

108TH CONGRESS
1ST SESSION

H. R. 1372

To direct the Securities and Exchange Commission to require enhanced disclosures of employee stock options, and to require a study on the economic impact of broad-based employee stock option plans, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MARCH 20, 2003

Mr. DREIER (for himself, Ms. ESHOO, Mr. OSE, Mr. SMITH of Washington, Mr. UPTON, Mr. HONDA, Mr. COX, Mr. DOOLEY of California, Mr. SESSIONS, Mr. MCINTYRE, Mr. TOM DAVIS of Virginia, Ms. LOFGREN, Mr. SMITH of Texas, Mr. THOMPSON of California, Mr. HOUGHTON, Ms. HARMAN, Mr. OTTER, and Mr. GOODLATTE) introduced the following bill; which was referred to the Committee on Financial Services

A BILL

To direct the Securities and Exchange Commission to require enhanced disclosures of employee stock options, and to require a study on the economic impact of broad-based employee stock option plans, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Broad-Based Stock
5 Option Plan Transparency Act of 2003.”

1 **SEC. 2. CONGRESSIONAL FINDINGS.**

2 Congress finds the following:

3 (1) Innovation and entrepreneurship, particu-
4 larly in the high technology industry, helped propel
5 the economic growth of the 1990s, and will continue
6 to be the essential building blocks of economic
7 growth in the 21st century.

8 (2) Broad-based employee stock option plans
9 enable entrepreneurs and corporations to attract
10 quality workers, to incentivize worker innovation,
11 and to stimulate productivity, which in turn increase
12 shareholder value.

13 (3) Broad-based employee stock options plans
14 that expand corporate ownership to rank-and-file
15 employees spur capital formation, benefit workers,
16 and improve corporate performance to the benefit of
17 investors and the economy.

18 (4) Concerns raised about the impact of em-
19 ployee stock option plans on shareholder value raise
20 legitimate issues relevant to the current level of dis-
21 closure and transparency of those plans to current
22 and potential investors.

23 (5) Investors deserve to have accurate, reliable,
24 and meaningful information about the existence of
25 outstanding employee stock options and their impact
26 on the share value of a going concern.

1 **SEC. 3. IMPROVED EMPLOYEE STOCK OPTION TRANS-**
2 **PARENCY AND REPORTING DISCLOSURES.**

3 (a) ENHANCED DISCLOSURES REQUIRED.— Not
4 later than 180 days after the enactment of this Act, the
5 Securities and Exchange Commission (hereafter referred
6 to as the “Commission”) shall, by rule, require, for each
7 company filing periodic reports under section 13(a) or
8 15(d) of the Securities Exchange Act of 1934 (15 U.S.C.
9 78m, 78o(d)), that such reports include more detailed in-
10 formation regarding stock option plans, stock purchase
11 plans, and other arrangements involving an employee ac-
12 quisition of an equity interest in the company, particularly
13 with respect to the dilutive effect of such plans, includ-
14 ing—

15 (1) a discussion, written in “plain English” (in
16 accordance with the Plain English Handbook pub-
17 lished by the Office of Investor Education and As-
18 sistance of the Commission), of the dilutive effect of
19 stock option plans, including tables or graphic illus-
20 trations of such dilutive effects;

21 (2) expanded disclosure of the dilutive effect of
22 employee stock options on the company’s earnings
23 per share number;

24 (3) prominent placement and increased com-
25 parability of all stock option related information;
26 and

1 (4) a summary of the stock options granted to
2 the 5 most highly compensated executive officers of
3 the company, including any outstanding stock op-
4 tions of those officers.

5 (b) EQUITY INTEREST.—As used in this section, the
6 term “equity interest” includes common stock, preferred
7 stock, stock appreciation rights, phantom stock, and any
8 other security that replicates the investment characteris-
9 tics of such securities, and any right or option to acquire
10 any such security.

11 **SEC. 4. EVALUATION OF EMPLOYEE STOCK OPTION PLANS**
12 **TRANSPARENCY AND REPORTING DISCLO-**
13 **SURES AND REPORT TO CONGRESS.**

14 (a) STUDY AND REPORT.—The Commission shall ex-
15 amine the effectiveness of the enhanced disclosures re-
16 quired in Section 3 in increasing transparency to current
17 and potential investors during the 3-year period following
18 the issuance of a final rule pursuant to section 3(a). Not
19 later than 180 days after the end of such 3-year period,
20 the Commission shall transmit a report to the Committee
21 on Financial Services of the House of Representatives and
22 the Committee on Banking, Housing, and Urban Affairs
23 of the Senate.

24 (b) MORATORIUM ON NEW ACCOUNTING STANDARDS
25 RELATED TO STOCK OPTIONS.—Beginning on the date of

1 enactment of this Act and continuing until the trans-
2 mission of the report required under subsection (a), the
3 Commission shall not recognize as generally accepted ac-
4 counting principles any new accounting standards related
5 to the treatment of stock options.

6 **SEC. 5. STUDY ON THE ECONOMIC IMPACT OF BROAD-**
7 **BASED EMPLOYEE STOCK OPTION PLANS**
8 **AND REPORT TO CONGRESS.**

9 (a) STUDY.—The Secretary of Commerce shall con-
10 duct a study and analysis of broad-based employee stock
11 option plans, particularly in the high technology and any
12 other high growth industries. Such study and analysis
13 shall include an examination of the following issues:

14 (1) The impact of such plans on expanding em-
15 ployee corporate ownership to workers at a wide-
16 range of income levels, with a particular focus on
17 rank-and-file employees.

18 (2) The role of such plans in the recruitment
19 and retention of skilled workers.

20 (3) The role of such plans in stimulating re-
21 search and innovation.

22 (4) Their impact on the economic growth of the
23 United States.

1 (5) The role of such plans in strengthening the
2 international competitiveness of companies organized
3 under the laws of the United States.

4 (b) REPORT.—Not later than 1 year after the date
5 of enactment of this Act, the Secretary shall submit a re-
6 port and analysis of the study required by subsection (a)
7 to—

8 (1) the Committee on Energy and Commerce
9 and the Committee on Financial Services of the
10 House of Representatives; and

11 (2) the Committee on Commerce, Science, and
12 Transportation and the Committee on Banking,
13 Housing, and Urban Affairs of the Senate.

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