Americans for Financial Reform

After Too Long, the SEC Comes Through on Pay-Ratio Rule

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After too much delay, the Securities and Exchange Commission did the right thing today, voting to finalize rules that will require public corporations to report the ratio between their CEO's pay and that of their median employee as required by the Dodd Frank act signed into law just over five years ago.

Out-of-control compensation played a conspicuous part in the cycle of reckless lending, opaque securitizing and systematic offloading of responsibility that led to the financial and economic meltdown of 2008. Runaway pay, repeated studies have shown, inhibits teamwork, reduces employee morale and productivity, and encourages executives to make dangerous short-term bets. The SEC heard from hundreds of thousands of people about this rulemaking; the messages and comments were overwhelmingly positive, and rightly so: In the financial sector and across the economy, investors and the public deserve more information about pay practices. This rule will give them an important new set of data points.

The SEC and other financial regulators still have work to do on compensation. Now that the SEC has met this requirement, it is past time for regulators to move ahead on a strong rule implementing section 956, which prohibits compensation for executives at big banks that encourages excessive risk taking, putting the public at risk.