Center for
EFFECTIVE
GOVERNMENT
Formerly OMB Watch

VIA EMAIL

November 26, 2013

Ms. Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F St. 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,

We are writing on behalf of the Center for Effective Government to offer comments in connection with the U.S. Securities and Exchange Commission's ("the Commission") proposed rule to implement Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("953(b)"). The Center for Effective Government has been advocating for increased government transparency for the last three decades, especially for transparency that brings greater accountability. We are writing today to add our full support for the Commission's proposed implementation of Sec. 953(b), which would require corporations to annually publish the ratio of their Chief Executive Officer's total compensation to that of the average worker's compensation. We think the Commission has done a commendable job suggesting a flexible approach that balances the needs of corporations, investors, policy makers and the general public.

Adoption of the proposed rule would provide important information relative to the on-going executive compensation debate. This information will help shareholders ascertain whether their funds are being appropriately spent. It will also provide taxpayers and policy-makers valuable information as to whether public subsidies of corporations are necessary and warranted.

The proposed transparency benefits the public by empowering people to make more informed decisions, both as investors, consumers, workers, and as citizens in a democracy. Executive compensation has long been a contentious issue. Since the vital proxy disclosure reforms adopted by the Commission in 2005, public interest in executive compensation has soared. Most major newspapers now regularly report on how much executives in their communities are paid.

Implicit in the public's interest is a concern about fairness. Some information on pay at the top is helpful, but many citizens are interested in knowing how the pay of corporate leaders compares to pay throughout the enterprise. The disclosures required by Sec. 953(b) would go a long way toward answering that question.

While some might claim that the proposed reporting is unnecessary, we would assert that it is a needed new information tool for evaluating companies. Every day corporations are compared to their peers. Securities analysts regularly compare financial ratios in order to determine sound investments. Corporations themselves compare their performance to a peer group as one of the tools in determining executive bonuses. The CEO pay-to-average worker pay ratio would add one more tool for comparison. It would allow investors, workers, and the broader public to compare one company to another and to ask questions when particular firms appear to be outside the norm. Extraordinarily high disparities may suggest that additional investigation of employee morale and productivity are warranted.

In recent decades, income inequality in America has grown at historic rates, while wage growth for low- and middle-income workers has stagnated. Such economic conditions are a tremendous concern for our nation as a whole as well as for individual workers, families, and communities. We have a right to know whether the investments we make are reducing or exacerbating income inequality. The proposed rule to implement Sec. 953(b) would provide the information necessary to answer that question.

While we fully support the proposed rule, there are a few improvements we urge the Commission to consider. First, in order to assure that this new disclosure requirement is not being gamed by outsourcing lower wage jobs in order to make the CEO pay-to-worker pay disclosure smaller, an additional disclosure would be extremely helpful: enhanced disclosure of the number of employees, particularly the number of employees working in the United States. Second, we would like to see a greater narrative discussion of changes in employment year to year that would include the impact of merger or divestment activity and shifts of classes of workers, such as food service, security or office cleaning to third party vendors. Disclosure this additional information would make the requirements outlined in Sec. 953(b) more meaningful. They would also provide policy makers and the public with additional information by which to evaluate whether public subsidies that are supposed to incentivize job creation are, in fact, having that effect.

In the earliest days of American history, corporations were chartered to fulfill a specific public purpose. Corporate charters were time-limited and renewed only after it was clear that they were fulfilling the social needs for which they were chartered. Though modern corporations receive their charters in perpetuity, many members of society continue to expect corporations to do more than simply earn a profit. We expect corporations to deliver are decent jobs for the members of the community in which they operate. The disclosures required by Regulation 953(b) would allow the public to see how the profits of an enterprise are divided among the employees of an enterprise.

We urge the Commission to adopt its proposed rule for implementing Sec. 953(b) with the expanded disclosure of non-U.S. employees and greater narrative we recommended. We look forward with anticipation to using the new information that corporations will disclose in our public interest work.

Sincerely,

Katherine McFate
President and CEO

Sean Moulton
Director, Open Government Policy

W. Scott Klinger, CFA
Director, Revenue and Spending Policies

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