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SEC CEO Pay Ratio Rule May Not Survive under New Administration

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Acting chair of the U.S. Securities and Exchange Commission Michael Piwowar has indicated the controversial CEO pay ratio reporting rule may be on the chopping block.

The rule, rooted in the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act, requires publicly traded companies to disclose median employee compensation along with a ratio of how that compares to the chief executive's pay. The rule is effective in the company's first fiscal year after January 1, 2017.

The rule was intended to give shareholders previously unavailable information to consider when voting on executive compensation. The hope is that this increase in transparency would help combat pay inequality. However, Acting Chair Piwowar on February 6, 2017, announced the SEC will reconsider implementation of the rule "based on any comments submitted and to determine as promptly as possible whether additional guidance or relief may be appropriate."

The announcement comes on the heels of Trump Administration comments threatening to dismantle Dodd-Frank. Although SEC's regulations provide options for companies to calculate the numbers to be disclosed, the new requirement nonetheless has been criticized for being too difficult to determine and potentially ineffective in meeting its goals. Many employers also are concerned the disclosures will anger employees and incite equal pay claims. This may be particularly true of employees who learn their pay is below the median.

Publicly traded companies should keep a close eye on the status of the CEO pay ratio rule. If it survives, the median employee pay amount and the ratio comparison to the CEO's compensation must be included in the next financial disclosures. Employers may want to evaluate how best to present the information and, to prepare for potential fallout, to proactively conduct privileged pay analyses to identify and address possible hidden, systemic issues.

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