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Opening Statement

Chairman Michael G. Oxley

Committee on Financial Services

Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises

"The Accounting Treatment of Employee Stock Options"

June 3, 2003

Thank you, Chairman Baker, for holding this important and timely hearing.

The accounting treatment of employee stock options has once again become a widely discussed issue among policymakers and in the financial press. Reasonable people continue to differ on whether stock-based compensation awarded to executives and employees should be recorded as an expense in a company's financial statements. There is no consensus view on this issue in academia. The large accounting firms have recently reversed course, and now support mandatory expensing.

The pro-expensing camp argues that options are a form of compensation like salaries or bonuses or health benefits. As such, they are an expense that should be deducted from a company's income. Merely footnoting their cost, they contend, provides investors with an inaccurate view of a company's financial condition.

Those on the other side of this debate believe that options are never expenses to the company, and even if they were, there is no reliable or accurate formula to properly value them. Moreover, they argue, expensing would virtually eliminate broad-based option grants to rank-and-file workers, and would hinder innovation and economic growth.

In April, the FASB declared that options are indeed an expense that should be reflected, at fair value, in a company's profit and loss statement. This unanimous decision, although tentative, indicates the direction of the Board's approach to this issue.

The Board's public deliberations will continue over the next few months. Difficult issues yet to be resolved include a methodology for determining the value of option grants.

I am pleased to welcome my good friends, Chairman Dreier and Congresswoman Eshoo, here this morning. They have introduced the Broad-Based Stock Option Plan Transparency Act of 2003, which would require new disclosures regarding companies' stock option plans, followed by a comprehensive study to review the impact of this additional transparency. During this review period, no changes in the accounting treatment of stock options would be recognized. The legislation raises important questions that we will address today.

I commend Chairman Baker for inviting today's most impressive group of distinguished witnesses. I look forward to a thoughtful and provocative debate on the issue of stock option accounting.

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