

Shareholders Deserve Accurate Information Before They Invest  
Support the "Broad-Based Stock Option Plan Transparency Act of 2003"

March 17, 2003

Dear Colleague:

During the last few months, you've no doubt read about expensing stock options, particularly in relation to current proceedings at the U.S.-based Financial Accounting Standards Board. Advocates point to mandatory employee stock option expensing as the only tool available to shareholders for accurately understanding how many stock options a company has outstanding.

We oppose any accounting standard that implements mandatory stock option expensing. Mandatory expensing will have an enormous negative impact on the growth and technology enterprises that are key to America's current and future economic well-being. Expensing is clearly designed to end widespread use of broad-based employee stock option plans. That is the wrong goal. Instead, the real need is to give investors clear and accurate information.

That's why we're introducing legislation to ensure that investors have accurate and meaningful information about a company's use of employee stock options. . .whether they are given to high-level executives or to lower-level workers.

The Broad-Based Stock Option Plan Transparency Act of 2003 directs the Securities and Exchange Commission to improve transparency and disclosure requirements for all publicly traded companies. Investors will clearly understand the impact of employee stock options on share value, while the most innovative sectors of our economy will be able to use broad-based stock option plans to recruit and retain talented workers.

Please find on the back a section-by-section summary of the Broad-Based Stock Option Plan Transparency Act of 2003. If you have any questions or need more information, contact Amy Heerink at x62007 or Eric Olson at x58104.

Sincerely,

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David Dreier

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Anna Eshoo

# **Broad-Based Stock Option Plan Transparency Act of 2003**

## **Section-by-Section Summary**

### **Section 1. Short Title:**

This Act may be cited as the “Broad-Based Stock Option Plan Transparency Act of 2003.

### **Section 2. Congressional Findings**

### **Section 3. Improved Employee Stock Option Transparency and Reporting Disclosures**

Requires the Securities and Exchange Commission (SEC) to require, by rule, that publicly-traded companies increase the transparency of their use of employee stock options plans, particularly with respect to the dilutive effect of such plans, in annual and quarterly financial reports through enhanced disclosures. Such enhanced disclosures shall include, but not be limited to:

- (1) “plain English” discussion of share value dilution, including tables or graphic illustrations of the dilutive effects;
- (2) expanded disclosure of the dilutive effect of employee stock options on the company’s earnings per share number;
- (3) the prominent placement and increased comparability of stock option-related information; and
- (4) a summary of stock options granted to the 5 most highly compensated executive officers, including any outstanding stock options.

### **Section 4. Evaluation of Employee Stock Option Plans Transparency and Reporting Disclosures and Report to Congress**

- (1) Following a 3-year evaluation period beginning on the date of rule implementation, requires the SEC to study and report to Congress on the effectiveness of the enhanced disclosures required by Section 3.
- (2) During the 3-year evaluation period, prohibits the SEC from recognizing as generally accepted accounting principles any new accounting standards related to the treatment of stock options.

### **Section 5. Study on the Economic Impact of Broad-Based Employee Stock Option Plans and Report to Congress**

- (1) Requires the Secretary of Commerce to study broad-based employee stock options plans, focusing on the following issues:
  - (1) their impact on expanding employee corporate ownership to workers at a wide-range of income levels, with a particular focus on rank-and-file employees;
  - (2) their role in the recruitment and retention of skilled workers;
  - (3) their role in stimulating research and innovation;
  - (4) their impact on the economic growth of the United States; and
  - (5) their role in strengthening the international competitiveness of companies organized under the laws of the United States.
- (2) One year from the date of enactment, requires the Secretary to submit its findings to the House Committees on Energy and Commerce, on Financial Services, and to the Senate Committees on Commerce, Science, and Transportation, and the on Banking House, and Urban Affairs.