JULY 8, 2004

**SCHAKOWSKY FIGHTS ON BEHALF
OF WORKERS/INVESTORS
AGAINST CONGRESSIONAL
EFFORTSTO WEAKEN
CORPORATE ACCOUNTING RULES**

WASHINGTON, D.C. - U.S. Representative Jan Schakowsky (D-IL) today warned that efforts to weaken corporate accounting rules by Congress could result in more investors and employees losing their life savings and jobs.

On the day that Ken Lay, former CEO of Enron, was finally arraigned on charges of accounting fraud, Schakowsky said that Congress should instead support a proposed rule by the Financial Accounting Standards Board (FASB) that would require companies to expense all stock options issued to their employees.

Below is Schakowsky's opening statement from today's hearing in the Commerce, Trade and Consumer Protection Subcommittee:

**U.S. Representative Jan Schakowsky
CTCP Subcommittee Hearing on Stock Options
July 8, 2004**

Thank you, Chairman Stearns, for holding today's hearing on one of the most important issues under our subcommittee's jurisdiction: accounting standards. Today's hearing focuses on the Financial Accounting Standards Board's, or FASB's, proposed rule that would require companies to expense all stock options issued to their employees.

We know from the corporate scandals of the past few years 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 typically providing the largest compensation component. Despite those facts, stock options are the only form of compensation that may be completely absent from corporate financial statements.

The unique and unwarranted accounting treatment afforded stock options has fueled abuses linked to excessive executive pay, inflated company 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 September 2002 report by a blue-ribbon panel of the Conference Board found that the current accounting treatment of stock options helped foster 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's proposed rule would remove these perverse incentives and help bring transparency to corporate financial statements. 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. Since 2002, at least 576 corporations have decided that expensing options is a sound accounting practice that attracts investors and have voluntarily begun expensing the options they grant all their employees.

Yet, some of our colleagues are trying to prevent FASB's proposed rule with H.R. 3574, the so-called Stock Option Accounting Reform Act. If this bill is enacted, it would not only stop FASB's rule, but would, in fact, stop those nearly 600 corporations from voluntarily providing an accurate accounting of their expenses. While it claims to be a "compromise," and would require the expensing of options given to the top executive, along with the four highest-paid officers, it does so in a way that Warren Buffet describes as "mathematical lunacy." In fact, H.R. 3574 is written so that the options would have no value and would be reported as a no-cost expense. This is not a compromise, but a give-away to corporations at the expense of investors. In the wake of Enron, Tyco, Worldcom, 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.

Far too often Congress has weighed in, at the behest of powerful special interests, to block reforms like the expensing of stock options. It is my hope that we have learned from the past and will let FASB do its job.