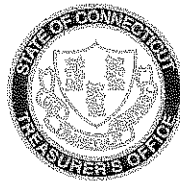


# State of Connecticut

DENISE L. NAPPIER  
TREASURER



Hartford

December 2, 2013

*Via Email*

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

Re: *Pay Ratio Disclosure* (S7-07-13)

Dear Ms. Murphy:

I write to express support for the Securities and Exchange Commission's Proposed Rule, *Pay Ratio Disclosure* (the "Proposed Rule"), implementing Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"). As principal fiduciary of the \$26 billion Connecticut Retirement Plans and Trust Funds ("CRPTF"), I have long advocated executive compensation policies and practices that provide shareholders with full information on executive pay, including data on internal pay equity. These initiatives reflect my conviction that corporate governance can and does affect the value of companies in CRPTF's portfolio. Shareholders can provide valuable input and serve as a check on management if they are given adequate information.

Attached are my comments, including feedback on questions raised by the Commission. I appreciate the opportunity to express my views to the Commission on this important matter. I urge the Commission to move as quickly as possible to adopt a final rule, given the amount of time that has passed since Dodd-Frank became law.

Please feel free to contact Assistant Treasurer for Policy, Francis Byrd with any questions. He can be reached on (860) 702-3292 or [francis.byrd@ct.gov](mailto:francis.byrd@ct.gov).

Sincerely,

A handwritten signature in cursive script that reads "Denise L. Nappier".

Denise L. Nappier  
State Treasurer

Attachment

## **Comments of Connecticut State Treasurer Denise L. Nappier Pay Ratio Disclosure (S7-07-13)**

### **Background**

CRPTF's proxy voting policies recognize the importance of internal pay equity in proxy voting decisions. The policies include internal pay equity in a list of factors indicating that a compensation committee may not be acting in shareholders' best interests when setting executive pay. The policies also recommend a "for" vote on two types of shareholder proposals seeking disclosure regarding internal pay equity. The CRPTF policies do not, however, favor shareholder proposals requesting a fixed ratio between the CEO's pay and the pay of other named executive officers (NEOs); a fixed ratio would not provide the flexibility companies need to respond to changing circumstances. The data provided pursuant to the Proposed Rule will allow shareholders like the CRPTF to cast better-informed decisions on compensation matters, including the advisory vote on executive compensation or "say on pay."

CRPTF has also taken affirmative steps to urge companies to consider internal pay equity when setting senior executive compensation. In the 2008 proxy season, CRPTF submitted shareholder proposals to two companies, Abercrombie & Fitch and Supervalu, with large disparities between the CEO's compensation and that paid to other NEOs. The proposals asked the compensation committees of those companies to consider internal pay equity in making senior executive pay decisions and to disclose to shareholders the role of internal pay equity in the pay-setting process. Those proposals were withdrawn in exchange for the companies' commitment to begin making disclosure in their proxy statements regarding the consideration of internal pay equity.

CRPTF's initiatives focused on the relationship between CEO and other NEO pay not only because studies suggest there are large disparities associated with poorer firm performance<sup>1</sup> but also because disclosure was lacking on other kinds of pay equity. Accordingly, it was not possible to identify companies with other kinds of large pay disparities. The Proposed Rule would give investors like CRPTF valuable data to use in analyzing companies' compensation structures, which can provide insight into managerial influence on compensation and a company's approach to developing its workforce.

### **Specific Questions Regarding the Proposed Rule**

#### ***Question 1:***

Should pay ratio disclosure be included only in filings where other executive pay disclosure appears, as the proposal provides?

In my view, the pay ratio disclosure in the Proposed Rule is most appropriately included in the proxy statement. Investors are accustomed to using proxy statement data to analyze compensation, and they use that data to vote on items contained in the proxy statement.

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<sup>1</sup> See, e.g., Lucian Bebchuk et al., "The CEO Pay Slice," *J. Fin. Econ.*, Vol. 102, pp. 199-221 (2011) (finding that CEO proportion of NEO pay is negatively correlated with firm performance).

***Question 7:***

Should companies be permitted to exclude non-US employees or non-full-time employees from the calculation?

Neither approach would be consistent with Section 953(b) of Dodd-Frank, and allowing such exclusions would distort the employee pay median figure, especially at companies with a large number of non-US or part-time employees.

***Question 8:***

Should companies be allowed to present two separate ratios, one for US and one for non-US?

Presentation of two ratios for US and non-US employees would not be consistent with Section 953(b) of Dodd-Frank. I would not object to companies disclosing additional ratios supplementally, however.

***Question 12:***

Should calculation include employees of subsidiaries (which proposal currently does) or just direct employees of the registrant?

The quality of disclosure should not turn on the particular corporate structure used by a company. Accordingly, I believe that the median calculation should include employees of subsidiaries.

***Question 24:***

Should the rule allow annualization for part-time employees and seasonal/temporary employees?

Allowing annualization would obscure the use of part-time and seasonal or temporary employees, and substantial reliance on non-full-time employees is important for investors' understanding of a company's workforce and pay structures. Supplemental disclosure explaining these factors would be useful to investors and should be permitted.

***Question 38:***

Should companies be required to discuss information about the methodology, material assumptions, adjustments or estimates used in identifying the median or calculating annual total compensation for employees, as the proposal now does?

Yes. The flexibility afforded by the Proposed Rule means that investors will require information about methodologies, assumptions, adjustments and estimates in order to understand the ratios and evaluate their comparability from company to company as well as from year to year at a given company. For the same reason, changes in methodologies should be required to be disclosed (as asked in Question 39).