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**GREENSPAN SAYS CONGRESS IMPEDING FASB STOCK
OPTION RULES WOULD BE “A BAD MISTAKE”**

Dear Colleague,

I'd like to call your attention to Federal Reserve Chairman Alan Greenspan's testimony last week before the Joint Economic Committee in support of the Financial Accounting Standards Board's (FASB) proposal for companies to recognize the cost of employee stock options on their financial statements. (FASB is a private-sector organization of accounting experts that sets standards for financial accounting and reporting.)

“With respect to stock options, I think it would be a bad mistake for the Congress to impede FASB in this regard,” said Greenspan.

Noting that this is an accounting question, he said, “The whole point of accounting is to tell somebody whether a specific strategy is working or not.” Chairman Greenspan said that if firms don't expense employee stock options, “then we're getting a distorted view as to what the profitability of a particular operation is and you will get a distortion in the allocation of capital.”

Not expensing stock options makes firms look more profitable than they are, and firms don't want to change that perception, noted Greenspan. “But the point of issue is not whether it is more or less profitable, but are the figures right? 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 Congress is in this particular procedure,” said Greenspan.

“I think the Congress would err in going forward and endeavoring to impede FASB in its particular activities,” concluded Greenspan.

Congress should heed the warning of Chairman Greenspan and not limit FASB's rule-making abilities. I strongly urge members not to support legislation that would prevent FASB from implementing its new rule for counting the value of employee stock options as an expense.

If you have questions about Chairman Greenspan's remarks before the JEC, please talk to me or have your staff contact JEC deputy director Frank Sammartino at 4-0372 or e-mail him at Frank_Sammartino@jec.senate.gov.

Sincerely,

Pete Stark
Senior Democrat