

Active Investors Weigh In on SEC Pay Ratio Proposal

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Comment letters continue to flow in, almost overwhelmingly supportive so far, on the SEC proposed rule for pay ratio disclosure. More than 19,000 form letters and over 150 specific letters, primarily from individuals, have been submitted.

Investors active on executive compensation issues are starting to providing input, as both the [International Brotherhood of Teamsters](#) and [Pax World Management](#) submitted letters in support of the proposal. Teamsters believes the pay ratio disclosure will help investors evaluate CEO pay levels in the context of a company's compensation system. It also indicates that it intends to monitor how the ratio changes over time, which some commentators have expressed could become a more meaningful indicator that companies need to be concerned about, rather than the initial disclosure.

Teamsters also believes that the ratio will provide a basis for comparing compensation practices within peer groups, even as critics of the proposal claim, and the SEC proposal concedes, that the ratio will offer little benefit in terms of comparability. In addition, the union asserts that the ratio will assist investors in evaluating compensation committee members and the say on pay vote. Pax World echoes similar sentiments in support of the rule.

Importantly, both are supportive of the SEC proposal permitting companies broad flexibility in calculating the ratio, and do not suggest any changes to the proposal to restrict companies' abilities in determining the ratio. However, they urge the SEC to retain the inclusion of part-time and non-U.S. employees, with Pax World claiming that many companies employ these types of workers in significant percentages "sometimes in order to avoid paying benefits." Teamsters indicates that without this requirement, the pay ratio disclosure would be a "misleading metric."

Both entities declare that the flexibility allowed in the rule should make it possible to produce the information without being overly burdensome, especially as, Pax World argues, most employee compensation is considerably less complex than CEO compensation. Pax World concludes that as many corporations manage the complex production of a wide variety of goods and services globally, "[a]rguing that such companies are incapable of keeping track of employee compensation adequately to compute median compensation is frankly difficult to fathom."

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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