



Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE, Washington, DC
USA 20549-1090
Sent by Email: rule-comments@sec.gov

11 November 2013

Dear Ms Murphy,

SEC Consultation on Pay Ratio Disclosure - File Number S7-07-13

We are writing to express support for SEC actions to facilitate meaningful corporate disclosure of executive pay ratios at US companies. LAPFF represents the interests of 58 public sector pension funds in the UK, which have combined assets of approximately £115 billion. Its mission is to protect the long-term investment interests of our members' beneficiaries, by promoting the highest standards of corporate governance and corporate responsibility amongst the companies in which they invest.

In April 2013, LAPFF issued the attached document called 'Expectations for Executive Pay', which outlines our views on this issue of pay ratios. LAPFF is of the view that UK companies should voluntarily disclose both the ratio between average employee pay and average executive pay, as well as the ratio of pay between the top and bottom 10% of earners within the company. As such, we welcome this requirement in the US and the actions by the SEC to develop implementation rules and guidance.

LAPFF is aware that there are certain challenges the SEC will face in setting out precisely how these figures should be disclosed. In particular, we encourage the SEC to ensure the numbers published are meaningful and have value for both companies and shareholders.

We are aware that companies have expressed concerns regarding the costs and burdens of implementing the rules, particularly if the group has many subsidiaries or employees in many different locations and on different pay scales. As a matter of principle, LAPFF is of the view that listed companies should have the human resources systems in place to manage and track employee pay and benefits. As salaries and benefits are a cost to the company, and therefore a cost to the shareholder, they must be adequately tracked in the financial accounts and signed off by the auditor.

We would be very concerned if a company and its directors did not have an informed view of the cost to the company of salaries and benefits (including bonuses and variable pay), as well as of the format and make up of the workforce (including the number of full-time

equivalents and annualised salaries). This information is essential to the running of the business and shareholders rely on the directors to ensure management is implementing such systems appropriately.

No methodology will be perfect. Therefore, regardless of which methodology the SEC decides on, LAPFF urges the SEC to keep the following points in mind when developing its guidance:

- Keep the requirements simple;
- Use a full-time equivalent calculation and annualised salaries to account for part-time or seasonal workers;
- Base calculations on actual hours worked, not contracted hours;
- If the company relies heavily on sub-contracted workers (i.e. more than 40% of the workforce), this should be clearly explained;
- Where possible, the calculation should include total realised pay (including bonuses and incentive plans) and should not rely *only* on base salary and cash payments;
- Discourage the use of statistical sampling in favour of payroll and tax analysis to determine actual employee pay (rather than an estimation);
- Require companies to disclose the methodology they used and the assumptions they made in determining the ratio; and
- Ensure the same methodology is used year on year, and that any changes to the methodology are clearly disclosed.

LAPFF believes the value of the pay ratio is not to compare companies to each other, as we do not feel this provides meaningful information given the variances in company size and structure. The primary value of the ratio is to ensure the wage gap within each company does not increase disproportionately. It also provides directors and shareholders with visibility into the wage structure of the firm so that they may consider this within the context of the company's governance, human resource management, and executive pay strategies.

If you have further questions regarding LAPFF's views on this matter, please contact Tessa Younger of PIRC, the Forum's research and engagement partner (details below).

Yours sincerely,



Cllr Kieran Quinn, Chair

CC Tessa Younger, Engagement Services Manager, PIRC (tessay@pirc.co.uk)