THE COMMONWEALTH PROJECT · FEDERAL · LEAD INSTRUMENT · DISCUSSION DRAFT

Corporate Pay Accountability Act

A ladder, not a cap

The further a company's executive pay climbs above the historical equilibrium, the more its board must answer for it, until rebuilding the architecture becomes cheaper than defending the pay.

VERSION 2 · NOVEMBER 5, 2026 · SUPERSEDES VERSION 1 (MAY 2026)

WHAT THE BILL DOES

Every large public company reports, on definitions written into the Act and certified by an independent auditor, how many times the pay of its median worker its chief executive is paid, and how many times the pay of its executives and directors together. Below 30 to 1, about where the American economy stood in 1978, that report is the only new obligation.

Above it, each rung adds an obligation that falls on the people who set the pay. From 30 to 1, the beneficial owners ratify next year's package by a binding vote, with a stated maximum and a default when they say no. From 50 to 1, pay above that line is recovered when the company fails its owners or fails its workforce. From 75 to 1, sustained over three years, the board is rebuilt. The company chooses how to respond. The Act decides who answers for the outcome.

WHAT THIS VERSION CHANGES

- A four-rung ladder at 30, 50, and 75 to 1, phased in over three years, replaces the flat 20:1 ceiling; 20:1 remains the benchmark every company reports against.
- A floor under the worker's side: the median is never set below the national median for a full-time worker, on the same total-compensation basis.
- Covered executives defined by authority, not title; the senior-pay pool on a ladder of its own, at six times the chief executive's rungs.
- The owners' vote cast by pass-through with a mirror default, with a maximum realizable value on the ballot and a default when the owners say no.
- Recovery above 50:1 when the company fails its owners or its workforce, on inputs the board does not choose; recovered pay may not be indemnified or insured.
- Above 75:1, election rules and committee seats in the Act; a vote of unaffiliated owners only; after five years, a two-thirds vote.
- A rung lower after real median pay rises ten percent; the pre-cut median after a headcount cut; going private carries disclosure and recovery for ten years; penalties tiered and assessed in court.

Status. Discussion draft. Not introduced in Congress. Not for citation as enacted or introduced law. Figures in brackets are proposals left to the sponsor.

Companion bills. Responsible Ownership and Corporate Accountability Act, Version 4 (the governance architecture); Utah Commonwealth Corporation Act, Version 3 (the voluntary state prototype).

Cite as. The Commonwealth Project, Corporate Pay Accountability Act, Discussion Draft, Version 2 (November 5, 2026). **Comments.** hello@commonwealthcorporation.org

DISCUSSION DRAFT · VERSION 2 · NOVEMBER 5, 2026

119th Congress
2d Session

H. R. ____

To require the board of every large public company to answer to its owners, its workforce, and the law in proportion to how far the pay of its executives stands above the pay of its median worker, and for other purposes.

In the House of Representatives

M__. _____ introduced the following bill; which was referred to the Committee on Financial Services

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A BILL

To require the board of every large public company to answer to its owners, its workforce, and the law in proportion to how far the pay of its executives stands above the pay of its median worker, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

(a) Short title.—This Act may be cited as the "Corporate Pay Accountability Act".

(b) Table of contents.—The table of contents for this Act is as follows:

Sec. 1. Short title; table of contents.

TITLE I—FINDINGS, PURPOSES, AND AUTHORITY

Sec. 101. Findings.
Sec. 102. Purposes.
Sec. 103. Authority and relationship to state law.

TITLE II—DEFINITIONS AND MEASUREMENT

Sec. 201. Definitions.
Sec. 202. Total realized compensation.
Sec. 203. Covered workforce and measured median.
Sec. 204. Covered executives.
Sec. 205. Economic reality and anti-evasion rules.

TITLE III—THE LADDER

Sec. 301. Rungs.
Sec. 302. Annual certified disclosure.
Sec. 303. Binding ratification.
Sec. 304. The senior-pay pool.
Sec. 305. Recovery above 50 to 1.

Sec. 306. Structural remedies above 75 to 1.
Sec. 307. Credit for a rising median.
Sec. 308. Phase-in.
Sec. 309. Going private and delisting.

TITLE IV—THE OWNERS' VOTE

Sec. 401. Pass-through voting.
Sec. 402. Uninstructed shares.
Sec. 403. Votes counted at the structural rung.
Sec. 404. Instructions.
Sec. 405. Duties of intermediaries.
Sec. 406. Conforming amendment to erisa.

TITLE V—ENFORCEMENT

Sec. 501. Independent auditor certification.
Sec. 502. Compensation committee certification and liability.
Sec. 503. Civil penalties.
Sec. 504. Whistleblower awards and protection.
Sec. 505. Private right of action.
Sec. 506. No indemnification or insurance.

TITLE VI—ADMINISTRATION

Sec. 601. Administration.
Sec. 602. Relationship to other federal law.
Sec. 603. Evaluation.
Sec. 604. Effective date.
Sec. 605. Severability.

TITLE I—FINDINGS, PURPOSES, AND AUTHORITY

SEC. 101. FINDINGS.

Congress finds the following:

(1) Property is the right to direct the use of a thing and the right to what it produces. The shareholders of a public corporation own its surplus; the executives who run it are paid from that surplus by a board in whose selection they take part.

(2) From 1965 to 1978 the chief executives of the 350 largest United States firms were paid between 21 and 31 times the typical worker in their industries, measured by the compensation they realized. The ratio reached 380 to 1 in 2000 and 408 to 1 in 2021, and stood at about 325 to 1 in 2025.

(3) The work did not change in proportion to the pay. From 1978 to 2025 the realized compensation of those chief executives rose 1,316 percent after inflation, the compensation of the typical worker rose 28 percent, and net productivity rose 86 percent.

(4) In 1977 Peter Drucker, the founder of the modern study of management, wrote that a ratio of about 20 to 1 was the limit beyond which executive pay damages the orga-

nization that pays it.

