

JULY 20, 2004

**SCHAKOWSKY DEFENDS AGAINST EFFORTS TO WEAKEN FINANCIAL PROTECTIONS
FOR WORKERS
AND INVESTORS**

**OPPOSES BILL THAT OVERRIDES
RULE REQUIRING COMPANIES
TO COUNT STOCK OPTIONS
AGAINST THEIR PROFITS**

WASHINGTON, D.C. - U.S. Representative Jan Schakowsky (D-IL) today delivered the following remarks on the House floor in opposition to H.R. 3574, the so-called Stock Option Accounting Reform Act. H.R. 3574 blocks the Financial Accounting Standards Board (FASB) from requiring companies to expense all stock options issued to their employees. H.R. 3574 was approved by the House, but reports suggest that the Senate may block action on similar legislation.

Below is Schakowsky's statement:

Thank you, Mr. Speaker, I ask unanimous consent to revise and extend my remarks. I rise today to speak oppose H.R. 3574, the so-called Stock Option Accounting Reform Act. This bill will take away FASB's, an independent agency, power to protect investors, pension holders, and workers by requiring corporations to expense stock options. In the wake of Enron, and other corporate scandals, this is the wrong message to be sending to all those workers and investors who lost their lives' savings and retirement security, and it is the wrong policy to pursue if we want to boost consumer confidence and improve our economy.

We know from all the corporate scandals that have come to light that accurate and transparent accounting is vital to corporate accountability and shareholder confidence. Yet, the accounting treatment of stock options allows corporations to continue to distort their true financial standing.

Stock options make up 80 percent of compensation packages for corporate managers. In 2003, CEO pay at 350 major U.S. public companies averaged \$8 million, with stock options as the largest component. Despite those facts, stock options are the only form of compensation that may be completely absent from corporate financial statements.

H.R. 3574, a supposed compromise from the FASB rule, only counts stock options given to the top five executives - when calculated using what Warren Buffet describes as "fuzzy math" - in the bottom line, but not those options given to others.□□

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The special accounting treatment of stock options, which this bill would allow to continue, has fueled abuses linked to excessive executive pay, inflated earnings, dishonest accounting, and corporate misconduct.□ Nobel Prize winner, Joseph Stiglitz, believes that the absence of stock option expensing requirements has "played an important part in the spread of other forms of financial chicanery" where corporate energy and creativity was "directed less and less into new products and services, and more and more into new ways of maximizing executives' gains at unwary investors' expense." A report by a blue-ribbon panel of the Conference Board found that the current treatment of stock options has fostered a vicious cycle of increasing short-term pressures to manipulate earnings to bolster stock price so that those receiving options could cash-in, take the money, and run.

FASB is currently working to address this problem, yet Congress, with the passage of this bill, will undercut its effort.□ FASB's proposed rule would remove the perverse incentives to manipulate earnings and help bring transparency to corporate financial statements.□ FASB is trying to close an accounting loophole that has allowed corporations to understate executive compensation and distort the companies' financial standing.□ Investors and pension plan managers want the kind of accurate financial information that FASB's rule would provide:□ it would help them make informed investment decisions about retirement security.□ Let us let FASB do its job.

Two years ago, when we passed the Sarbanes-Oxley Act, we recognized the need to protect the Financial Accounting Standards Board, or FASB's, independence for setting accounting standards.□ We knew then that if we wanted true corporate accountability, if we wanted to protect investors and pension holders, then we needed to make sure that an independent body was overseeing accounting standards to which corporations had to adhere, and FASB's independence became an important part of the Act.□ We knew that then, but how soon we forget.□□ As Consumers Union states, "Those reforms (to hold corporations accountable) will have proven to be all but meaningless if less than two years after they were enacted, Congress reneges on its promise and subjects the independent, standard-setting process to political interference."□ That is exactly what we will do - render meaningless our own reforms - if we pass H.R. 3574.

As Alan Greenspan recently said, "With respect to stock options, I think it would be a bad mistake for the Congress to impede FASB in this regard.□ And in this regard, as best I can judge, the FASB changes in recommendations with respect to accounting procedures strike me as correct, and it's not clear to me what the purpose of the Congress is in this particular procedure."□□□ It is not clear to me either.□ What is clear is that if this bill passes, we are telling investors, pension holders, and workers that Congress believes it is fine to keep them in the dark, and that corporations can continue to hide their true financial standing.□ I urge my colleagues to vote no on H.R. 3574.□ Thank you.