Center On Executive Compensation Strongly Opposes Final Pay Ratio Rule

Overly Burdensome and Politically-Motivated Requirement Will Provide No Meaningful Data To Investors

Washington, D.C. — The Center On Executive Compensation, representing a cross-section of America’s large employers, expressed its disappointment today with the U.S. Securities and Exchange Commission’s final pay-ratio rule, a Dodd-Frank Act requirement that calls on boards and companies to identify the ratio of CEO pay compared to median employee compensation.

The Center is a research and advocacy organization that seeks to provide a principles-based approach to executive compensation policy from the perspective of the senior human resource officers of leading companies. The Center is a division of HR Policy Association, which represents the chief human resource officers of over 360 large companies, and the Center’s more than 115 subscribing companies are HR Policy members that represent a broad cross-section of industries.

Timothy J. Bartl, President of the Center On Executive Compensation said, “The pay ratio mandate has never been about actual CEO pay or the pay of average workers, for it is no secret that CEOs are paid significantly more than the average worker - those ratios have been estimated and reported in the media. For five years, the Center and its subscribers have been working to inform the Commission about the unintended consequences of the pay-ratio requirement and the increased potential for confusion at a time when investors are already faced with complex pay disclosures.”

In the final rule, the SEC had an opportunity to significantly lessen the compliance costs and administrative burdens on companies, as suggested by the Center, by excluding non-U.S. and part-time employees without measurably impacting the ratio. Unfortunately, the SEC chose to provide only a narrow exemption that will not reduce the most significant costs of determining the ratio.

Further, only a small segment of shareholders, primarily unions, certain pension funds, and social activists, are likely to use the pay ratio to drive their own narrowly tailored agendas. Shareholders generally have decisively rejected all efforts to require various companies to disclose a pay ratio through the shareholder proposal process. According to Center data, since 2010 there have been only 15 separate shareholder proposals – out of thousands of proposals submitted – requesting that companies voluntarily adopt a pay ratio or similar disclosure. These proposals averaged 93% shareholder opposition with no single proposal receiving over 10% support.

To the extent the pay ratio is used, it will only serve to mislead and potentially harm investors and the public by purporting to communicate information about a company’s pay philosophy and human resources practices. “A company’s pay ratio will be a unique result of that individual company’s business structure, mix of skills of the employee population, the countries in which the company does business and compensation practices, rendering any comparison between businesses or within an individual business over time very difficult, if not meaningless,” said Center Chief Executive Officer Charles G. Tharp.
“The Pay-Ratio requirement is one of several overly burdensome and impractical provisions of the Dodd Frank Act which seek to utilize the federal securities laws to pursue social objectives. The Center will continue to advocate approaches to minimize the negative consequences of this requirement and advocate for more practical and meaningful uses of the SEC’s resources.” said Mr. Bartl.

The Center On Executive Compensation is dedicated to developing and promoting principled pay and governance practices and advocating compensation policies that serve the best interests of shareholders and other corporate stakeholders. Headquartered in Washington, DC, the Center was created at the direction of the Board of Directors of HR Policy Association, which represents the senior human resource officers of more than 360 of the largest corporations in the United States. For further information on the Center On Executive Compensation, please visit www.execcomp.org.