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Director - FASB

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Chairman Robert H. Herz:

Recently there are a lot of talks on stock options, and the trend is people want to treat stock options as an expense. I am not too sure what is the original purpose of this idea, but I believe the goal is to create a better picture of a company's financial statement. Please forgive my ignorance here, however, it seems to me that we are actually doing the opposite.

By expending the stock option, we give more power to top management to have a LEGAL way of affecting the earning. Lets consider the following two examples.

a/ CEO of company A realizes the next quarter earning will be flat when compare with this quarter. And one LEGAL way to show growth in earning is by lowering the earning of this quarter and with the stock option expense law there is now a legal way of lowering the earning and it is to give himself stock option. And not just any stock option but a huge stock option with low exercise price and thus creates a large expense. People may say it is immoral for a CEO to do thing like this but I say Enron.

b/ Company B hires a contractor to do some work for the company and instead of paying the contractor with money, company B gives the contractor stock option. However, company B wants to make sure the contractor do a really good work because this is a very huge and important project and if successful company B will be the darling of wall street. So company B gives a large stock options to the contractor but the grant price is higher than the market price. This way the contractor is motivated to do a perfect job for company B and hopefully moves the stock substantially higher. In this case the expense could be negative. And what if the company B is another Enron and the contractor is nothing but a dummy company, and the only purpose of this dummy company is to lower the expense for company B.

Most of the companies are good and moral companies, but the thought of giving more tools to another Enron is really scary. So before FASB makes any move please consider the question 'What will Enron do if'

Yours sincerely Davy Pang