

## Eshoo Criticizes Stock Options Rule

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Washington, D.C. -- Rep. Anna G. Eshoo criticized today's draft decision by the Financial Accounting Standards Board (FASB) that companies must expense employee stock option plans despite widely recognized problems valuing those options accurately. FASB is expected to make a final decision on its proposal later this year following a 90-day public comment period.

"This issue cuts to the heart of job creation, economic growth and competitiveness," Eshoo said. "Broad-based stock option plans for rank-and-file employees are a critical tool in helping small start-ups to mature into medium and large-size companies. Yet if FASB's proposal is put into effect, it will result in the elimination of most broad-based stock option plans, doing away with a powerful tool for attracting talented workers and promoting employee ownership."

"FASB's draft rule ignores the fact that no accurate model for valuing employee stock options has been identified including the binomial and Black-Scholes models required by FASB's proposal," Eshoo continued. "Neither of these methods was designed for the purpose of valuing employee stock options and FASB has refused to road-test these formulas in a real-world business environment."

"By moving forward on this issue now, FASB is essentially telling companies You need to expense these options, but we don't know how you can do it accurately. As a result, if FASB's proposal is implemented, a company's balance sheet will actually contain less accurate not more accurate information for investors."

Rep. Eshoo, D-Palo Alto, is the lead Democratic sponsor, with Rep. Richard H. Baker (R-LA), of bipartisan legislation to protect broad-based stock option plans. 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 currently has 88 bipartisan co-sponsors, including Republican Whip Roy Blunt (R-MO) and Democratic Leader

Nancy Pelosi (D-CA), and it was recently the subject of a hearing by the House Financial Services Capital Markets Subcommittee, chaired by Rep. Baker. The Subcommittee expects to have a hearing reviewing today's draft decision on April 21.

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