



Mary Jo White
Chair
United States Securities and Exchange Commission
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Washington, D.C. 20549-1090

Elizabeth M. Murphy
Secretary
United States Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090
Email: rule-comments@sec.gov

Re: File Number S7-07-13-Dodd-Frank Act Pay Ratio Disclosure Mandate

Dear Madam Chair and Secretary,

This letter supplements our letter of support dated November 20, 2013, for the SEC rule implementing Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. New research from Dēmos identifies growing CEO-to-worker compensation disparity as a material risk to shareholders. In addition to the broad public interest in corporate governance cited in our previous letter of support, it is increasingly clear that more information about pay disparity is critical for investors' risk assessment and mitigation. An effectively designed and implemented disclosure rule would improve shareholders' access to information regarding human capital management practices, increase the efficiency of capital markets, and support long-term stability and growth.

Our recent publication, *Fast Food Failure: How CEO-to-Worker Pay Disparity Undermines the Industry and the Overall Economy*, identifies the fast food industry as the main catalyst of extreme disparity in the most unequal sector of the economy, with negative consequences for firm performance. Human capital misallocations in the fast food industry have been accompanied by operational issues, legal and regulatory issues, and worker unrest, and expose shareholders to increasing risk. Yet without the firm-specific information mandated by Section 953(b) of Dodd-Frank, investors lack the requisite tools for strategic analytics and long-term, sustainable investment.

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The Dēmos study relies on sector-and industry-level data from publicly available data sets in order to accommodate the lack of the firm-specific information. We find that the CEO-to-worker total compensation ratio in the fast food industry during 2013 reached more than 1000-to-1, and that inefficiencies, misplaced incentives, and performance problems were the result. Our study also shows that the US economy is increasingly reliant on employment in the most disparate sectors, reinforcing the problems of volatility and slow growth that have been shown to accompany extreme inequality. The findings do provide some tools for shareholders to assess their competing investment opportunities, and indicate a broader public concern about increasingly disparate pay practices in some sectors of the economy.

Please see the attached report for more information on the implications of human capital management decisions for investors and the economy, and the usefulness of the CEO-to-worker pay ratio as an indicator of shareholder risk. In light of this information, we reiterate our previous comments suggesting the broadest practical inclusion in the median worker estimates. Including part time workers in the median worker calculation is essential in the sectors where disparity is consistently most severe – Accommodation and Food Services and Retail – because of the high dependence on part time labor in these sectors and the relationship between extreme disparity, underinvestment in front-line services, and the resulting deterioration in customer service and brand value at the firm. Since the risks associated with pay disparity are associated with misallocated resources across the production process, it is important to capture the full extent of human capital allocations.

We at Dēmos applaud your leadership on this issue and look forward to the finalization of the CEO-to-worker compensation disclosure rule.

Sincerely,

Heather McGhee, President
Catherine Ruetschlin, Policy Analyst

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