(5) The firm-level record matches the aggregate. Since 2018 every large public company has reported the ratio of its chief executive's pay to the pay of its own median employee. At the median company in the S&P 500 in 2025, that employee would have needed about 200 years to earn what the chief executive was paid for the year.

(6) Disclosure has not restrained the ratio, and neither has the advisory vote. Since 2011 the shareholder vote on executive pay has passed at about 97 companies in 100 each year, with average support near 90 percent. The vote is cast largely by asset managers on their clients' shares, it binds no one, and the package on the ballot states no maximum.

(7) The directors who set executive pay already owe the corporation the duties of loyalty and care. Courts review their pay decisions for waste, a standard almost no decision fails. The duty is real; the remedy is not.

(8) A dollar ceiling is a price control, and it erodes with time. A ratio binds the top of a firm to its bottom: executive pay can rise without new scrutiny only as fast as the pay of the people who work for the firm.

(9) A ladder leaves the level of pay to the firm and its owners and makes the board answer in proportion to how far the firm has left the historical range. It works through duties boards already owe, not through a schedule of permitted salaries.

(10) In 1948 General Motors and the United Automobile Workers wrote into their contract an annual improvement factor that raised wages with productivity, and the pattern spread across American industry. This Act asks the same of a firm that pays its chief executive more than 50 times its median worker, as a condition on that pay rather than a mandate on wages.

(11) Every ratio rule that measures legal form has been evaded by changing the form of payment or the composition of the workforce. Economic reality must therefore govern every definition in this Act.

SEC. 102. PURPOSES.

The purposes of this Act are—

(1) to require each covered corporation to report, on definitions written into this Act and certified by an independent auditor, the ratio of the realized pay of its chief executive, and of its executives and directors together, to the pay of its median worker;

(2) to make the board of each covered corporation answer to its owners, its workforce, and the law in proportion to that ratio;

(3) to leave the level of pay, and the means of lowering the ratio, to the corporation and its owners; and

(4) to state every threshold, definition, and default in the statute, so that none depends on rulemaking.

SEC. 103. AUTHORITY AND RELATIONSHIP TO STATE LAW.

(a) AUTHORITY.—This Act is enacted under the power of Congress to regulate commerce among the several States. Its obligations attach to an issuer by reason of its access to the national securities markets, through the registration of a class of its securities under section 12 of the Securities Exchange Act of 1934 (15 U.S.C. 78l) or its duty to file reports under section 15(d) of that Act (15 U.S.C. 78o(d)), as do the obligations of sections 304 and 402 of the Sarbanes-Oxley Act of 2002 and section 951 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

(b) LISTING.—The requirements of section 306 concerning the board of directors and its committees are also conditions of listing. No national securities exchange may list, or continue to list, any security of a covered corporation that is not in compliance with section 306, in the manner in which sections 10A(m) and 10C of the Securities Exchange Act of 1934 (15 U.S.C. 78j-1(m), 78j-3) condition listing on the composition of the audit and compensation committees.

(c) STATE LAW.—This Act amends the corporate law of no State. A requirement of this Act controls over any inconsistent provision of the articles of incorporation, the bylaws, an employment agreement, or any other agreement of a covered corporation. Nothing in this Act diminishes any duty a director owes under the law of the State of incorporation, and nothing in this Act preempts a law of that State that imposes additional obligations on a corporation organized under it.

TITLE II—DEFINITIONS AND MEASUREMENT

SEC. 201. DEFINITIONS.

In this Act:

(1) AFFILIATE.—The term "affiliate" of a person means any person that directly or indirectly controls, is controlled by, or is under common control with that person.

(2) BENEFICIAL OWNER.—The term "beneficial owner" means the person who holds the economic interest in a share, determined by looking through every fund, plan, trust, account, and other intermediary through which the share is held. Where a share is held through a pooled vehicle, each person holding an interest in the vehicle is the beneficial owner of the number of shares, including fractions, that corresponds to that interest.

(3) CHIEF EXECUTIVE OFFICER.—The term "chief executive officer" means the individual who exercises the authority of the principal executive officer of a covered corporation, whatever the title. Where two or more individuals share that authority, their total real-

ized compensation is combined and treated as the compensation of one chief executive officer.

(4) CHIEF EXECUTIVE RATIO.—The term "chief executive ratio" means, for a fiscal year, the total realized compensation of the chief executive officer divided by the measured median.

(5) COMMISSION.—The term "Commission" means the Securities and Exchange Commission.

(6) COVERED CORPORATION.—The term "covered corporation" means an issuer—

(A) that has a class of securities registered under section 12 of the Securities Exchange Act of 1934 (15 U.S.C. 78l) or is required to file reports under section 15(d) of that Act (15 U.S.C. 78o(d)); and

(B) that had, on the last day of its most recently completed fiscal year, a market capitalization of not less than $1,000,000,000, or total assets of not less than $1,000,000,000 and not fewer than 500 employees.

The term includes an issuer that remains subject to this Act under section 309.

(7) COVERED EXECUTIVE.—The term "covered executive" has the meaning given in section 204.

(8) COVERED HOUR.—The term "covered hour" means an hour of work performed for a covered corporation by a member of its covered workforce.

(9) COVERED WORKFORCE.—The term "covered workforce" has the meaning given in section 203.

(10) DIRECTOR.—The term "director" means a member of the board of directors of a covered corporation or of any entity it controls.

(11) INDEPENDENT AUDITOR.—The term "independent auditor" means a registered public accounting firm, as defined in section 2 of the Sarbanes-Oxley Act of 2002 (15 U.S.C. 7201), that is independent of the covered corporation under the standards that govern the audit of its financial statements and that is not barred by section 501(c).

(12) INSIDER.—The term "insider" means each officer and director of a covered corporation; each person who beneficially owns more than 10 percent of any class of its equity securities, counting as one person any group described in section 13(d)(3) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(d)(3)); and each affiliate of any of them.

(13) INTERMEDIARY.—The term "intermediary" means a person that holds a share, or the power to vote a share, for the benefit of another, including an investment adviser, an investment company, a collective investment trust, a bank, a broker, a dealer, a custodian, a trustee, and a fiduciary of an employee benefit plan.

