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Client Alert

SEC Approves New Rule on CEO Pay Ratio

August 5, 2015 – The Securities and Exchange Commission ("SEC") approved a new *pay ratio* rule this week pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act that will require publicly traded companies to disclose the gap between the annual compensation of a firm's Chief Executive Officer and the median compensation of the firm's other employees. Three of the five SEC commissioners voted in favor of this pay ratio disclosure requirement, which will take effect in 2017.

The rule will require most publicly traded companies in the United States to (i) disclose the annual total compensation of the CEO; (ii) report the median annual total compensation of all other employees; and (iii) provide the ratio created by those two amounts. The rule will only apply to those companies that presently are required to disclose executive compensation information in its proxy filings. The pay ratio rule will not apply to smaller firms, foreign private issuers, emerging growth companies or registered investment companies. In connection with calculating the median employee compensation, companies will have the option to use their total employee head count or a statistical sampling of its workforce. Companies will also be permitted to exclude from the median calculation the compensation of up to 5% of overseas employees.

Those in favor of the pay ratio rule believe it will help shareholders assess compensation packages for senior executives and provide valuable information to investors. Opponents of the rule believe that it will only create confusion in the marketplace and contend that the rule was intended to exert pressure on firms to require that their executive officers accept lower compensation packages.

If you require any additional information about the pay ratio rule, or any other employment-related issue, please contact:

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