

**Submission of Materials by
Robert H. Herz
Chairman
Financial Accounting Standards Board
For the Roundtable on “Preserving *Partnership Capitalism* Through Stock
Options for America’s Workforce”
United States Senate
May 8, 2003**

Opening Statement

Chairman Enzi, Senators Allen and Boxer, and the other roundtable participants, I am Robert H. Herz, chairman of the Financial Accounting Standards Board (“FASB” or “Board”). With me is G. Michael Crooch, one of my fellow Board members. We are pleased to be here today.

We are here mainly to listen to and learn from the discussion. I, however, have a brief opening statement, and I would respectfully request that the full text of my statement and my entire submission of materials be made a part of the Roundtable public record.

In March of this year, at a public meeting, the Board unanimously decided to add a project to its agenda to address issues relating to stock-based compensation. That decision was based largely on three reasons: (1) the high level of public concern expressed by individual and institutional investors, pension funds, mutual funds, creditors, financial analysts, and other users of financial statements about the need to improve the financial accounting and reporting for stock-based compensation, in particular the need to eliminate the exception for so-called fixed plan stock options, which are the only form of stock-based compensation that are not currently recognized as an expense in the financial statements, (2) the noncomparability and, thus, potential lack of transparency created by the alternative accounting treatments presently available for reporting stock-based compensation that has been magnified by the recent trend of companies to adopt the voluntary fair value provisions of FASB Statement 123, and (3) the opportunity to achieve convergence to a common, high-quality international accounting standard on stock-based compensation.

At our April 22, 2003, public meeting, the Board began its initial public deliberations to consider improvements to the recognition, measurement, and disclosure of stock-based compensation. At that meeting, the Board tentatively decided that (1) goods and services received in exchange for all forms of stock-based compensation, including fixed plan options, result in a cost that should be recognized in the income statement as an expense when the goods or services are consumed by the enterprise, and (2) all exchanges involving stock-based compensation, including fixed plan options, should be measured at fair value.

In the coming weeks and months, at public meetings, the Board will continue its deliberations of the many issues relating to this project. The Board's public deliberations of those issues will be systematic, thorough, and objective. The deliberations will benefit from the FASB staff's ongoing review and analysis of the vast amount of research and other literature in this area. The Board's deliberations also will benefit from the advice and expertise of leading valuation and compensation experts that the FASB will consult with throughout the entire public process.

The Board currently plans to be in a position to issue a proposed standard for public comment in the fourth quarter of this year. Prior to making any final decisions on any changes to the accounting for stock-based compensation, the Board would consider, at public meetings, all of the input received in response to any proposal. The Board will not issue any final standard until it has carefully considered the views of all constituents.

I want to again express my appreciation for inviting Mike and me to participate at this Roundtable. We will carefully consider what we learn from today's discussion.

Let me assure you, Chairman Enzi, Senators Allen and Boxer, and the other participants at this Roundtable, that consistent with the FASB's Rules of Procedure, the Board's open and thorough due process and independent and objective decision making will be carefully and fully carried out in connection with this very important project to improve the accounting and reporting for stock-based compensation. Our capital markets, and the investors who participate in those markets, are demanding and deserve sound, transparent, and unbiased financial information. We at the FASB are committed to continuing to fulfill our mission to respond to that need in a timely and objective manner.

Thank you, Chairman Enzi.