(14) MEASURED MEDIAN; MEDIAN COVERED COMPENSATION; NATIONAL MEDIAN COMPENSATION.—The terms "measured median", "median covered compensation", and "national median compensation" have the meanings given in section 203.

(15) NAMED EXECUTIVE OFFICER.—The term "named executive officer" means an individual whose compensation the covered corporation is required to report individually in its proxy statement under section 14(a) of the Securities Exchange Act of 1934.

(16) POOL; POOL RATIO.—The terms "pool" and "pool ratio" have the meanings given in section 304.

(17) REAL.—The term "real", in reference to an amount, means the amount adjusted for changes in the Consumer Price Index for All Urban Consumers, published by the Bureau of Labor Statistics, to the price level of the most recently completed fiscal year.

(18) RUNG.—The term "rung" means the safe harbor or any rung of the ladder established by section 301.

(19) SECTOR; SECTOR INDEX.—The term "sector", in reference to a covered corporation, means the sector of the Global Industry Classification Standard to which the corporation is assigned, and the term "sector index" means the S&P Composite 1500 index for that sector or, if that index ceases to be published, the sector index of comparable breadth that the Commission identifies as its successor.

(20) TOTAL REALIZED COMPENSATION.—The term "total realized compensation" has the meaning given in section 202.

(21) UNAFFILIATED OWNER.—The term "unaffiliated owner" means a beneficial owner that is not an insider.

SEC. 202. TOTAL REALIZED COMPENSATION.

(a) GENERAL RULE.—The total realized compensation of a covered executive or director for a fiscal year is all economic value realized by, or accruing for the benefit of, that individual during the fiscal year from the covered corporation or any affiliate, by any means and in any form, whatever the timing of payment and however any agreement or plan characterizes it.

(b) INCLUSIONS.—Total realized compensation includes—

(1) salary and cash bonuses, when paid;

(2) stock and stock units, at their market value when they vest;

(3) stock options and stock appreciation rights, at the spread between market value and exercise price when they are exercised;

(4) the personal use of corporate assets, including aircraft, vehicles, residences, security, and club memberships, at full market rate;

(5) deferred compensation and supplemental pension accruals, at present value when they accrue;

(6) separation, change-in-control, and non-competition payments, as provided in subsection (d);

(7) the premium over arm's-length value in any transaction between the corporation or an affiliate and the individual, a member of the individual's family, or an entity in which either holds an interest; and

(8) any payment to an entity in which the individual holds, directly or indirectly, an economic interest of more than 5 percent.

(c) Each dollar counted once.—An amount is counted once, in the fiscal year in which it is realized as provided in subsection (b), and is not reversed if its value later falls. An amount counted when it accrues is not counted again when it is paid. An option or appreciation right exercised after the individual's service ends is attributed to the individual's final fiscal year of service.

(d) Departure payments.—A separation, change-in-control, or non-competition payment is either amortized over the period of service to which it relates or attributed entirely to the final fiscal year of service, whichever yields the higher chief executive ratio or pool ratio. Where amortization raises a ratio for an earlier fiscal year, that ratio is restated for every purpose of this Act.

(e) Present value.—Present value is computed at the applicable Federal rate determined under section 1274(d) of the Internal Revenue Code of 1986.

SEC. 203. COVERED WORKFORCE AND MEASURED MEDIAN.

(a) Covered workforce.—The covered workforce of a covered corporation is every individual whose labor primarily benefits the corporation, whoever pays the individual, including—

(1) each employee of the corporation and of any entity in which the corporation holds, directly or indirectly, more than 50 percent of the economic interest;

(2) each individual who works at the corporation's direction, on its premises, or on its systems through a contractor, staffing agency, professional employer organization, or similar arrangement; and

(3) each employee of a franchisee or licensee over whose wages, hours, or working conditions the corporation exercises control sufficient to make it a joint employer under the Fair Labor Standards Act of 1938.

(b) Exclusions.—The covered workforce does not include a covered executive or director, or an individual who performed work for the corporation on fewer than 30 days

in the fiscal year. The number of individuals excluded under this subsection is reported under section 302.

(c) Contracted workers counted by hours.—An individual described in subsection (a)(2) is counted by the hours the individual worked for the corporation, whatever share of the contractor's revenue the corporation supplies. Each contractor shall report to the corporation, for each fiscal year, the covered hours its workers performed and the compensation it paid them for those hours. A contractor that knowingly misstates either is subject to the same liability as the corporation for a false certification under section 503, and a corporation that relies on a contractor's report in good faith is not liable for the contractor's misstatement.

(d) Median covered compensation.—The median covered compensation of a covered corporation is the median of the annual total compensation of the members of its covered workforce, each stated on a full-time-equivalent basis of 2,080 covered hours, computed—

(1) by including, for each member, wages and salary, overtime, bonuses, commissions, the value of any equity realized, and the employer's contributions for health coverage and for retirement;

(2) for an individual described in subsection (a)(2), on the compensation the contractor paid for the hours worked for the corporation; and

(3) without any adjustment for the cost of living, and without any exemption for workers outside the United States other than as subsection (g) provides.

(e) National median compensation.—The national median compensation for a fiscal year is the median usual weekly earnings of full-time wage and salary workers, as published by the Bureau of Labor Statistics from the Current Population Survey, averaged over the four calendar quarters ending with or within the fiscal year and multiplied by 52, and increased by the percentage that employer costs for insurance and for retirement and savings bear to employer costs for wages and salaries, paid leave, and supplemental pay, for private industry workers, in the Bureau's Employer Costs for Employee Compensation for the same period.

(f) Measured median.—The measured median of a covered corporation for a fiscal year is the greater of its median covered compensation and the national median compensation. The comparison is made after the median covered compensation is computed. Every ratio in this Act uses the measured median unless the provision states otherwise.

