March 21, 2017

Michael S. Piwowar
Acting Chairman
United States Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Via email to rule-comments@sec.gov

RE: COMMENTS ON RECONSIDERATION OF PAY RATIO RULE IMPLEMENTATION

Dear Chairman Piwowar:

Faith-based investors have long been a voice for the integration of prudent investment with social and environmental responsibility. Over the past four decades, such investors have been bellwethers in critical investment industry evolutions such as CSR (corporate social responsibility), ESG (environmental, social and governance) and impact investing. Most importantly, such investors bring a moral reflection on the ever changing corporate practices that shape so much of modern society.

The signatories below are all members of the Interfaith Center on Corporate Responsibility (ICCR), a network of asset managers and asset owners who are investing with the goal of broadly-shared societal prosperity, as well as social and environmental justice. ICCR has a 46-year history and brings together more than 200 institutions seeking to leverage their shared values. Such organizations, therefore, have a unique perspective on investor questions with a social dimension, such as those posed by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act. We are writing in response to the February 6, 2017 *Statement on the Commission's Pay Ratio Rule Implementation* and associated request for comment.

A number of other social investors, including members of USSIF: The Forum for Sustainable and Responsible Investment, have argued that disclosure of the CEO/median worker pay ratio provides investors with information relevant to assessments of the quality of a company's corporate governance and its employee relations. They have also noted that since the rule came into effect on January 1st of this year, companies have already prepared to report the ratio in their 2018 filings. While we agree with these points, we would also like to explain why we see the pay ratio rule as a valuable opportunity to foster, through accessible disclosure, an economy that is both fairer and more efficient. We believe that the growing income disparity in our country today poses not only a threat to the health and economic well-being of millions of families, but is also contributing to the fraying of our social fabric and culture of opportunity.

We would like to begin by reviewing the basic facts at issue. As has been widely reported (see, for example: https://www.bloomberg.com/quicktake/executive-pay), the compensation of CEOs at large US companies typically exceeds that of their workers by several hundred times. The gap is vastly larger than it was in the US in the past, than it is in Europe or Asia today, or than the US public believes it be. The CEO/average worker pay ratio is thus a prominent---though far from the only---illustration of the extreme income inequality that distinguishes the United States from its developed-country peers.

We are aware that income inequality may be an inevitable outcome of the freedom of opportunity for which the United States is deservedly renowned. Our argument, however, is that in a democratic society, there should be full disclosure, awareness and discussion about what our existing levels of inequality are, whether this state of affairs is acceptable, and if it is not, how we individually and collectively should respond to it. Corporate disclosure of the CEO/pay ratio can play a key role in this process.

It is important to respond to the objection, levied by some opponents of the rule, that the information in the pay ratio is already estimable on the basis of public information, and that its disclosure therefore represents an unnecessary regulatory burden for companies, without providing new benefits to the public. This is not true. It is indeed the case that the numerator of the ratio can be taken from existing SEC filings, and the denominator approximated from industry-average wage information obtained from the Bureau of Labor Statistics. Various organizations have made calculations of this kind in the nearly eight years since Congress first mandated the ratio's disclosure.

However, there are several reasons that this ratio will be more valuable to society if it is disclosed directly *by the company*. These reasons have not been adequately recognized, and we would like to outline them below.

1. First, direct disclosure by the firm will require companies to organize and understand their own pay practices in a more comprehensive fashion than many have previously done. This will promote more conscious and efficient management, particularly in companies that may be geographically dispersed or may have grown through acquisition, and in some cases may lead to improvements in technology, human resources, and accounting systems which will have other benefits. This is a clear case in which a regulatory requirement provides the impetus for internal improvements that benefit the company over the longer term. In an atmosphere in which regulators are being pressed to justify the costs and benefits of any potential regulation, it is essential that such longer-term benefits to the firm be acknowledged.

2. Secondly, direct disclosure by the firm will raise awareness of the CEO/average worker pay disparity among the company's own employees. This is because the calculations of the ratio that are currently made, by advocacy groups and investigative journalists, may or may not be read by a particular firm's own workers. A company-sourced ratio, however, is more likely to be widely reported in popular media and discussed by employees, their families, and friends. Increased employee awareness of the pay ratio will likely lead to greater reflection among employees about the value of the CEO's work, and the fairness of the ratio. The outcomes of this reflection will vary. In firms with excellent leadership, employees will likely accept or even applaud a high pay ratio, as Americans tend to admire, and even seek to emulate, people who have gained wealth through talent, ingenuity and hard work. In weaker firms, however, employees may view a large ratio as unjustified, and may act in various ways to express their concern (e.g., by lowering their approval ratings of the CEO's performance on such crowdsourcing platforms such as Glass Door). These expressions of concern will likely prod underperforming companies to improve, as CEOs seek to demonstrate to a wide employee base (rather than merely their board members) that they

deserve their pay packages. Over time, better-performing companies benefit society through more efficient and higher-quality provision of needed goods and services.

3. To the extent that investors can discern expressions of employee concern about undeserved CEO pay, they will serve as valuable indicators of internal corporate culture, a factor that is widely acknowledged to be important to investment performance, but extremely difficult for people outside the company to assess.

4. Finally, the reporting of the ratio itself may alter the psychology of CEOs in subtle but meaningful ways that ultimately reduce divisions in American society. Psychological research has shown that after their basic material needs are met, human beings tend to experience wealth relationally, viewing themselves as prosperous or impoverished by comparison to peers. Currently, as the Compensation Discussion and Analysis section of every proxy makes clear, CEOs compare themselves, in terms of wealth, to CEOs of comparable companies. Disclosing the CEO/average worker pay ratio will lead CEOs to compare themselves (at least some of the time) to their own employees instead, radically altering the imaginative community in which corporate leaders function. This change has the potential to lead the CEO community, in general, to a new experiential awareness of their own wealth, potentially increasing the level of gratitude and well-being felt by corporate leaders. At the same time, in those firms where leadership is perceived as underserving of its current level of compensation, as described in #2 above, leaders may be prompted to self-reflection and eventually, to positive change.

The corporate disclosure of the CEO/Average Worker Pay Ratio, which is already in process, has the potential to improve companies' internal systems, corporate culture, and performance; provide investors with decision-relevant information; and foster public debate about the meaning and effects of income inequality. Most importantly, accessible disclosure of this ratio helps promote reflection and discussion of the implications of income inequality within the work force and in the communities our companies and society depend on for survival.

Sincerely,

Mark A Regier
Vice President, Stewardship Investing
Everence Financial & Praxis Mutual Funds

Julie Tanner
Director, Catholic Responsible Investing
Christian Brothers Investment Services

(additional signatories follow)

Bashar Qasem
Chief Executive Officer
Azzad Asset Management

Susan Smith Makos
Vice President of Social Responsibility
Mercy Investment Services, Inc.

Kathryn McCloskey
Director, Social Responsibility
United Church Funds

Jeffery W. Perkins
Executive Director
Friends Fiduciary Corporation

Josh Zinner
Executive Director
Interfaith Center on Corporate Responsibility

Rob Fohr
Director of Faith-Based Investing and Corporate Engagement
Presbyterian Church U.S.A.

Pat Zerega
Corporate Responsibility Consultant to the
Evangelical Lutheran Church in America