

**OPENING STATEMENT OF
RANKING DEMOCRATIC MEMBER PAUL E. KANJORSKI
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE,
AND GOVERNMENT SPONSORED ENTERPRISES
THE FASB STOCK OPTIONS PROPOSAL:
ITS EFFECT ON THE U.S. ECONOMY AND JOBS
WEDNESDAY, APRIL 21, 2004**

Mr. Chairman, we meet for the third time in the 108th Congress to study the accounting treatment of stock options. As I have noted at our past hearings, stock options have played an important role in the ongoing success of many American businesses and the creation of wealth for many American households. The accounting treatment of stock options, however, has also caused significant controversy for more than two decades.

At the end of March, the Financial Accounting Standards Board released its much-anticipated proposed rule on the accounting treatment of equity-based compensation. Among other things, this proposal includes a provision requiring most companies to begin recognizing the fair value of stock options as an expense at the time they are granted. This autonomous body, as I understand, now plans to hold a series of forums and meetings to solicit suggestions on ways to improve the proposal prior to the conclusion of the comment period at the end of June. It also hopes to finalize a new standard on stock options expensing by the year's end.

As we proceed today, I must caution my colleagues once again about the ongoing need to protect the independence of the Financial Accounting Standards Board. A decade ago, the Congress unfortunately strong-armed this private regulatory body into abandoning its efforts to adopt a rule requiring stock options expensing. We now know that this retreat contributed to the financial storm on Wall Street in 2001 and 2002.

In recent weeks, I have received a number of letters from some noteworthy parties concerning the desirability of maintaining the Financial Accounting Standards Board's independence. The American Institute of Certified Public Accountants, for example, asserts that setting accounting standards "must remain in the private sector" in order to protect investors. It further emphasizes that the Financial Accounting Standards Board should be allowed to complete its rulemaking process on stock options "without the intervention of Congress."

In another recent letter that I received from the chief executives of our Nation's four largest accounting firms, they urged us to "preserve the independence" of the Financial Accounting Standards Board. They also advised us to "avoid legislation that would have the effect of restricting" the organization's ability to determine accounting standards. Additional letters to me from Grant Thornton and BDO Seidman make similar points.

Mr. Chairman, I agree with the prudent observations of these leading accounting professionals. In my view, deciding what should be accounted for and how it should be accounted is the job of the Financial Accounting Standards Board, not the Congress.

Today's hearing focuses on the potential economic effects of the proposal to mandate the expensing of stock options. As we examine these matters, we are fortunate to have the head of

the Congressional Budget Office with us. In a recent study, his agency determined that the proposed standard is “unlikely to have a significant effect on the economy” and that it could actually make it more productive. Many of our other witnesses, however, have reached a different conclusion about the economic effects of the expensing proposal.

Mr. Chairman, despite my strong reservations about interfering with the autonomy of the Financial Accounting Standards Board, I recognize that you may ultimately decide to mark up H.R. 3574, the Stock Option Accounting Reform Act. Before you make such a determination, it is my earnest hope that you will convene at least one more hearing on these matters so that we can learn directly the views of the Financial Accounting Standards Board and the Securities and Exchange Commission. Representatives from neither of these entities have appeared before our panel to testify since the issuance of the most recent stock options expensing proposal, and our analysis would be improved and fortified if we learned of their perspectives on these matters.

In closing, Mr. Chairman, to strengthen investor confidence we must allow the Financial Accounting Standards Board to proceed without political interference as it works to consider the issue of stock options expensing. I also look forward to hearing from our witnesses regarding these matters and yield back the balance of my time.