(g) Worldwide workforce.—

(1) Above the revenue threshold.—For a covered corporation whose worldwide revenue for the fiscal year exceeds [$5,000,000,000], the covered workforce includes every individual described in subsection (a), wherever located, and in computing the

median covered compensation, members located in the United States are weighted so that they constitute not less than 60 percent of the weighted covered workforce.

(2) Below the revenue threshold.—For any other covered corporation, the covered workforce includes only individuals located in the United States.

(h) Pre-reduction median.—For the three fiscal years following any fiscal year in which the covered hours of a covered corporation fell by more than 10 percent, or following any three consecutive fiscal years over which they fell by more than 15 percent, its median covered compensation is the real median covered compensation of the last fiscal year before the reduction, if that amount is lower than the median covered compensation computed under subsection (d).

(i) Distribution reported.—Each covered corporation shall report, for each fiscal year, the 10th, 25th, and 50th percentiles of the annual total compensation of its covered workforce, its total covered headcount, and its total covered hours.

SEC. 204. COVERED EXECUTIVES.

(a) Defined by authority.—The term "covered executive" means—

(1) each executive officer of a covered corporation, meaning its president, each vice president or other individual in charge of a principal business unit, division, or function, and each other individual who performs a policy-making function for the corporation or any affiliate;

(2) each individual with authority over the compensation of an executive officer, over the hiring of an executive officer, or over the allocation of capital in an amount greater than 1 percent of the corporation's total assets; and

(3) each director.

(b) Authority, not title.—Whether an individual is a covered executive depends on the authority the individual holds, whatever the individual's title and whichever entity employs the individual. An individual paid for results in a role that carries none of the authorities described in subsection (a) is not a covered executive.

(c) Presumption.—Among the 25 individuals who receive the highest total realized compensation from a covered corporation and its affiliates in a fiscal year, each individual whose total realized compensation exceeds 10 times the median covered compensation, computed without regard to section 203(f), is presumed to be a covered executive.

(d) Rebuttal.—The presumption in subsection (c) is rebutted only by a certification, made under section 502 and examined under section 501, that the individual held none of the authorities described in subsection (a) during the fiscal year. The certification identifies the individual's position and the authorities it lacks.

(e) Disclosed pool.—Each individual, other than a covered executive, whose total realized compensation exceeds 5 times the median covered compensation is in the disclosed pool. The corporation reports the number of individuals in the disclosed pool and their aggregate compensation. The disclosed pool is reported and is not otherwise subject to this Act.

SEC. 205. ECONOMIC REALITY AND ANTI-EVASION RULES.

(a) Economic reality.—Economic reality controls every determination under this Act. Value that passes from a covered corporation to a covered executive or director by any means is compensation, and an individual whose labor primarily benefits the corporation is in its covered workforce. The form of a transaction, the label of a relationship, and the identity of the paying entity do not control.

(b) Restructurings.—Where a covered corporation transfers a business, workers, or functions to another entity, or reclassifies a working relationship, and the transfer or reclassification lowers its chief executive ratio or its pool ratio, the individuals affected remain in its covered workforce for the three fiscal years that follow, unless the transaction had a substantial business purpose apart from its effect on a ratio under this Act.

(c) Separations.—For the three fiscal years following a spinoff, split-off, or other separation of a business from a covered corporation, the ratios of the corporation and of the separated entity, if it is a covered corporation, are computed against the real median covered compensation of the combined workforce in the last fiscal year before the separation, if that yields a higher ratio for either. A separation undertaken primarily to lower a ratio under this Act is disregarded for every purpose of this Act.

(d) Directors.—For the benchmark in section 302(c)(3), the compensation of a director is the average of the director's total realized compensation for the three most recent fiscal years, counting cash, equity, perquisites, and every benefit described in section 202(b), so that no single year obscures the cumulative total.

(e) Arrangements disregarded.—Any arrangement, restructuring, or reclassification undertaken in substantial part to lower a ratio under this Act is disregarded, and the ratio is computed as if it had not been made.

TITLE III—THE LADDER

SEC. 301. RUNGS.

(a) Rungs by the chief executive ratio.—For each fiscal year a covered corporation occupies the highest of the following for which it qualifies:

(1) The structural rung, if the average of its chief executive ratios for that fiscal year and the two preceding fiscal years is 75 to 1 or more.

(2) The recovery rung, if that average is 50 to 1 or more.

(3) The ratification rung, if its chief executive ratio for that fiscal year, or that average, is 30 to 1 or more.

(4) The safe harbor, if it qualifies for none of the rungs above.

(b) Obligations cumulative.—A covered corporation on a rung carries the obligations of that rung and of every rung below it.

(c) Pool.—A covered corporation also occupies a rung by its pool ratio, as provided in section 304, and carries the obligations of the higher of the two.

(d) Choice of means.—A covered corporation may move down the ladder by lowering the compensation of its executives, by raising the compensation of its workforce, by rebuilding its governance, or by any combination of these, or it may remain where it is and carry the obligations of its rung. Nothing in this Act limits the amount of any individual's compensation.

SEC. 302. ANNUAL CERTIFIED DISCLOSURE.

(a) Report.—Each covered corporation shall include in its annual report under section 13(a) or 15(d) of the Securities Exchange Act of 1934, and in the proxy statement for its annual meeting, a report for the most recently completed fiscal year stating—

(1) the total realized compensation of the chief executive officer, itemized under the headings of section 202(b);

(2) the median covered compensation, the national median compensation, the measured median, and the chief executive ratio, with the chief executive ratios for the two preceding fiscal years and the average of the three;

(3) the pool, the pool ratio, and the rung the corporation occupies by each ratio;

(4) the total realized compensation of each covered executive and each director, and the ratio of each to the measured median;

(5) the distribution reported under section 203(i) and the number of individuals excluded under section 203(b);

(6) each certification made under section 204(d), and the number and aggregate compensation of the disclosed pool;

(7) each transaction, separation, and reduction in covered hours to which section 203(h) or 205 applied; and

(8) any credit claimed under section 307.

