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Senate

SENATE CONCURRENT RESOLUTION 34 - RELATIVE TO ACCOUNTING STANDARDS

Mr. BRADLEY submitted the following concurrent resolution; which was referred to the Committee on Banking, Housing and Urban Affairs:

S. Con. Res. 34

Whereas the Financial Accounting Standards Board is reconsidering the proper accounting treatment for stock compensation plans, including broad-based employee stock option plans and employee stock purchase plans;

Whereas the Board has suggested that stock options granted under stock compensation plans should be reported by companies on their income statements as expenses, similar to cash compensation or health benefits;

Where improved financial reporting and disclosure of employee compensation if of paramount importance;

Whereas all 6 of the largest accounting firms have urged that the current stock option accounting standards be left in place;

Whereas the potential distortion that may result from implementing the Board's proposal may detract from recent attempts to provide better and clearer information to the public;

Whereas new business in new-growth sectors, such as high-technology industries, often lack financial resources and must rely on stock options to attract qualified employees;

Whereas the Board's proposal will reduce incentives to grant stock options, thereby limiting an important element in the feasible compensation mix of these companies and posing a threat to entrepreneurship in general;

Whereas employee ownership in American companies has greatly expanded through the use of stock compensation plans, and a majority of the emerging growth companies distribute stock options to most of their employees;

Whereas a rule recently promulgated by the Securities and Exchange Commission increases the disclosure obligations of public companies, thereby improving financial reporting and disclosure of employee compensation, especially for high-level executives;

Whereas stock compensation plans have the potential to stimulate American productivity and enhance American competitiveness;

Whereas discouraging the use of stock options will reduce the ability of new businesses to obtain proper financing and reduce America's ability to compete in the world economy; and

Whereas one function of Congress is to discern how Federal policies affect the general public and to ensure that the general economic health of the country is not unduly harmed by these policies: Now therefore be it

Resolved by the House of Representatives (the Senate concurring), That i is the sense of the Congress that–

1. the accounting standards proposed by the Financial Accounting Standards board will have grave economic consequences, particularly for business in new-growth sectors, which rely heavily on entrepreneurship; and

2. the Board should not change the current accounting rules under Accounting Principles Board Decision 25 by requiring that businesses deduct from profits the value of stock options.

Mr. BRADLEY. Mr. President, I rise today to address a very technical but very important issue regarding the accounting treatment of stock options granted employees. The bottom-line concern in this debate is whether, in the blind pursuit, we kill the goose that lays the golden egg by unduly burdening our entrepreneurial high-technology sector.

The Financial Accounting Standards Board (FASB) an independent, non-governmental panel that sets standards for the accounting industry, recently proposed a requirement that companies deduct from their reported earnings the value of stock options granted to employees. They are in the process of receiving public comment on that proposal. The resolution I am submitting today simply asks the Financial Accounting Standards Board to reconsider that proposal in light of the threat it poses to entrepreneurial activity in the United States.

The stated rationale for FASB's action is to improve disclosure of employee compensation–especially for high-level executives. While this is a laudable goal, the effect of this proposal will be to stifle entrepreneurship by significantly raising the cost of granting stock options to low- and mid-level employees without materially improving compensation disclosure for high level employees.

The truth is that we may be trying to fix something that simply isn't broken. The Securities Exchange Commission has already stiffened proxy information requirements regarding the compensation awarded to top corporate executives. And this proxy information already includes information about noncash compensation and the estimated value of stock option grants to top employees. Further, under our current accounting rules, shareholders already have access to information about the effect of stock options on corporate profits. Under APB 25, companies must reflect the impact of stock options under the line item "Earnings per Share." This information portrays the potentially dilutive effect that stock options can have on existing shareholders.

Finally, if the concern is that shareholders do not have access to cost information regarding these options, the answer is not to require an immediate hit on corporate earnings. This type of information can easily be provided by adding footnote disclosures that precisely describe what costs are involved. This approach has been supported by an unprecedented coalition of the Business Roundtable, the Council of Institutional Investors, and the Big Six accounting firms. When the Fortune 500, their shareholders, and their accountants can all agree on something, it is time for Congress to take notice.

This is truly a case where the cure is worse than the illness. Stock options have played an invaluable role in the creation of our thriving high-technology industry. Startup firms often lack the financial resources to attract, retain, and motivate employees. For this reason, they often offer employees stock in the venture, sharing some of the upside benefit in return for the employee's foregoing higher immediate compensation. This has been the history of many of our most successful companies, including Microsoft and Apple Computer. If FASB's proposal is adopted, the cost of using these options will go up dramatically. Independent analyses suggest that high-technology companies will report earnings from 30 to 50 percent less than they do today. This will increase their stock price volatility and, consequently, their cost of capital. FASB's proposal would place companies in the position of choosing between a dramatic reduction in reported earnings or simply not using employee stock options.

And contrary to critics' claims, the primary group that will be harmed will not be top executives. They will still get their compensation packages. This proposal will aim directly at employee stock option plans offered to all employees. FASB's proposal will eliminate one of the most promising tools American corporations have to motivate their workers, for little gain and at a permanent cost to our economy.