

**OPENING REMARKS OF THE HONORABLE RUBÉN HINOJOSA
HOUSE FINANCIAL SERVICES COMMITTEE
SUBCOMMITTEE ON CAPITAL MARKETS
THE FASB STOCK OPTIONS PROPOSAL: ITS EFFECT ON THE U.S.
ECONOMY AND JOBS”
APRIL 21, 2004**

Chairman Baker and Ranking Member Kanjorski,

I want to thank you for holding this very important and timely hearing.

Chairman Baker, I want to note, first and foremost, that I am a cosponsor of your legislation H.R. 3574, the “Stock Option Accounting Reform Act,” and I remain an ardent supporter of this legislation despite FASB’s March 31st proposed rulemaking that would require companies to report, as an expense, the value of stock topions they give to executives and rank-and-file employees.

In fact, FASB’s recent proposed Rulemaking demonstrates how important it is that Congress pass your legislation, particularly Section 3 of your bill. Section 3 would prohibit the SEC from recognizing as “generally accepted” any accounting principle established by a “standard-setting-body” relating to the expensing of stock options pending the completion of an economic impact study by the Secretary of Commerce and the Secretary of Labor.

What everyone here needs to recognize is that stock options are an important tool to attract talent to new ventures and that mandatory expensing of stock options will stifle their issuance, reduce company profits, and deter innovation and economic growth. FASB’s proposed rulemaking likely would result in the disappearance of stock options. The disappearance of stock options will inhibit a company’s ability to attract and retain skilled employees.

If the FASB rule takes effect, many companies will stop issuing options to their rank-and-file employees. There is no reliable or accurate formula to properly value them, contrary to what FASB contends.

I want to include in my comments concerns that I see in global competition with large importing nations like China. Mr. Chairman, the Chinese government has incorporated stock options into its five-year economic plan to boost its technology industry.

As a Member of the House Manufacturing Caucus, I know all too well that many of America’s manufacturing jobs have already been outsourced to China, thus negatively impacting the U.S. economy.

FASB’s proposed rulemaking poses a similar risk in that venture capital companies and high-tech companies might relocate to China or other “stock-option-friendly-nations” if registered companies are required to expense their stock options.

Mr. Chairman, I want to work with you and the other cosponsors of your legislation to at least delay the implementation of FASB's proposed rulemaking, either by passing your legislation as a stand-alone measure, or working together to incorporate it into other legislation to ensure its passage.

Hopefully, we will succeed in this endeavor.

I yield back the balance of my time.