(b) Form.—The report is stated in plain language, in a single table on the first page of the compensation discussion in the proxy statement, in a form the Commission pre-

scribes so that reports can be compared across corporations. Each ratio is stated as a ratio to one.

(c) Equilibrium benchmarks.—The report states each of the following ratios beside its equilibrium benchmark:

(1) For the chief executive officer, 20 to 1.

(2) For each other named executive officer, 15 to 1.

(3) For each director, 3 to 1, measured under section 205(d).

The benchmarks are the standard against which the report is read. They impose no obligation other than the report.

(d) Certification.—The report is certified by the independent auditor under section 501 and by the members of the compensation committee under section 502.

SEC. 303. BINDING RATIFICATION.

(a) Requirement.—A covered corporation on the ratification rung or above for a fiscal year shall submit the compensation package of its chief executive officer for the following fiscal year to a vote of its shareholders at its annual meeting. The package takes effect only if it is ratified by a majority of the votes cast, determined under title IV, and until a package is ratified the limit in subsection (d) applies.

(b) The package.—The package states every element of compensation that may be paid or awarded to the chief executive officer for the fiscal year, and a maximum realizable value, in dollars, for the package as a whole.

(c) Maximum realizable value.—Total realized compensation attributable to a ratified package in excess of its maximum realizable value is recovered under section 305(e), whether or not the tests in section 305(c) are met.

(d) Default when the owners do not ratify.—If the owners do not ratify the package, the compensation of the chief executive officer for the fiscal year may not exceed the lesser of—

(1) the maximum realizable value of the last package the owners ratified; and

(2) 30 times the measured median for the most recently completed fiscal year,

until the owners ratify a package, at the annual meeting or at a special meeting called for that purpose. Where the owners have ratified no package, paragraph (2) alone applies. Compensation realized above the limit is recovered under section 305(e).

(e) Justification.—The compensation committee shall file with the proxy statement a written justification, signed by each member personally, stating why the corporation's chief executive officer requires compensation above 30 times the measured median and why the package serves the corporation's owners.

(f) The ballot.—The form of proxy and every voting instruction form shall state on its face, in dollars, the maximum realizable value of the package, the total realized compensation of the chief executive officer for the most recently completed fiscal year, and the measured median, and shall state the chief executive ratio.

(g) No waiver.—This section applies notwithstanding any provision of the articles of incorporation, the bylaws, or any employment or other agreement. A term of an agreement that would require compensation above the limits of this section is unenforceable to that extent, and compliance with this section is not a breach of any agreement.

(h) Other votes.—A vote under this section is in addition to any vote required by section 14A of the Securities Exchange Act of 1934 (15 U.S.C. 78n-1).

SEC. 304. THE SENIOR-PAY POOL.

(a) Pool.—The pool of a covered corporation for a fiscal year is the sum of the total realized compensation of every covered executive and every director, including the chief executive officer. The pool ratio is the pool divided by the measured median. Adding a covered executive adds to the pool; it does not raise any threshold.

(b) Pool rungs.—The pool rungs are [six] times the rungs for the chief executive ratio. For each fiscal year a covered corporation occupies, by its pool ratio—

(1) the structural rung, if the average of its pool ratios for that fiscal year and the two preceding fiscal years is [450] to 1 or more;

(2) the recovery rung, if that average is [300] to 1 or more;

(3) the ratification rung, if its pool ratio for that fiscal year, or that average, is [180] to 1 or more; and

(4) otherwise, the safe harbor.

(c) Obligations by the pool.—A covered corporation on a rung by its pool ratio carries, with respect to the pool, the obligations of that rung, as follows:

(1) Ratification.—On the ratification rung or above, the corporation submits under section 303, with the package of the chief executive officer, a maximum realizable value for the pool for the following fiscal year. If the owners do not ratify it, the pool may not exceed the lesser of the last pool maximum the owners ratified and [180] times the measured median, and compensation realized above that limit is recovered under section 305(e) from each covered executive and director in proportion to that individual's share of the pool.

(2) Recovery.—On the recovery rung or above, the portion of the pool in excess of [300] times the measured median is at risk under section 305 and, if recovered, is recovered from each covered executive and director in proportion to that individual's share of the pool.

(3) STRUCTURAL REMEDIES.—On the structural rung, section 306 applies as if the corporation were on that rung by its chief executive ratio.

(d) NO DOUBLE RECOVERY.—An amount recovered from an individual by reason of the chief executive ratio is credited against that individual's share of any recovery under subsection (c).

> DRAFTING NOTE. Six times the chief executive's rungs places a firm that pays every covered role at its equilibrium benchmark inside the pool's safe harbor: a chief executive at 20 to 1, four other named executive officers at 15 to 1, five other executive officers at 10 to 1, and a board of eleven at 3 to 1 give a pool ratio of 163 to 1. The same firm at the 1978 level stands on the pool's ratification rung. The multiple is the sponsor's to set.

SEC. 305. RECOVERY ABOVE 50 TO 1.

(a) AT-RISK COMPENSATION.—For each fiscal year in which a covered corporation is on the recovery rung or the structural rung, the total realized compensation of its chief executive officer for that fiscal year in excess of 50 times the measured median is at risk.

(b) MEASUREMENT PERIOD.—The tests in subsection (c) are applied over the measurement period, which is the three fiscal years ending with the fiscal year in which the at-risk compensation was realized.

(c) TESTS.—At-risk compensation is recovered if, over the measurement period, the covered corporation fails its owners or fails its workforce. A single failure of either is sufficient.

(1) OWNERS.—The corporation fails its owners if—

(A) its total shareholder return is less than the total return of its sector index; or

(B) its average return on invested capital is less than the median of the average returns on invested capital of the other constituents of its sector index.

(2) WORKFORCE.—The corporation fails its workforce if—

(A) the growth of its real median covered compensation is less than the growth of its real revenue per covered hour; or

(B) its average annual real expenditure on capital and on research and development is less than the average of that real sum for the five fiscal years preceding the measurement period.

