

COALITION TO PRESERVE AND PROTECT STOCK OPTIONS

(PROMOTING INNOVATION AND ECONOMIC GROWTH THROUGH EMPLOYEE OWNERSHIP)

Support S. 979

The Broad-Based Stock Option Plan Transparency Act of 2003

Senators John Ensign (R-NV) and Barbara Boxer (D-CA) have introduced legislation designed to ensure that investors receive adequate information about stock options granted to employees of the companies in which they invest and to make sure that all the issues surrounding how stock options are treated in financial statements are adequately considered before any changes to the current treatment become effective. Currently, companies are required to estimate the value of employee options, using an economic formula and either reduce their reported earnings by the amount of that estimate or describe in a footnote to the earnings report the impact such options might have on earnings. Accounting standard setters have proposed making mandatory the requirement that earnings be reduced by the estimated value of options granted during the accounting period. However, the accounting standards setters have expressly disclaimed any obligation to examine the economic and societal impacts of such a change to the rule. In addition, there are serious questions regarding whether the valuation formulae, which were designed for a different purpose, are up to the task of accurately valuing long-term employee options and whether using them for financial statement purposes would degrade the quality of reported earnings and further mislead investors.

The Ensign-Boxer bill (S. 979) would:

- Direct the Securities and Exchange Commission to promulgate new rules requiring enhanced disclosures of the effects of stock options on a shareholder's interest in a company. Such new disclosures would require plain English descriptions of the dilutive effect of option grants, prominent display of pertinent information regarding stock option plans and a summary of the options granted to the 5 most senior executives.
- Require that the SEC, after three years from the issuance of the new disclosure rules, conduct a study of the effectiveness of the enhanced disclosures in increasing transparency to current and potential investors and to deliver the results of the study to the appropriate congressional committees within 180 days and prohibit the SEC from enforcing any new options accounting rules for 60-days after the study is transmitted.
- Require that the Commerce Department, within one year after enactment of the legislation, submit a report to Congress on the effects stock options have on matters such as recruitment and retention of skilled workers, stimulating research and innovation, economic growth of the United States and strengthening the international competitiveness of US companies.