Elizabeth M. Murphy, Secretary
US Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

By email to rule-comments@sec.gov

December 2, 2013

Dear Ms Murphy,

Response to Pay Ratio Disclosure File No S7-07-13

PGGM is a Dutch asset manager representing approximately $190 billion of assets under management, which are the pension savings of 2.5 million individuals. Our largest equity exposure is to the U.S. market; therefore we stand to benefit immensely from continued improvements in corporate governance practices of the companies in which we invest. We believe that good governance serves to mitigate investment risks and that shareholders have an important role to play in ensuring a growing and sustainable economy. As such, we commit considerable resources to understanding the governance risk frameworks of both individual companies and the U.S. market as a whole.

We welcome the SEC's implementation of Section 953(b) of the Dodd-Frank Act regarding pay ratio rules and we reiterate our support for the general aim of the Act to improve corporate governance, risk management and executive compensation structures of U.S. listed companies.

Benefits to shareholders:

There are many reasons why disclosure of the pay ratio as set out in the Section 953(b) is necessary. Of greatest importance to us is the concern that income disparity is rising to unsustainable levels. In many countries, income inequality as measured by the Gini coefficient, is back at its pre-crisis levels or even higher, fuelled to a significant degree by unconventional monetary policy. The World Economic Forum Global Risks 2013 report cites severe income inequality as one of the global risks most likely to manifest itself over the next ten years[1]. We are already seeing evidence of this in the U.S. According to a report

[1] http://www.weforum.org/reports/global-risks-2013-eighth-edition

published by University of California Berkeley's Professor of Economics, Emmanuel Saez, titled "Striking it Richer: The Evolution of Top Incomes in the United States"[2] from 2009 to 2012, the top 1% of earners saw their incomes grow by 31.4% while the bottom 99% of earners saw their incomes grow by only by 0.4%. Professor Saez says that, put another way, the top 1% captured 95% of the income gains in the first three years of the financial recovery. Should this risk come to bear in a more extreme form than we are presently seeing, there will be significant societal implications globally, and particularly in the U.S. where executive compensation levels are considered to be amongst the highest in the world. As shareholders, we have concerns as to what impacts this will have on our investments and our beneficiaries, and welcome the ratio as a tool to be used to reign in excessive pay practices.

We currently find the ratio between CEO pay and the pay of named executive officers (NEOs) to be an important pay indicator, and use this information as one contributing factor in our analysis of compensation for the advisory vote. This is because the ratio can be illuminating on internal succession planning risk and may lead to concerns around an all-powerful CEO. If other combinations of pay ratios were used within the organisation itself, the effectiveness of internal succession planning across the organisation may also be assessed. Furthermore, the ability to track the change in ratio over time and to compare pay ratios within industries will be insightful.

Another key benefit for shareholders will be the impact the pay ratio information will have on decision-making by the Compensation Committee. Shareholders will be able to assess that impact to determine whether decisions concerning senior management compensation made by the Compensation Committee are deemed fair compared to those applicable to other employees within the organisation. Whilst this information would not be immediately available from the pay ratio figure, it will provide an indicator that may lead to examination of the drivers of any identified inequity.

The process of calculating the ratio, or the inability to do so, could lead to identification of internal control weaknesses. We note that the Human Resources Policy Association has provided a response to the SEC which sets out the challenge for companies to produce the information; a survey of their members indicates that 84% of those surveyed are not able to provide the information to compute 'cash compensation'.[3] We question what other information is not available if the basic information to compute the ratio is unavailable.

Finally, disclosing pay ratios increases transparency at companies. This is, while valuable to shareholders, not limiting to companies.

Benefits for Compensation Committees:

We believe that one of the main benefits of the pay ratio information is the impact that it will have, or indeed should have, on decisions made by the Compensation Committee. Based on our discussions with directors serving on Compensation Committees, we find that they are mainly focussed on the NEOs' compensation, but they rarely foray into discussions

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[2] http://elsa.berkeley.edu/~saez/saez-UStopincomes-2012.pdf

[3] http://www.sec.gov/comments/df-title-ix/executive-compensation/executivecompensation-79.pdf
http://www.hrpolicy.org, http://www.execcomp.org, and
http://www.execcomp.org/Docs/Center_Statement_SEC%20Pay%20Ratio_Sept%202013.pdf.

concerning the compensation of employees below the ranks of senior management. We envisage that the process of deliberating the data upon which the disclosure of the pay ratio is based will bring important issues to the attention of Compensation Committees. In particular, when the ratio indicates that inequality does exist, this should be discussed, and addressed, including the impact of such income disparity on employee morale.

Many companies state that their employees are their most valuable asset. We consider the pay ratio to be an important facet in the oversight of human capital and Boards could use the ratio as another element in assessing management's capabilities in this area.

We refer the SEC to the excellent paper from Professor Charles Elson and Craig Ferrere entitled "Executive Superstars, Peer Groups and Over-Compensation - Cause, Effect and Solution"[4]. The paper advocates for pay structures and incentives based on internal mechanisms specific to a company, and which take into account pay differentials between senior executives and other employees. Such structures, the paper suggests, will lead to much healthier companies and a much healthier economy for shareholders. By extension, such structures lower succession planning risk as it is generally recognised that internal succession is a better model than hiring externally.

Mechanics of pay ratio rule:

We commend the SEC for the proposed approach to the rule-making which will keep compliance costs to a minimum, and on the flexibility given to companies on the calculation of the pay median for all employees. This is a framework that should be very workable for companies. However, we believe that, once a calculation methodology is chosen, the company should be required to use this methodology going forward. Consistency in the calculation is critical for the pay ratio to have value to shareholders as a comparative data point.

We understand that companies have a particular concern as to how the publication of the pay ratio might have downward pressure on pay quantum, which is a positive outcome from the shareholder perspective. Furthermore, the hurdles stated by companies are often exaggerated and we would reiterate the concern identified above that if companies are unable to calculate this information, especially with respect to international employees, there may be other information gaps material to effective management of companies.

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Once again, we commend the SEC on the proposed rule and we encourage its swift implementation, and before the end of 2013 if possible. We would also encourage that the SEC implement the other aspects of the Dodd-Frank Act relating to corporate governance, risk management and executive compensation that are still outstanding.

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[4] http://irrcinstitute.org/pdf/Executive-Superstars-Peer-Benchmarking-Study.pdf

Please do not hesitate to contact us, which you may do by writing to me directly, or by emailing my colleague, Catherine Jackson, at catherine.jackson@pggm.nl.

Yours sincerely,

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PGGM is a cooperative Dutch pension fund service provider. Institutional clients are offered: asset management, pension fund management, policy advice and management support. At the end of November 2013 PGGM has EUR 153.5 billion in assets under management. The PGGM cooperative has more than 620,000 members and is helping them to realize a valuable future. Either alone or together with strategic partners, PGGM develops innovative future provisions by linking together pension, care, housing and work.
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