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AFR, Public Citizen Urge SEC to Finalize CEO-to-Worker Pay Ratio Disclosure Rule

One year ago, the Securities and Exchange Commission ("SEC") proposed a rule to implement a provision of the Dodd-Frank Act requiring companies to disclose the ratio of their chief executive's pay to that of their median employee. But there is still no final rule.

The SEC received more than 128,000 letters commenting on the proposed rule. The vast majority of those letters urged the Commission to follow through with its proposal, which is backed by a great many pension funds, investor organizations, labor unions and public interest groups, including Americans for Financial Reform, California Public Employees' Retirement System, Public Citizen, the AFL-CIO, and others.

Despite this overwhelming expression of support for pay ratio disclosure, the SEC still has not issued a final rule implementing the provision. At a recent hearing of the Senate Banking Committee, SEC Chair Mary Jo White declined to give a firm date by which the regulator will issue the rule. A variety of business groups have been lobbying the SEC in opposition to the rule.

Investors know that the disclosure of the gap between CEOs and their median employee is a key financial metric. Pay ratio disclosure was first proposed in a 1997 paper by James Cotton, a professor of law at the Texas Southern University and a retired corporate lawyer. Disclosure, he argued, would provide an objective standard for measuring the reasonableness of a CEO's pay.

"This measure focuses investors' attention on the relative value a CEO creates in order to facilitate better checks and balances against insiders paying themselves runaway compensation packages," Sen. Robert Menendez, D-N.J., said at the September 9 Senate hearing. It's time for the SEC to finalize the rule so investors can see what some corporate executives are still trying to hide.