SENATE CONCURRENT RESOLUTION 34—
RELATIVE TO ACCOUNTING STANDARDS
Mr. BRADLEY submitted the following concurrent resolu-
tion, 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;

Whereas improved financial reporting and disclosure of
employee compensation is 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
trends 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 new-growth companies distribute
stock options to most of their employees;

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

Whereas stock compensation plans have the potential to
stimulate American productivity and enhance American com-
petitiveness;

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

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 it is the sense of the Congress that—
1. the accounting standards proposed by the Financial
Accounting Standards Board will have grave economic conse-
quences, 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 ac-
counting 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) is 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. These 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 dis-
losure 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 softened proxy information requirements regard-
ing 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 infor-
mation about the effect of stock options on corporate profi-

Under APB 25, companies must reflect the impact of stock
options under the line item “Earnings per Share.” This infor-
mation portrays the potentially dilutive effect that stock op-
tions 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 coa-
lation of the Business Roundtable, the Council of Institutional
Investors, and the Big Six accounting firms. When the Fortune
500, their shareholders, and their accountants 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 analysts 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.