'Expensing' Stock Options

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July 3, 2002

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San Francisco Chronicle

In the wake of the Enron and subsequent corporate scandals, members of Congress have been wrestling with one fundamental question -- how best to protect shareholders, employees and the public from the abuses that marked these financial calamities.

Regrettably, these scandals have also served as a battle cry for an ill- conceived proposal in Congress to change the accounting procedures for stock options.

By proposing that stock options be counted as an expense against corporate earnings -- or "expensing" them -- some in Congress seek to address a problem that doesn't exist with a solution that won't work.

Not only would the proposal stunt our nation's economic growth, it would also end the ability of millions of working Americans to share in the growth and success of their companies.

If Congress requires companies to expense stock options, two negative outcomes will occur:

-- First, financial reports will become less, not more, accurate. There is simply no way to value accurately the potential worth of employee stock options. To place a value on them, companies would have to make predictions not only about the price of stock years in the future, but also divine which employees would stay at the company long enough to exercise their options and at what price. This is an exercise in alchemy, not accounting.

It is important to note that current rules require that a company's financial statements provide detailed disclosures of their options programs, offering investors the opportunity to recalculate the earnings on their own.

-- The second negative consequence is worse. Faced with the prospect of taking huge charges against their earnings in accounting statements, most companies would decide to stop offering stock options to many of their employees.

Whom will this affect most? Today's rank-and-file workers . . . administrative assistants, assembly-line people, entry-level salespersons. Rest assured: Option packages for executives would remain.

Today, 90 percent of large companies and thousands of small and mid-size businesses issue stock options. A 2000 survey by Pricewaterhouse Coopers and the National Association of Stock Plan Professionals showed that 44 percent of companies offering options make them available to all employees. In the technology sector, this percentage is even higher. Of the top 100 e-commerce companies, 97 percent give options to all their employees.

Ten years ago, about a million workers were in a few hundred employee stock programs around the country. Last year, 10 million Americans received stock options. These workers have chosen to have a stake in their work and their company. They've decided collectively to take some risk and work toward the rewards of ownership. Companies have attracted and retained innovative and entrepreneurial individuals, inventing dynamic industries that didn't exist a decade ago.

Throughout Silicon Valley, rank-and-file workers have bought their first homes, financed retirements, sent their kids to college and otherwise benefited from their stake in their companies' growth through stock options.

The phenomenon is not confined to Silicon Valley or new economy companies. To retain employees by offering competitive benefit packages, old economy companies have also begun to offer stock options to most or all of their employees.

The financial fraud that led to the collapse of Enron had nothing to do with the accounting procedures for stock options. Not only is expensing unwise and unwarranted, it's unnecessary.

Congress has the responsibility to address the excesses and abuses that caused these corporate fiascoes and should pursue many reforms, including bolstering the SEC's ability to oversee and discipline fraudulent auditors, reforming offshore tax havens and protecting employee pension plans.

Some bad executives without an ounce of integrity grabbed stock options and ran. Let's not grab this important benefit from millions of Americans. Let's protect workers and investors while keeping this important tool for economic growth.

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