

## Pay Ratio Disclosure Rule: The SEC's Latest Guidance Should Ease Compliance Costs for Companies

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On September 21, 2017, the SEC issued guidance to assist companies in their efforts to comply with the pay ratio disclosure requirement mandated by the Dodd-Frank Act. Overall, the guidance should come as a relief to many companies. It came in three parts:

1. The [Commission's interpretative guidance](#) that clarifies:
  - A basis for excluding independent contractors, by allowing companies to use a widely recognized test that they otherwise use under other laws and regulations to determine whether their workers are “employees;”
  - The ability to use appropriate existing internal records, such as tax or payroll records, in identifying the median employee and in determinations about the inclusion of non-U.S. employees; and
  - The significant flexibility in methodologies available to identify a company's median employee and in calculating his or her annual compensation.
2. [Staff guidance](#) that includes detailed examples illustrating how reasonable estimates and statistical methodologies may be used; and
3. [Updated Compliance and Disclosure Interpretations \(C&DIs\)](#) , which, among other things, withdraws the prior C&DI on independent contractors.

The issuance of this guidance underscores the need for calendar-year companies to continue their preparations to comply with the pay ratio rule during the 2018 proxy season.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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