a number of shareholder proposals on this topic.

Benefits of the Rule

We believe that it has been a mistake to view CEO compensation solely through the lens of shareholder value. This perspective has not curbed irresponsible risk-taking or the phenomenal growth of pay packages, and may in fact have encouraged these excesses. We believe that a pay package can be so large as to distort decision-making and isolate a CEO from the rest of the corporation. If CEOs are indeed paid to lead an organization and drive long-term value creation, their pay packages must align their interests with the interests of the corporation as a whole.

Unlike current approaches to executive compensation, the pay ratio mandated by Section 953(b) relates to the overall stability of the company and may provide investors with a more meaningful indicator of long-term value creation. It will provide us with valuable insight into how capital is allocated within the company, and will help us determine whether executive compensation is reasonable and appropriate. It will also necessarily insert questions about employee compensation into each board's compensation committee deliberations, which should assist the board in carrying out its fiduciary duties to the company as a whole.

Equitable compensation practices should strengthen employee loyalty and productivity – a critical, if often overlooked, component of corporate value. The pay ratio will also provide investors with an important indicator of the CEO's loyalty to the firm as a whole, and may in fact strengthen that loyalty.

At the same time that we have witnessed the steady growth of CEO compensation, wages have stagnated. To cite one recent report from the Economic Policy Institute, "between 2002 and 2012, wages were stagnant or declined for the entire bottom 70 percent of the wage distribution. … This lost decade for wages comes on the heels of decades of inadequate wage growth. For virtually the entire period since 1979 (with the one exception being the strong wage growth of the late 1990s), wage growth for most workers has been weak."[1] These trends are unsustainable, and present serious risks to investors. Wage stagnation has fueled our nation's debt burden, and contributed to the financial crisis. Investors ignore these serious risks at their peril. How are corporate compensation decisions related to this larger macroeconomic problem? The disclosures required by Section 953(b) will help us to answer that question. Required disclosure of the ratio between the CEO's and the median employee's compensation is potentially transformative and may have significant macroeconomic effects if companies seek to reduce the gap between CEO and median employee pay by raising wages. At the very least, it will provide investors, economists and others with better data to help assess the role of the corporation in this larger macroeconomic problem. Ultimately, this relatively simple metric could impact millions of employees around the world, with multiplier effects throughout the economy.

How We Will Use the Data

In our analysis of corporations, we seek to understand each company's true value proposition for investors and for society at large. We believe that the pay ratio disclosure will serve as an important indicator of quality management. Companies with lower ratios should benefit in the long-term from more loyal and productive employees and a CEO less focused on short-term stock price movements. A CEO that favors narrowing the gap between her compensation and the median employee may be a leader with a better understanding of the sources of value and innovation at her company. We would expect to utilize the pay ratio disclosure in our analysis of companies, and certainly in our proxy voting. A particularly high ratio, for example, may justify a vote against the members of the compensation committee. A particularly low ratio may justify higher CEO compensation than we would ordinarily accept.

It has been suggested by some that the ratio will be misleading, and that companies in financial services, for example, would be likely to have a much smaller ratio than companies in the restaurant business. This concern is misplaced. Investors will use this ratio to compare companies to their industry peers and will understand that ratios may vary widely between industries or sub-industries. Within a sub-industry, however, outliers with particularly high or low ratios will be noted. We also believe that this figure will be used by investors to inform their dialogues with management about executive compensation and employee relations. We suspect that it will spur particularly interesting and constructive conversations. We agree with the Commission that companies should not be required to provide narrative disclosure to address these concerns, but we assume that many companies will take the opportunity to voluntarily do so, and we believe these disclosures will also be valuable.

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[1] http://economix.blogs.nytimes.com/2013/08/26/wage-stagnation-and-market-outcomes/?_r=2

Comments on the Rule Proposal

We believe the Commission has struck the right balance in its construction of the rule, adhering closely to the text of the statute while providing registrants with flexibility to allow them to implement these new disclosures in a cost-effective manner. We agree that disclosure should include all employees, both foreign and domestic, including subsidiaries.

The ability to compare companies to each other within their peer groups is critical for us. However, we are not concerned that the degree of flexibility contemplated by the rule proposal will undermine the usefulness of the disclosures. If the method selected produces a result that satisfies the intent of the rule, then the resulting ratio will be comparable even if the chosen method is different. If the company believes the median is 'correct,' then the method chosen should not trouble investors. We agree that registrants should be required to provide a brief narrative discussion of the method selected and the reasons for the approach taken. Registrants should be reminded that it is their responsibility to ensure that their disclosures are not misleading. If the method chosen varies from year to year, the registrant should be required to disclose this and explain the change.

We also agree that it would be appropriate to annualize the compensation of certain employees that did not work the full year, as long as the registrant is not annualizing any class of employee that typically never works the full year. For example, it may be misleading to annualize the compensation of certain categories of seasonal workers that never work more than a few months. Again, it is the registrant's responsibility to ensure the information disclosed is not misleading, and these issues may be addressed through narrative disclosure. In addition, we don't believe that it is essential that the median be precisely calculated – the ratio is a broad indicator that represents the overall balance of the company's compensation structure as a whole. Absolute precision is not necessary to produce a valid and honest ratio.

We believe it is critically important for companies to include all employees, both foreign and domestic. Investors need to see the full picture of a company's compensation practices. If the Commission receives significant comments challenging the inclusion of foreign employees, we would encourage Staff to review the Global Reporting Initiative's G4 guidelines, which address this issue through country-by-country pay ratio reporting. It is important to note that each iteration of the GRI guidelines has been developed through a multi-stakeholder process that includes input from corporations, investors and members of civil society.[2]

Conclusion

In *What Publicity Can Do*, one of a series of articles Louis Brandeis published in 1913 on the problem of the money trusts, Brandeis made the case that "publicity is justly commended as a remedy for social and industrial diseases. Sunlight is said to be the best of disinfectants; electric light the most efficient policeman."[3] Brandeis' reasoning, now taken as self-evident, was that investors will make better decisions

[2] G4-54: "Report the ratio of the annual total compensation for the organization's highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country." *https://www.globalreporting.org/resourcelibrary/GRIG4-Part1-Reporting-Principles-and-Standard-Disclosures.pdf*

[3] *www.sechistorical.org/collection/papers/Pre1930/1913_12_20_What_Publicity_Ca.pdf*

if they have relevant information and their informed decision making will serve as a check on undesirable behavior. "Require full disclosure to the investor of the amount of [bankers'] commissions and profits paid", Brandeis reasoned, "and not only will investors be put on their guard, but ...[e]xcessive commissions—this form of unjustly acquired wealth—will in large part cease." We view the pay ratio disclosure as a classic "Brandeis indicator"—a figure that once calculated and brought to the light of day, will operate as a "remedial measure." We do not believe that CEOs will wish to compete to see who benefits from the most inequitable compensation structure. We also believe that the business community's opposition to this rule—primarily cloaked in protestations relating to the supposed impossibility or high cost of determining the median employee—is strong evidence of this.

The Commission is to be congratulated for a well-crafted and thoughtful rule proposal. We hope that these comments are helpful and would be pleased to provide any further information if needed.

Sincerely,

Adam Kanzer
Managing Director & General Counsel