FASB Needs a Dose of Reality on Employee Stock Options

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By Rep. Anna Eshoo

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The biggest misconception surrounding broad-based stock options is that their sole purpose is to enrich high-tech CEOs and other corporate executives. Nothing could be further from the truth.

As a matter of fact, if the Financial Accounting Standards Board has its way, highly paid CEOs will have stock options, but those who truly need them will be left in the cold.

Roughly 14 million U.S. employees, or about 13 percent of the entire private-sector workforce, own stock options. Of those, 89 percent are not managers and about 94 percent consider themselves part of the middle class, working class or lower class.

Take Bill Griffin, for example: A constituent of ours who works for Autodesk in Palo Alto, Griffin has said that ``for two years, the only thing that has helped me pay for two kids in college has been stock options. Without stock options, mortgaging my home would have been the only option.''

The FASB proposal to require companies to count employee stock options as expenses on their income statements would penalize the Bill Griffins of the world by taking away one of businesses' best tools to reward workers.

Stock options make possible much of the innovation that fuels the nation's economy and brings better products to millions. They allow young, small businesses to compete with bigger companies for the best and brightest talent. In addition, research shows that stock options can increase employee productivity by 17 percent and overall company productivity by 4 percent over the long term.

But in one fell swoop, the FASB proposal will choke off those benefits for businesses and workers, making it too expensive to offer stock options, especially for small businesses.

Today in Palo Alto, FASB is holding a round table discussion to hear public comments about its proposed rule changes. It's a sorely needed dialogue because the board has ignored compelling and abundant evidence that its proposal will do more harm than good.

It's an understatement to say the nation was ripe for accounting reform in the wake of the great corporate governance scandals over the last few years. The Sarbanes-Oxley Act and other new regulatory measures are now bringing about the accountability and transparency that investors, lenders and government regulators badly needed and deserved to get from publicly traded companies.

But no one -- neither workers, businesses nor the U.S. economy -- needs or deserves the FASB proposal. Visionael, a Palo Alto-based network security firm, offers a typical illustration. The company has estimated that expensing stock options will cost about $1.2 million, as well as an additional $100,000 to hire auditors to ensure compliance. FASB requirements would then eat up 40 percent of the Visionael's estimated $3 million in annual revenues. The likely result, according to CEO Marc Jones, is that the company ``may not invest in various marketing activities that could stimulate additional sales'' or could hold off on hiring another engineer or a several new sales professionals.

Rather than penalize these workers and stifle productivity, as the FASB proposal will, we have joined several Congress members to propose legislation that would instead hold executives' feet to the fire.

The measure calls for mandatory expensing of the stock options of a company's five top executives and calls for a study by the Departments of Labor and Commerce to examine the potential economic impact of mandatory expensing before it is implemented more broadly. The bill would exempt start-up companies from expensing of any kind.

FASB is an accounting board. It does not consider the economic impacts of its decisions. That's our job, and we stand strong for broad-based stock options and against a program that will kill them.

* Senator Barbara Boxer (D-CA) wrote this column with Rep. Eshoo.

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