February 21, 2013

The Honorable Luis Aguilar
Commissioner
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

RE: Center On Executive Compensation Reaction to February 20 Statement on Compensation Disclosures

Dear Commissioner Aguilar:

The Center On Executive Compensation read with interest your February 20 statement, entitled "Shareholders Need Robust Disclosure to Exercise Their Voting Rights as Investors and Owners."[1] We were encouraged that the statement recognized the value of supplemental executive compensation disclosures to investors in explaining the pay for performance relationship, given the growth in the use of such disclosures and that fact that investors generally find them helpful. However, we were disappointed that you encouraged companies to voluntarily disclose a pay ratio in their 2013 proxies despite the fact that investors have not expressed broad interest in this information and the Commission has not yet finalized rules implementing the Dodd-Frank requirement.

As you know, the Center On Executive Compensation 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 330 large companies, and the Center's more than 100 subscribing companies are HR Policy members that represent a broad cross-section of industries.

The Center believes that while the Summary Compensation Table provides useful information for investors in understanding the intentions of the compensation committee at the time compensation is granted, the table has significant limitations when comparing pay for performance or explaining the alignment of executive compensation with shareholders' interests. Companies are increasingly experimenting in providing alternative pay for performance disclosures, and we believe that as best practices become more consistent, it will reduce the need for overly prescriptive regulations in implementing Dodd-Frank Section 953(a). Hay Group estimated in 2012 that as many as 15 percent of all public companies voluntarily included a supplemental pay for performance disclosure in their proxies and as many as a third will use them in 2013.[2] Investors generally find such supplemental disclosures useful in understanding company pay programs.[3] The Center has submitted

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[1] The Honorable Luis A. Aguilar, "Shareholders Need Robust Disclosure to Exercise Their Voting Rights as Investors and Owners" (Feb. 20, 2013), http://www.sec.gov/news/speech/2013/spch022013laa.htm.

[2] Kristen Gribben, "Realized Pay Disclosure Makes Steady Headway," *Agenda*, May 14, 2012.

[3] *See, e.g.,* Emily Chasan, "Investors Support More Pay Disclosures, Seek Consistency," *Wall St. J.*, *CFO J.,* Sept. 25, 2012 (*quoting* governance officials from Vanguard Group, TIAA-CREF, CalSTRS and the Carpenters Union stating that alternative pay disclosures are useful).

suggestions to the Commission on several occasions on alternative approaches to pay for performance disclosures in the proxy, and our thinking continues to evolve. We look forward to continuing our discussions with the Commission and the staff on this important subject.

By contrast, we were disappointed that your statement urged companies to voluntarily disclose a pay ratio in proxies this year. In evaluating whether to make such disclosures, you ask companies to be "guided by a clear vision of the investors who are relying on the disclosure to make important voting and investment decisions." Yet, unlike pay for performance, most investors are not asking for pay ratio information, and where shareholder proposals have been offered on the pay ratio, support from shareholders has typically been less than 10 percent.[4]

In addition, voluntary disclosure of a pay ratio before the SEC has finalized rules implementing requirements in Section 953(b) of the Dodd-Frank Act will require the companies to explain in the future why the voluntarily disclosed ratio differs from the calculation of the ratio mandated by the statute, as implemented through SEC rules. Given that investors are not asking for the information and most companies lack the ability to collect the information required by the statute in a timely and cost effective manner, companies generally will avoid making such a voluntary disclosure in their proxies.

The Center continues to oppose the pay ratio requirement because the calculation of the median compensation of all employees globally using the statutorily mandated SEC definition of compensation is unjustifiably complex. Based on feedback from our Subscribers, we believe the costs and burdens of calculating the ratio would be excessive relative to the information it would provide. In addition, the pay ratio is the result of the company's size and global reach, competitive and geographic labor market forces, the industry in which a company operates, the mix of jobs within a company, and other factors which reduces the comparability of such disclosures across companies and thus may be confusing and unhelpful to investors. For these reasons, it does not reflect differences in risk but rather differences in markets.

The Center remains strongly opposed to the disclosure of the pay ratio for these reasons, and we urge you to retract your statement regarding voluntary disclosure of the ratio due to the confusion it would likely generate.

Thank you for your consideration of our views on these important issues.

Sincerely,

Timothy J. Bartl
President

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[4] In 2010, the last year in which pay ratio resolutions were filed, out of nine resolutions included in company proxy statements, the average support was six percent.