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WLF Asks SEC to Withdraw Pay-Ratio Rule over First Amendment Concerns

(In re: Reconsideration of Pay-Ratio Rule Implementation)

“Whatever its intended purpose, the Pay-Ratio Disclosure Rule has nothing to do with protecting the integrity of the financial markets. SEC should withdraw the rule in its entirety because it provides no material benefit to investors and violates the First Amendment.”

—Cory Andrews, WLF Senior Litigation Counsel

WASHINGTON, DC—Washington Legal Foundation filed comments today with the U.S. Securities and Exchange Commission in response to acting Chairman Michael S. Piwowar’s request for input on the implementation of the Pay-Ratio Disclosure Rule.

In the interest of ensuring that SEC focuses on the integrity of financial markets, WLF maintains that SEC should avoid enforcing regulations that have no relation to the agency’s purpose. The agency must also carefully consider First Amendment protections provided to commercial speakers.

SEC adopted the Pay-Ratio Disclosure Rule in August 2015, as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act. It requires public companies to disclose the “ratio of the median of the annual total compensation of all employees to the annual total compensation of the chief executive officer.”

WLF’s comments point out the discrepancy between the pay-ratio rule and SEC’s stated mission. The implementation of this rule has no connection to ensuring the integrity of the financial markets as it does not provide material benefit to shareholders or potential investors. Instead, this rule drives the false narrative that CEO pay is a primary cause of income inequality.

Protecting the free-speech rights of individuals as well as businesses is important to WLF. WLF’s comments point out that the U.S. Supreme Court has long recognized the right of individuals and companies to choose to speak—or not to speak. SEC’s effort to compel commercial speakers to voice messages with which they disagree blatantly violates the First Amendment.

Celebrating its 40th year, WLF is America’s premier public-interest law firm and policy center advocating for free-market principles, limited government, individual liberty, and the rule of law.

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