

[108H1372.IH]

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(Original Signature of Member)

109TH CONGRESS
1ST SESSION

H. R. _____

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

Mr. DREIER (for himself, Ms. ESHOO, Mr. BLUNT, Mr. CROWLEY, Mr. SHAD-EGG, Mr. WU, Mr. CANTOR, Mr. INSLEE, Mr. ROYCE, Mr. MCINTYRE, Mr. GARY G. MILLER of California, Ms. ZOE LOFGREN of California, Mr. HEFLEY, Mr. LANTOS, Mrs. BLACKBURN, Mr. MILLER of North Carolina, Mr. COX, Mr. SMITH of Texas, Mr. SIMPSON, Mr. ROGERS of Michigan, and Mr. HAYWORTH) introduced the following bill; which was referred to the Committee on _____

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,*



1 **SECTION 1. SHORT TITLE.**

2 This Act may be cited as the “Broad-Based Stock
3 Option Plan Transparency Act”.

4 **SEC. 2. CONGRESSIONAL FINDINGS.**

5 Congress finds the following:

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

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

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

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



1 (5) Investors deserve to have accurate, reliable,
2 and meaningful information about the existence of
3 outstanding employee stock options and their impact
4 on the share value of a going concern.

5 **SEC. 3. IMPROVED EMPLOYEE STOCK OPTION TRANS-**
6 **PARENCY AND REPORTING DISCLOSURES.**

7 (a) ENHANCED DISCLOSURES REQUIRED.—Not later
8 than 180 days after the enactment of this Act, the Securi-
9 ties and Exchange Commission (hereafter referred to as
10 the “Commission”) shall, by rule, require, for each com-
11 pany filing periodic reports under section 13(a) or 15(d)
12 of the Securities Exchange Act of 1934 (15 U.S.C. 78m,
13 78o(d)), that such reports include more detailed informa-
14 tion regarding stock option plans, stock purchase plans,
15 and other arrangements involving an employee acquisition
16 of an equity interest in the company, particularly with re-
17 spect to the dilutive effect of such plans, including—

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



1 (2) expanded disclosure of the dilutive effect of
2 employee stock options on the company's earnings
3 per share number;

4 (3) prominent placement and increased com-
5 parability of all stock option related information;
6 and

7 (4) a summary of the stock options granted to
8 the 5 most highly compensated executive officers of
9 the company, including any outstanding stock op-
10 tions of those officers.

11 (b) EQUITY INTEREST.—As used in this section, the
12 term “equity interest” includes common stock, preferred
13 stock, stock appreciation rights, phantom stock, and any
14 other security that replicates the investment characteris-
15 ties of such securities, and any right or option to acquire
16 any such security.

17 **SEC. 4. EVALUATION OF EMPLOYEE STOCK OPTION PLANS**

18 **TRANSPARENCY AND REPORTING DISCLO-**

19 **SURES AND REPORT TO CONGRESS.**

20 (a) STUDY AND REPORT.—The Commission shall ex-
21 amine the effectiveness of the enhanced disclosures re-
22 quired in Section 3 in increasing transparency to current
23 and potential investors during the 3-year period following
24 the issuance of a final rule pursuant to section 3(a). Not
25 later than 180 days after the end of such 3-year period,



1 the Commission shall transmit a report to the Committee
2 on Financial Services of the House of Representatives and
3 the Committee on Banking, Housing, and Urban Affairs
4 of the Senate.

5 (b) **MORATORIUM ON NEW ACCOUNTING STANDARDS**
6 **RELATED TO STOCK OPTIONS.**—Beginning on the date of
7 enactment of this Act and continuing until the trans-
8 mission of the report required under subsection (a), the
9 Commission shall not recognize as generally accepted ac-
10 counting principles any new accounting standards related
11 to the treatment of stock options.

12 **SEC. 5. STUDY ON THE ECONOMIC IMPACT OF BROAD-**
13 **BASED EMPLOYEE STOCK OPTION PLANS**
14 **AND REPORT TO CONGRESS.**

15 (a) **STUDY.**—The Secretary of Commerce shall con-
16 duct a study and analysis of broad-based employee stock
17 option plans, particularly in the high technology and any
18 other high growth industries. Such study and analysis
19 shall include an examination of the following issues:

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

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



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

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

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

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

12 (1) the Committee on Energy and Commerce
13 and the Committee on Financial Services of the
14 House of Representatives; and

15 (2) the Committee on Commerce, Science, and
16 Transportation and the Committee on Banking,
17 Housing, and Urban Affairs of the Senate.

