Michael S. Piwowar
Acting Chairman
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Reconsideration of Pay Ratio Rule Implementation

Dear Acting Chairman Piwowar,

We are writing as investors and investor organizations to express our continued support for Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010—the "pay ratio" disclosure requirement—and the U.S. Securities and Exchange Commission's August 5, 2015 final rule implementing this provision.

We strongly urge the SEC to maintain the effective date for disclosure by companies as stated in the final rule for "the first fiscal year beginning on or after January 1, 2017" which, for most companies, will mean in their 2018 proxy statements. Delaying the implementation of the rule will do a huge disservice to investors who have already waited nearly seven years for this material information.

The SEC's pay ratio disclosure rule is thoughtful, balanced, and carefully crafted to provide companies considerable flexibility and makes accommodations to them in complying with the rule, while giving shareowners valuable new information with which to assess companies in their investment portfolio. Moreover, the SEC's rule encourages companies to offer additional context for their pay ratio disclosures.

As investors, we believe that pay ratio information is material because it:

- Enables investors to make more informed decisions when casting advisory votes on executive compensation ("Say-On-Pay" votes). There is evidence that shareholders consider pay ratios as a measure of CEO pay reasonableness. A 2016 study of commercial banks who disclose average employee pay data found that companies with the highest pay ratios experienced "significantly greater shareholder dissent on SOP votes."[1]

- Provides employee pay data that is otherwise difficult and costly for investors to obtain on their own. Companies are not currently required to disclose data on their employees' compensation, and the required disclosure of median employee pay will encourage greater transparency of human capital metrics. In the absence of company specific disclosures, investors are attempting to obtain human capital management data from companies.[2]

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[1] Steven S. Crawford and Karen K. Nelson, *Mind the Gap: CEO-Employee Pay Ratios and the Shareholder Say on Pay Votes*, January 2016. Available at https://www8.gsb.columbia.edu/faculty-research/sites/faculty-research/files/CNR%20Jan2016%20(002).pdf

[2] David McCann, *Big Leap Forward for Human Capital Disclosure*, CFO.com, May 20, 2016. Available at http://ww2.cfo.com/disclosure/2016/05/big-leap-forward-human-capital-disclosure/ *See also* Pensions &

- Indicates a company's approach to balancing internal equity and external competitiveness when setting CEO pay targets. An overreliance on peer group benchmarking can contribute to a ratcheting up effect on CEO pay levels, leading one academic paper to conclude that "internal consistency, or pay equity, throughout the organization, up to and including the CEO, should be a natural and reasonable objective."[3]

- Sheds light on the impact of high CEO to employee pay ratios on employee morale. Public company employees are generally aware how much they make relative to their CEO, and high pay disparities may impact employee productivity. Wide pay gaps between CEOs and other employees are associated with higher employee turnover, which can adversely affect a company's performance and thereby shareowner interests. [4]

- Allows investors to see how pay ratios change at specific companies over time, and how companies within industries vary in their employee compensation strategies. Such disclosure can help inform investment decisions. According to a 2016 MSCI study, companies with higher CEO to employee pay gaps experienced lower profitability compared with peers with smaller pay gaps over a 5-year period from 2009 to 2014.[5]

For these reasons, pay ratio disclosure will provide material information to investors who are concerned about CEO and employee compensation and its impact on shareholder value. We call on the SEC to comply with Section 953(b) of the Dodd-Frank Act by maintaining the existing pay ratio disclosure rule. We note that this rule was adopted after an extensive rulemaking process and comment period. Any further delay will impose significant costs on investors who have been anticipating pay ratio disclosure according to the rule's existing timetable.

Sincerely,

Investments Research Consultants Ltd. comment letter to the SEC, October 17, 2013. Available at https://www.sec.gov/comments/s7-07-13/s70713-230.pdf

[3] Charles M. Elson and Craig K. Ferrere, *Executive Superstars Peer Groups and Overcompensation – Cause Effect and Solution*, Journal of Corporation Law, Spring 2013. Available at http://lerner.udel.edu/centers/research-centers/john-l-weinberg-center-for-corporate-governance/executive-superstars-peer-groups-and-overcompensation/

[4] Matt Bloom and John Michael, *The Relationships Among Organizational Context, Pay Dispersion, and Managerial Turnover*, Academy of Management Journal, February 2002. Available at https://www.jstor.org/stable/3069283 *See also* James Wade, Charles O'Reilly III, and Timothy Pollock, *Overpaid CEOs and Underpaid Managers: Fairness and Executive Compensation*, Organization Science, October 2006. Available at http://dx.doi.org/10.1287/orsc.1060.0204

[5] Samuel Block, *Income Inequality and the Intracorporate Pay Gap*, MSCI, April 2016. Available at https://www.msci.com/www/research-paper/income-inequality-and-the/0337258305