(d) INPUTS.—The tests use only published index values, line items as reported in audited financial statements, and figures the independent auditor computes from the financial statements of the other constituents of the sector index. For purposes of this section—

(1) total shareholder return is the change in the price of the corporation's common stock over the measurement period, with dividends reinvested;

(2) return on invested capital for a fiscal year is operating income less income taxes at the corporation's effective tax rate, divided by the average of the sum of total debt and total shareholders' equity at the beginning and end of the fiscal year;

(3) the growth of real median covered compensation is measured from the last fiscal year before the measurement period to the last fiscal year of the period, computed without regard to section 203(f) and subject to section 203(h);

(4) real revenue per covered hour is revenue divided by covered hours, measured over the same years; and

(5) expenditure on capital and on research and development is the sum of capital expenditures and research and development expense as reported.

The board chooses neither the tests nor their inputs, and the independent auditor certifies the result.

(e) Repayment.—Compensation to be recovered under this section or under section 303 or 304 shall be repaid to the covered corporation by the individual who received it, and the corporation shall recover it within 120 days after the independent auditor's certification, first from the individual's deferred compensation and unvested awards and then from the individual. The obligation to repay survives the individual's departure.

(f) Action if the corporation does not recover.—If the corporation does not recover an amount within the time allowed by subsection (e), an action for its recovery may be brought under section 505.

SEC. 306. STRUCTURAL REMEDIES ABOVE 75 TO 1.

(a) Remedies.—A covered corporation on the structural rung shall, not later than its first annual meeting held more than 180 days after the end of the fiscal year in which it reached that rung—

(1) reconstitute its board of directors so that not fewer than one-third of the directors, rounded up to the next whole number, are employee representative directors elected under subsection (b);

(2) constitute its compensation committee and its nominating committee of directors who are independent within the meaning of section 10C(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78j-3(a)), except that at least one employee representative director shall serve on each committee, and the chief executive officer shall have no role in nominating or selecting any member of either committee;

(3) obtain the annual stewardship audit described in subsection (d); and

(4) hold the vote required by section 303 annually, counted under section 403.

(b) Election of employee representative directors.—Employee representative directors are elected as follows:

(1) The election is conducted by secret ballot, at the corporation's expense, by an administrator that has had no business relationship with the corporation or any insider in the preceding three years.

(2) Every individual in the covered workforce located in the United States who performed at least 500 covered hours in the 12 months before the record date, other than a covered executive, may vote and may stand for election.

(3) No candidate may be nominated, funded, endorsed, or campaigned for by the corporation, by any insider, or by any outside organization. Every candidate reaches the electorate through a single channel operated by the administrator on equal terms, and the corporation furnishes the administrator the information needed to reach the electorate, for that purpose only.

(4) An employee representative director serves the same term as other directors and may be removed only by a majority of the electorate voting in a recall election conducted under this subsection, or for cause on the same terms as any other director.

(c) Status and duties.—An employee representative director is a director of the corporation, owes it the same fiduciary duties as every other director, receives the same information at the same time, and may not be instructed by any person how to vote. An employee representative director is not a labor organization or the representative of one, and the election and service of employee representative directors under this section is not an unfair labor practice under section 8(a)(2) of the National Labor Relations Act (29 U.S.C. 158(a)(2)). Nothing in this section affects any right under that Act.

(d) Stewardship audit.—The stewardship audit is an annual examination, by a registered public accounting firm other than the independent auditor that certifies the report under section 302, of—

(1) how the compensation of covered executives was set, including the role of any compensation consultant and the peer group used;

(2) compliance with subsections (a) through (c);

(3) transactions between the corporation or an affiliate and any covered executive, director, or insider; and

(4) the board's allocation of capital, including repurchases of the corporation's shares.

The audit report is filed with the Commission and furnished to the shareholders and to the covered workforce.

(e) After five years.—If a covered corporation remains on the structural rung five years after the remedies in subsection (a) take effect—

(1) ratification under section 303 requires two-thirds of the votes cast by unaffiliated owners; and

(2) each member of the compensation committee stands for election annually by the unaffiliated owners, counted under section 403.

(f) Duration.—The remedies in this section remain in force until the end of the third consecutive fiscal year in which the corporation occupies a lower rung. An employee representative director serving when they lapse completes the term.

SEC. 307. CREDIT FOR A RISING MEDIAN.

(a) Credit.—A covered corporation whose real median covered compensation for a fiscal year exceeds its real median covered compensation for the third preceding fiscal year by 10 percent or more is treated, for each of the three fiscal years that follow, as occupying the rung immediately below the rung its ratios place it on.

(b) Computation.—The comparison is made without regard to section 203(f) and subject to sections 203(h) and 205. No credit is available for any fiscal year in which section 203(h) applies.

> DRAFTING NOTE. This is the one rule in the Act that can be satisfied only by paying the workforce more. It answers the cost of the floor in section 203(f): for a company whose median is below the floor, raising its own median moves its ratio not at all until the median crosses the floor, and this credit moves it a rung.

SEC. 308. PHASE-IN.

(a) First covered fiscal year.—The first covered fiscal year of a covered corporation is its first fiscal year beginning on or after the effective date of this Act.

(b) Disclosure.—Section 302 applies beginning with the first covered fiscal year.

(c) Ratification.—Section 303, and section 304(c)(1), apply beginning with the annual meeting held in the second covered fiscal year, on the basis of the ratios for the first covered fiscal year.

(d) Full ladder.—Sections 305 and 306, and section 304(c)(2) and (3), apply beginning with the third covered fiscal year. For the first and second covered fiscal years, an average under section 301 or 304 is computed over the covered fiscal years then completed, and no compensation realized before the third covered fiscal year is at risk under section 305.

SEC. 309. GOING PRIVATE AND DELISTING.

(a) GOING PRIVATE.—A covered corporation that ceases to be subject to section 13(a) or 15(d) of the Securities Exchange Act of 1934, by merger, tender offer, deregistration, or any other transaction, while its chief executive ratio exceeds 50 to 1 or its pool ratio exceeds [300] to 1, or within five years after the last fiscal year in which either did, remains subject, together with any successor, to sections 302 and 305 for ten years after it ceases to be so subject, and shall file the report required by section 302 with the Commission annually during that period.

