CtW Investment Group

March 22, 2017

Acting Chairman Michael S. Piwowar
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Pay Ratio Rule Implementation

Dear Acting Chairman Piwowar,

On behalf of the CtW Investment Group, I am writing to express our ongoing support for the U.S. Securities and Exchange Commission's final rule to disclose the CEO-to-median-employee-pay-ratio ("CEO Pay Ratio"), as mandated by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"). We strongly recommend that the SEC move forward with the implementation of the final CEO Pay Ratio rule. Further delay would prevent shareholders from reviewing information that is materially relevant to investment decisions, including voting decisions shareholders must make for the companies in their portfolios.

The CtW Investment Group works with pension funds sponsored by unions affiliated with Change to Win, a coalition of unions representing five million members, to enhance long-term shareholder returns through active ownership. Members of CtW affiliates participate in Taft-Hartley plans with over $250 billion in assets. Like many institutional investors, the CtW Investment Group believes that the CEO Pay Ratio and compensation disclosure, more generally, offer shareholders the opportunity to better evaluate and hold accountable board members.

The importance of the CEO Pay Ratio disclosure to long term shareholders is reflected in the over 285,000 comments[1] received by the SEC during the proposed rule comment period in 2015, many of which were in support of reporting a CEO Pay Ratio. The CEO Pay Ratio disclosure continues to be relevant and material information to investors for the reasons outlined below:

1. Information regarding the pay ratio is valuable to shareholders in reviewing and determining the appropriate levels of compensation at individual companies and subsequent proxy voting decisions related to the company's executive pay packages. One recent study suggests that companies with higher CEO to worker pay ratios also have higher levels of shareholder dissatisfaction on the company's "say on pay" vote.[2]
2. The empirical literature in psychology, human resource management, and organization management strongly support the conclusion that higher levels of pay inequality (or "dispersion") are associated with lower levels of employee engagement, morale, and tenure and lead to worse organizational performance[3], a significant concern to shareholders.

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[1] SEC Notice of Final Rule, Pay Ratio Disclosure, p. 18-19, available at https://www.sec.gov/rules/final/2015/33-9877.pdf.

[2] Steven S. Crawford and Karen K. Nelson, "Mind the Gap: CEO-Employee Pay Ratios and Shareholder Say on Pay Votes," January 2016.

[3] Charles A. O'Reilly, James Wade, and Tim Pollack, "Overpaid CEOs and Underpaid Managers: Equity and Executive Compensation" Stanford Business Library Research Paper #1410.

3. Empirical work by economists strongly suggests that the increases in CEO pay over the past three decades primarily take the form of rents rather than competitively determined returns to a factor of production.[4] Consequently, investors have little reason to be concerned that reductions in executive pay in general would have any negative impact on their investment returns.
4. Our own analysis of estimated CEO Pay Ratios and long-term shareholder returns for S&P 500 companies, submitted to the SEC in our original comment letter in 2015, clearly indicates that companies with high estimated CEO Pay Ratios perform worse than companies with low CEO Pay Ratios over the following five years. This negative relationship holds for 9 of the 10 major industry segments of the S&P 500 index, and a multivariate regression analysis indicates that *for every increase in the CEO Pay Ratio of 10 (i.e. from 200 to 210), cumulative total excess shareholder returns over the following five years fall by 1.5 percentage points (150 basis points).*[5]
5. Absent a legal obligation for companies to disclose the CEO Pay Ratio, this information is not generally accessible to shareholders through other sources. The only alternative is to proxy this information via publicly available data, with considerable effort, which may ultimately be imprecise.

In 2015, the SEC carefully developed a balanced CEO Pay Ratio rule that simultaneously provides shareholders with material information used in their proxy voting decisions, while not being unduly burdensome to issuers. The notion that the disclosure is cost prohibitive to companies is difficult to understand. Companies are required to collect data on their employees' salaries as a result of company tax obligations, such as the payment of payroll taxes or the withholding of personal income taxes, which are required in nearly every market. Furthermore, given that companies expected to be compliant with the CEO Pay Ratio rule based on the 2017 effective date, most companies should have already developed plans and expended the resources to disclose this information. While company costs may be larger upfront, the subsequent costs of disclosures would likely be lower, even by the SEC's own estimates,[6] and any costs would be outweighed by the usefulness of the information to shareholders.

As stewards of long-term shareholder value, we strongly believe that the CEO Pay Ratio disclosure will provide shareholders with material information that is currently unavailable and highly anticipated. We remind the SEC to effectuate its mandate of protecting investors by implementing Section 953(b) of the Dodd Frank Act and the CEO Pay Ratio rule as it stands.

Sincerely,

Dieter Waizenegger
Executive Director

[4] Josh Bivens and Lawrence Mishel, "The Pay of Corporate Executives and Financial Professionals as Evidence of Rents in Top 1 Percent Incomes" Journal of Economic Perspectives, vol. 27, no. 3, Summer 2013.

[5] CtW Investment Group, Letter to Secretary Elizabeth Murphy, Re: Pay Ratio Disclosure, File No. S7-07-13, dated November 25, 2015.

[6] SEC Notice of Final Rule, Pay Ratio Disclosure, p. 204 and 243, available at https://www.sec.gov/rules/final/2015/33-9877.pdf.