

Initial Reactions to the SEC Pay Ratio Rule Proposal

September 19, 2013 | Client Update | 2-minute read

By now, the governance community is well aware that the SEC proposed the pay ratio rules yesterday at an open meeting, which we discussed [here](#). The initial reaction has demonstrated the divisive nature of the disclosure.

The AFL-CIO lauded the SEC for finally passing the proposal three years after passage of the Dodd-Frank Act. While the SEC release is clear that the Commission is uncertain about the exact benefits of the pay ratio disclosure, the AFL-CIO, a persistent advocate of the pay ratio disclosure, believes that the information will “help investors evaluate CEO pay levels in a broader context.” According to their calculations, the ratio of the S&P 500 CEOs was “354 times more pay than rank-and-file workers” in 2012.

Meanwhile, the Chamber of Commerce declared that it will examine the rules and look for “data-driven analysis,” bemoaning that the proposal is “another example of special interests promoting policies contrary to the interests of investors and the businesses they invest in,” with the risk of “the potential to drive up compliance burdens and costs for public companies with no benefit to investors.”

Much of the press focused on the 3-2 aspect of the Commission decision, with Commissioner Gallagher complaining that the requirement to cover global employees means that the “real point of this exercise is to ensure the most eye-poppingly huge ratios possible” and noting more than once that the purpose seems to be to “shame” issuers and their executives. Like his colleague, Commissioner Piwowar also believed that the SEC did not need to adopt the proposal notwithstanding the legislative mandate, and again echoed a similar theme that “proponents have acknowledged that the sole objective of the pay ratio disclosure rule is to shame CEOs.”

The author of the pay ratio legislation, however, appears pleased with the events. Senator Bob Menendez declared “I welcome the SEC’s step today towards implementing this important rule.” Similar to the sentiment expressed by the AFL-CIO, he indicated that “[t]his simple benchmark will help investors monitor both how a company treats its average workers and whether its executive pay is reasonable.”

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.

Ning Chiu

+1 212 450 4908

ning.chiu@davispolk.com

This communication, which we believe may be of interest to our clients and friends of the firm, is for general information only. It is not a full analysis of the matters presented and should not be relied upon as legal advice. This may be considered attorney advertising in some jurisdictions. Please refer to the firm's privacy notice for further details.