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Washington, DC 20548

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September 1, 2015

The Honorable Richard Shelby  
Chairman  
The Honorable Sherrod Brown  
Ranking Member  
Committee on Banking, Housing, and Urban Affairs  
United States Senate

The Honorable Jeb Hensarling  
Chairman  
The Honorable Maxine Waters  
Ranking Member  
Committee on Financial Services  
House of Representatives

Subject: *Securities and Exchange Commission: Pay Ratio Disclosure*

Pursuant to section 801(a)(2)(A) of title 5, United States Code, this is our report on a major rule promulgated by the Securities and Exchange Commission (Commission) entitled “Pay Ratio Disclosure” (RIN: 3235-AL47). We received the rule on August 7, 2015. It was published in the *Federal Register* as a final rule on August 18, 2015, with an effective date of October 19, 2015. 80 Fed. Reg. 50,104.

The final rule requires the disclosure of the median of the annual total compensation of all employees of a registrant (excluding the chief executive officer), the annual total compensation of that registrant’s chief executive officer, and the ratio of the median of the annual total compensation of all employees to the annual total compensation of the chief executive officer. As stated in the final rule, the disclosure is required in any annual report, proxy, or information statement, or registration statement that requires executive compensation disclosure pursuant to Item 402 of Regulation S–K. The disclosure requirement does not apply to emerging growth companies, smaller reporting companies, or foreign private issuers.

Enclosed is our assessment of the Commission’s compliance with the procedural steps required by section 801(a)(1)(B)(i) through (iv) of title 5 with respect to the rule. Our review of the procedural steps taken indicates that the Commission complied with the applicable requirements.

If you have any questions about this report or wish to contact GAO officials responsible for the evaluation work relating to the subject matter of the rule, please contact Shirley A. Jones, Assistant General Counsel, at (202) 512-8156.

signed

Robert J. Cramer  
Managing Associate General Counsel

Enclosure

cc: Brent J. Fields  
Secretary  
Securities and Exchange Commission

REPORT UNDER 5 U.S.C. § 801(a)(2)(A) ON A MAJOR RULE  
ISSUED BY THE  
SECURITIES AND EXCHANGE COMMISSION  
ENTITLED  
“PAY RATIO DISCLOSURE”  
(RIN: 3235-AL47)

(i) Cost-benefit analysis

The Securities and Exchange Commission (Commission) included an economic analysis with this final rule that discussed costs and benefits of the rule. With regard to benefits, the Commission found that the reporting required by this rule will provide new data points that shareholders may find relevant and useful when exercising their voting rights. The Commission stated that it believes that the informational benefit to shareholders from the final rule is in providing information about a particular registrant’s executive compensation. However, the Commission stated it was unable to quantify this benefit. The Commission also discussed the costs, including the costs from the mandated disclosure requirements required by statute, including indirect costs, and the economic effects from the Commission’s exercising of discretion in implementing this rule.

Based on the Commission’s calculations, the average initial cost of compliance for a registrant with foreign operations is expected to be approximately \$714,099 and for a registrant with U.S.-based operations is expected to be approximately \$156,444. The Commission expects the total initial cost of compliance for all 3,571 registrants affected by the rule to be approximately \$1,315 million, which includes both internal company costs as well as the costs of outside professionals. Thus, the Commission estimates the initial cost of compliance for the average registrant to be approximately \$368,159. The Commission noted that this estimate does not reflect the *de minimis* and foreign data privacy exemptions, or the change to include only employees of consolidated subsidiaries, which the Commission believes will lead to some cost reductions for some registrants and which it was not able to fully quantify.

The Commission also estimated the ongoing compliance costs. The Commission noted that some compliance costs of the final rule, such as burden hours and professional costs associated with making the disclosure, may remain consistent from year to year, and that other compliance costs will largely be upfront fixed costs, such as those associated with the codification of payroll or accounting systems to allow a registrant to compile the information and costs associated with developing the methodology needed to identify the median employee and calculate his or her pay. Given these upfront fixed costs, the Commission found it likely that that part of the initial compliance costs would decline after the first year. The specific estimates provided by commenters (28 percent to 72 percent) yield a range of ongoing compliance cost estimates of between \$368 million and \$947 million per year, with the median of the estimates provided by these commenters (40 percent) yielding an ongoing compliance cost of approximately \$526 million per year. The Commission noted, however, that the proposed rule did not provide registrants with the flexibility to identify the median employee every 3 years and assumes these three estimates are based on the commenters’ readings of the proposed rule, and hence include the requirement that the median employee be identified every year.

(ii) Agency actions relevant to the Regulatory Flexibility Act (RFA), 5 U.S.C. §§ 603-605, 607, and 609

The Commission certified that this final rule will not have a significant economic impact on a substantial number of small entities.

(iii) Agency actions relevant to sections 202-205 of the Unfunded Mandates Reform Act of 1995, 2 U.S.C. §§ 1532-1535

As an independent regulatory agency, the Commission is not subject to the Act.

(iv) Other relevant information or requirements under acts and executive orders

Administrative Procedure Act, 5 U.S.C. §§ 551 et seq.

On September 18, 2013, the Commission published a proposed rule. 78 Fed. Reg. 60,560. The Commission received more than 287,400 comment letters, including over 1,540 individual letters to which it responded in the final rule.

Paperwork Reduction Act (PRA), 44 U.S.C. §§ 3501-3520

The Commission determined that certain provisions of this final rule contain information collection requirements within the meaning of the Act. The Commission submitted these requirements to the Office of Management and Budget (OMB) for review. The titles for the collections of information are: Regulation S–K” (OMB Control No. 3235–0071), “Form 10–K” (OMB Control No. 3235–0063), “Regulation 14A and Schedule 14A” (OMB Control No. 3235–0059), “Regulation 14C and Schedule 14C” (OMB Control No. 3235–0057), “Form 8–K” (OMB Control No. 3235–0060), “Form S–1” (OMB Control No. 3235–0065), “Form S–4” (OMB Control No. 3235–0324), “Form S–11” (OMB Control No. 3235–0067), “Form 10” (OMB Control No. 3235–0064), and “Form N–2” (OMB Control No. 3235–0026). The Commission estimated that the total annual increase in the paperwork burden for all affected companies to prepare the disclosure that would be required under this final rule would be approximately 545,792 hours of company personnel time and a cost of approximately \$72,772,200 for the services of outside professionals.

Statutory authorization for the rule

The Commission promulgated this final rule under the authority of sections 7, 10, 19(a), and 28 of the Securities Act of 1933, as amended; sections 3(b), 12, 13, 14, 15(d), 23(a), and 36(a) of the Securities Exchange Act of 1934, as amended; section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, as amended; and section 102(a)(3) of the Jumpstart Our Business Startups Act. 15 U.S.C. §§ 77g, 77j, 77s(a), 77z-3, 78c(b), 78l, 78l note, 78m, 78n, 78o(d), 78bb(a), 78mm(a).

Executive Order No. 12,866 (Regulatory Planning and Review)

As an independent regulatory agency, the Commission is not subject to the Order.