

August 6, 2003

The Honorable Joe Representative  
1234 Longworth House Office Building  
Washington, DC 20515

Dear Representative,

We, the undersigned, as representatives of consumer and investor groups, urge you to oppose H.R. 1372, the Broad-Based Stock Option Plan Transparency Act. Despite its name, this legislation would actually undermine transparency in financial reporting by derailing a recent Financial Accounting Standards Board (FASB) decision to require stock option compensation to be shown as an expense on corporations' financial statements.

The FASB decision promises to rectify the current disparity in accounting rules that leaves stock option grants to employees as the only form of compensation not required to be expensed in the income statement. Meanwhile, the same corporations that leave stock option expenses off their financial statements – arguing that they pose no real costs or require inherently inaccurate estimations of stock options' value – are quick to claim those same expenses as tax deductions. As a result, they have been able to simultaneously minimize their tax bills and maximize their apparent profitability.

The failure of financial statements to reflect the costs of stock options compensation has also led to a gross distortion of executive pay. *Business Week* reported last year that roughly three-fourths of executive compensation now comes in the form of options. While in theory this should better align management interests with those of shareholders, the outsize grants of options at some corporations instead represent a massive transfer of wealth from shareholders to executive employees. Furthermore, the goal of aligning management and shareholder interests goes out the window entirely when managers are allowed to reprice their options when the share price drops. As recent events have painfully demonstrated, compensation that offers enormous potential gains when the stock price rises and no downside risks when the stock price drops can lead managers to take excessive risks, to adopt strategies that produce short-term gains while threatening the long-term health of the company, and, in the worst cases, even to falsify the books.

Financial leaders, such as Alan Greenspan, Warren Buffet and Arthur Levitt, as well as internationally respected business and accounting entities, including the International Accounting Standards Board, have all called for the expensing of stock options. Within the United States, some 275 major corporations already voluntarily show option expenses on their financial statements. The time to adopt this as a universal requirement has arrived.

If passed, H.R. 1372 would further delay this long overdue rule by prohibiting the U.S. Securities and Exchange Commission from enforcing any FASB accounting standard on this matter while it conducts a three-year study. This effort to interfere with the independent standard-setting process flies in the face of last year's corporate reform legislation, which included provisions to protect FASB from just this sort of pressure. Congress sets a bad example for corporate America when it so quickly reneges on its own commitment to reform and once again seeks to undermine the independence of the standard-setting process.

For all these reasons, we urge you to oppose H.R. 1372 and to support FASB's effort to provide real transparency to corporations' accounting of compensation expenses. If we are to restore confidence in American business and encourage sustained economic growth, we must begin by restoring honest and accurate accounting standards.

Please contact Katie Selenski at Citizen Works ([kselenski@citizenworks.org](mailto:kselenski@citizenworks.org) or (202) 265-6164) with any questions or comments regarding this letter. Thank you for considering our views.

Sincerely,

Theresa Amato, Citizen Works  
Rick Hausman, Clean Yield Asset Management  
Barbara Roper, Consumer Federation of America  
Sally Greenberg, Consumers Union  
James McRitchie, CorpGov.Net  
Adam Kanzer, Domini Social Investments LLC  
Bill Mann, The Motley Fool  
Will Thomas, Gray Panthers  
Joan Claybrook, Public Citizen  
Ken Broad, Transamerica Investment Management, LLC  
James Lynn, U.S. Investors Organization  
Edmund Mierzwinski, U.S. Public Interest Research Group