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Washington, D.C. -- Rep. Anna G. Eshoo, D-Palo Alto, criticized today's decision by the Financial Accounting Standards Board (FASB) to force companies to "expense" employee stock option plans, despite widely recognized problems in valuing the options accurately. FASB announced a draft rule in March, and today's action will make the final rule effective next June.

"FASB's rule ignores the fact that no accurate model for valuing employee stock options has been developed -- including the binomial and Black-Scholes models endorsed by FASB," said Eshoo said. "Neither of these methods was designed for valuation of employee stock options and FASB has flatly refused to road-test these formulas in real-world business environments."

"This issue cuts to the heart of job creation, economic growth and competitiveness," Eshoo said. "Stock options have been a critical tool for workers to share in the success of their companies. Yet if FASB's proposal is put into effect, it will severely curtail broad-based stock option plans for rank-and-file employees."

"By moving forward to force expensing without further examination, FASB is essentially telling companies 'We don't really know how you can do it accurately, but you must expense options.' As a result of FASB's rule, companies' balance sheets will actually contain less accurate -- not more accurate -- information for investors."

In the 108th Congress, Eshoo, a member of the House Energy and Commerce Committee, was the lead Democratic sponsor, with Rep. Richard Baker (R-LA), of bipartisan legislation to protect broad-based stock option plans and study the expensing issue more carefully. H.R. 3574, the Stock Option Accounting Reform Act:

- Requires companies to expense options granted to the CEO and the next four highest-paid officers. Small businesses are exempted from this obligation and cannot be required to expense options for the three years following an initial public offering.

- Prohibits SEC recognition of any further stock option expensing requirements pending the completion of economic impact studies by the Commerce and Labor Departments.

H.R. 3574 passed the House of Representatives in July by an overwhelming vote of 312-111, but the Senate Leadership did not bring the bill to the Senate floor.

"More work must be done to evaluate the economic consequences of mandatory expensing and to devise an accurate, reliable model for valuing employee options," Eshoo said. "FASB has refused to consider either of these issues, so it's incumbent on the SEC to do so before the rules are implemented next year. If the SEC refuses to uphold its responsibility to employees, investors, and companies, then Congress will have to step in to prevent this deeply flawed standard from taking effect."

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