(b) DELISTING.—A covered corporation that delists a class of its securities from a national securities exchange while it remains subject to section 13(a) or 15(d) of that Act, including by moving to an over-the-counter market, remains subject to every provision of this Act, and section 306 applies to it as a direct requirement whether or not its securities are listed.

(c) PRIVATE COMPANIES.—This Act imposes no obligation on any company that has not been a covered corporation.

TITLE IV—THE OWNERS' VOTE

SEC. 401. PASS-THROUGH VOTING.

(a) RULE.—On every vote under section 303, 304, or 306(e), each share of a covered corporation is voted by its beneficial owner or as its beneficial owner instructs. Each intermediary that holds a share, or the power to vote it, for another person shall—

(1) transmit the proxy materials and a voting instruction form to the beneficial owner, or to the person holding the next tier of interest, at no charge to the owner; and

(2) vote the share as instructed.

(b) POOLED VEHICLES.—For a share held through an investment company, collective investment trust, separate account, employee benefit plan, or other pooled vehicle, the beneficial owners are the persons holding interests in the vehicle, each with respect to the shares that correspond to that interest. Where vehicles are held through other vehicles, this rule applies at each tier until it reaches a person that is not an intermediary.

SEC. 402. UNINSTRUCTED SHARES.

(a) MIRROR DEFAULT.—A share for which no instruction is received is voted on each matter in the same proportions, for, against, and abstaining, as the instructed shares of the covered corporation were voted on that matter, and never at the discretion of an intermediary.

(b) Company-wide base, insiders excluded.—The proportions are those of all instructed shares of the corporation, wherever held, other than shares beneficially owned by insiders, so that no single vehicle's few instructions decide its holdings and no insider's vote is multiplied onto the uninstructed shares.

(c) No instructed shares.—If no share of the corporation other than a share beneficially owned by an insider is instructed on a matter, the uninstructed shares are not voted on it.

(d) Quorum.—A share voted under this section is present for purposes of a quorum.

SEC. 403. VOTES COUNTED AT THE STRUCTURAL RUNG.

On a vote under section 303 by a covered corporation on the structural rung, and on any vote under section 306(e)—

(1) only the votes of unaffiliated owners are counted;

(2) uninstructed shares are not voted and are not counted as votes cast; and

(3) the result is determined by the votes so counted.

SEC. 404. INSTRUCTIONS.

(a) What counts.—A share is instructed only by—

(1) a direction its beneficial owner gives for the vote; or

(2) a standing direction its beneficial owner gives, by affirmative selection, to vote according to a published voting policy of a provider that is not an affiliate of the intermediary and receives no compensation from the intermediary or its affiliates.

(b) What does not count.—The selection of a voting policy of the intermediary or any of its affiliates, the operation of a default, and the absence of an objection are not instructions.

(c) Standing directions.—A standing direction remains in effect until revoked, and the beneficial owner may revoke it at any time.

SEC. 405. DUTIES OF INTERMEDIARIES.

(a) Transmission.—Each custodian, broker, bank, plan administrator, and recordkeeper shall transmit proxy materials and instructions under this title promptly and at no charge to the beneficial owner. The covered corporation reimburses the reasonable cost at the rates that apply to the distribution of proxy materials under the rules of the national securities exchanges.

(b) Reporting.—Each registered investment company and each other pooled vehicle that holds shares of covered corporations shall report annually to the Commission, with its voting record, the percentage of its shares voted under this title that were in-

structed, the percentage instructed under section 404(a)(2), and the providers of the policies selected.

(c) Enforcement.—A violation of this title by an investment adviser, investment company, broker, or dealer is also a violation of the Investment Advisers Act of 1940, the Investment Company Act of 1940, or the Securities Exchange Act of 1934, as the case may be.

SEC. 406. CONFORMING AMENDMENT TO ERISA.

Section 404 of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1104) is amended by adding at the end the following:

> "(f) A fiduciary that votes a share of a covered corporation, as defined in section 201 of the Corporate Pay Accountability Act, as instructed by the participant or beneficiary to whose account the share is attributable, or, absent an instruction, in accordance with section 402 or 403 of that Act, satisfies the requirements of this section with respect to that vote."

TITLE V—ENFORCEMENT

SEC. 501. INDEPENDENT AUDITOR CERTIFICATION.

(a) Certification.—Each covered corporation shall engage an independent auditor to certify annually that its report under section 302 was prepared in accordance with this Act, including the determination of its covered workforce, its median covered compensation, the total realized compensation of each covered executive and director, its covered executives and each rebuttal under section 204(d), its pool, the tests and amounts under section 305, and the application of sections 203(h), 205, and 307.

(b) Liability.—The certification is part of the corporation's annual report, and the independent auditor is liable for it as for its report on the financial statements contained in that annual report.

(c) Independence.—No independent auditor, and no affiliate of an independent auditor, may provide compensation consulting services to the covered corporation or any affiliate during a fiscal year for which it certifies, or during the preceding fiscal year.

(d) False certification.—An independent auditor that knowingly or recklessly certifies a materially false report violates section 10(b) of the Securities Exchange Act of 1934 (15 U.S.C. 78j(b)).

SEC. 502. COMPENSATION COMMITTEE CERTIFICATION AND LIABILITY.

(a) Certification.—Each member of the compensation committee shall sign the report under section 302, certifying that, to the member's knowledge after reasonable inquiry, it is accurate and complete and that no arrangement described in section 205

was made during the fiscal year. On the ratification rung or above, each member shall also sign the justification under section 303(e).

(b) Liability.—A member who signs a certification knowing it to be materially false—

(1) is liable for a civil penalty of $1,000,000;

(2) is barred for five years from serving as an officer or director of any issuer; and

(3) shall repay to the corporation all compensation the member received as a director for the three fiscal years preceding the certification.

