



from the **PRESIDENT**

Options Accounting Should Follow U.S. Course

If you read this page regularly, you know I strongly support the concept of improved global accounting standards. Over the past five years, there has been a strong trend in which leading foreign public companies have converted from international or local country accounting rules to U.S. generally accepted accounting principles (GAAP). Despite this trend, there is still a need among the vast majority of foreign companies to have one set of uniform, high-quality accounting standards. That would greatly enhance the flow of capital around the world and create stronger markets for all companies.

A strong International Accounting Standards Board (IASB) can bring about this shift. The European Union has proposed that all European public companies adopt International Accounting Standards (IAS) by 2005. Further, there is today, and there will continue to be, pressure on the U.S. Securities and Exchange Commission to accept IASB-based financial statements for registered companies. The EU is actively trying (and will most likely succeed) in establishing one EU-wide securities regulatory body, equivalent to our SEC.

This lofty goal is now threatened by the IASB's insistence — led by the Financial Accounting Standards Board (FASB's) international liaison and current IASB board member, Jim Leisenring — to make stock option accounting a top-priority agenda item. Recently, the IASB announced that it had tentatively decided to adopt a standard that would force companies to assign a hypothetical fair value to stock options and make a corresponding charge to the income statement.

This issue received exhaustive debate in the U.S., led on the FASB side by Leisenring himself. That debate culminated in 1995, when the FASB adopted FAS 123, which requires companies to assign a value to stock options and, at a minimum, disclose the pro forma effect of that charge

on net income and earnings per share. Since 1995, stock options have continued to be tremendously important in enlisting employees at all levels to think and act like shareholders.

The linkage demanded by large, activist shareholders has largely been established, and the returns to pension funds, 401(k) plans and individual investors have been outstanding. U.S. based companies, especially small to medium-sized ones, continue to feel very strongly that stock option accounting should remain as it exists in the U.S. They fear a move by the IASB to require expense recognition (and worse, vesting date measurement) for stock options and a subsequent effort to press the U.S. FASB to conform, in the spirit of international convergence and harmony. This is Leisenring's end-run strategy. It is a strategy that can only lead, in fact, to greater international divergence and a significant step back in the noble and lofty goal of one set of global accounting standards.

I encourage the IASB to adopt the U.S. model of FAS 123 and subsequent amendments thereto. That step alone would be a significant improvement for many countries around the world. There are countries in which these rules would eliminate option repricings and variable stock/cash compensation schemes from the realm of bad accounting.

Taking this action quickly and decisively would enhance the IASB's credibility, recognize that stock option accounting in the U.S. is not going to change and advance the agenda for one global accounting standard.

If the IASB does not heed this advice, we encourage Congress to exercise its oversight responsibility and ensure that the U.S. option accounting rules remain intact. We would also encourage Congress to ensure that the FASB remains strong and preeminent. The goal of one set of global accounting standards will still be a valid and laudable objective — one the FASB may need to achieve, should the IASB fail.

Adopting the U.S. model would enhance the IASB's credibility and advance the agenda for one global accounting standard.

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