(c) No indemnification.—No covered corporation or affiliate may indemnify, insure, or reimburse a member against any liability under subsection (b).

SEC. 503. CIVIL PENALTIES.

(a) Inaccurate reports.—A covered corporation that files a report under section 302 that is materially inaccurate is liable for a civil penalty as follows:

(1) Good-faith error.—No penalty, if the error was made in good faith and corrected in an amended report filed within 90 days after the original.

(2) Negligence.—For a negligent misstatement, the greater of twice the understatement and $10,000,000.

(3) Concealment.—For deliberate concealment, or for any arrangement described in section 205 made to lower a ratio, three times the compensation improperly excluded, plus the costs of the investigation.

(4) False certification.—For a knowingly false certification, $25,000,000, in addition to the consequences under section 502 for each individual who signed it.

(b) Understatement.—For purposes of subsection (a)(2), the understatement is the greater of the amount by which the misstatement reduced reported total realized compensation below its correct amount and, for a misstatement of the median, the reported chief executive ratio multiplied by the amount by which the median was overstated.

(c) Other violations.—A covered corporation, intermediary, or other person that violates any other provision of this Act is liable for a civil penalty for each violation in the amounts provided by section 21(d)(3) of the Securities Exchange Act of 1934 (15 U.S.C. 78u(d)(3)).

(d) Assessment in court.—The Commission recovers a penalty under this Act by civil action in a district court of the United States, in which either party may demand trial by jury. No action under subsection (a)(3) or (a)(4) may be settled for less than the amount stated there.

SEC. 504. WHISTLEBLOWER AWARDS AND PROTECTION.

(a) AWARDS.—The Commission shall pay to any individual who voluntarily provides original information that leads to the recovery of a penalty under this Act an award of not less than 15 percent and not more than 30 percent of the penalty recovered, and not less than 25 percent where the information concerns workers counted through contractors or compensation deferred or paid on departure. Awards are paid from the fund established by section 21F(g) of the Securities Exchange Act of 1934 (15 U.S.C. 78u-6(g)).

(b) CONFIDENTIALITY.—The Commission shall protect the identity of a whistleblower under this section as section 21F(h)(2) of that Act requires.

(c) RETALIATION.—No person may discharge, demote, suspend, threaten, harass, or otherwise discriminate against an individual for providing information under this Act, for voting, standing, or serving under section 306, or for bringing an action under section 505. An individual aggrieved may bring an action in a district court of the United States for reinstatement, two times back pay with interest, and litigation costs, including reasonable attorney's fees.

SEC. 505. PRIVATE RIGHT OF ACTION.

(a) STANDING.—An action under this section may be brought by—

(1) any employee of a covered corporation, or of an entity whose employees are in its covered workforce, who has been so employed for at least one year; or

(2) any beneficial owner who has held shares of the covered corporation with a market value of at least $25,000 continuously for at least one year.

(b) RELIEF.—The court may award—

(1) on any rung, injunctive relief requiring compliance with this Act; and

(2) recovery of any compensation required to be repaid under section 303, 304, or 305 that the corporation has not recovered within the time allowed by section 305(e).

(c) PLEADING; NO DEMAND.—The complaint shall state with particularity the facts constituting each violation alleged, as section 21D(b) of the Securities Exchange Act of 1934 (15 U.S.C. 78u-4(b)) requires of a private securities action. No demand on the board of directors is required, and no committee of the board may terminate the action.

(d) DISTRIBUTION.—Compensation recovered in an action under this section is distributed to the individuals in the covered workforce in the fiscal year to which it relates, in proportion to their covered hours.

(e) FEES.—The court shall award a prevailing plaintiff reasonable attorney's fees and costs.

(f) Limitation.—An action under this section shall be brought within three years after the filing of the report under section 302 for the fiscal year to which it relates.

SEC. 506. NO INDEMNIFICATION OR INSURANCE.

No covered corporation or affiliate may indemnify, insure, or reimburse any individual against the recovery of compensation under this Act, pay or reimburse the premium for any insurance against it, or increase any other compensation to offset it.

TITLE VI—ADMINISTRATION

SEC. 601. ADMINISTRATION.

(a) Forms.—Not later than one year after the date of enactment of this Act, the Commission shall prescribe the forms on which reports, certifications, ballots, and voting instruction forms under this Act are made.

(b) No waiver or redefinition.—The Commission administers this Act and may not waive, extend, raise, lower, or redefine any threshold, definition, test, or default stated in it, or exempt any person or class of persons from it.

(c) Self-executing.—Each obligation of this Act applies on its effective date whether or not the Commission has prescribed a form. Until a form is prescribed, the report under section 302 is made in the annual report and the proxy statement in the manner this Act describes.

SEC. 602. RELATIONSHIP TO OTHER FEDERAL LAW.

(a) Pay-ratio disclosure.—For a covered corporation, a report under section 302 satisfies the requirements of section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

(b) Other recovery.—Recovery under this Act is in addition to recovery under section 304 of the Sarbanes-Oxley Act of 2002 (15 U.S.C. 7243) and section 10D of the Securities Exchange Act of 1934 (15 U.S.C. 78j-4). An amount recovered under either for the same compensation is credited against recovery under this Act.

SEC. 603. EVALUATION.

(a) Evaluation.—Not later than five years after the effective date of this Act, and every five years after that, the Comptroller General of the United States shall evaluate the effects of this Act on chief executive ratios and pool ratios, median covered compensation, the size and composition of covered workforces, investment, total shareholder return, the rate at which covered corporations go private, and the incidence of arrangements described in section 205, and shall report the findings to Congress.

(b) DATA.—The Commission shall publish the reports filed under section 302 in a searchable, machine-readable database.

SEC. 604. EFFECTIVE DATE.

This Act takes effect 180 days after the date of its enactment.

SEC. 605. SEVERABILITY.

If any provision of this Act, or its application to any person or circumstance, is held invalid, the remainder of this Act, and its application to other persons and circumstances, is not affected.