

PROVIDING FOR CONSIDERATION OF H.R. 3574, STOCK
OPTION ACCOUNTING REFORM ACT

JULY 19, 2004.—Referred to the House Calendar and ordered to be printed

Mr. SESSIONS, from the Committee on Rules,
submitted the following

R E P O R T

[To accompany H. Res. 725]

The Committee on Rules, having had under consideration House Resolution 725, by a nonrecord vote, report the same to the House with the recommendation that the resolution be adopted.

SUMMARY OF PROVISIONS OF THE RESOLUTION

The resolution provides for the consideration of H.R. 3574, the Stock Option Accounting Reform Act, under a structured rule. The rule provides one hour of general debate equally divided and controlled by the chairman and ranking minority member of the Committee on Financial Services. The rule waives all points of order against consideration of the bill.

The rule provides that the amendment in the nature of a substitute recommended by the Committee on Financial Services now printed in the bill shall be considered as an original bill for the purpose of amendment, and shall be considered as read.

The rule makes in order only those amendments printed in this report accompanying the resolution. The rule provides that the amendments printed in this report may be considered only in the order printed in this report, may be offered only by a Member designated in this report, shall be considered as read, shall be debatable for the time specified in this report equally divided and controlled by the proponent and an opponent, shall not be subject to amendment, and shall not be subject to a demand for a division of the question in the House or in the Committee of the Whole. The rule waives all points of order against the amendments printed in this report. Finally, the rule provides one motion to recommit with or without instructions.

The waiver of all points of order against consideration of the bill includes a waiver of clause 4(a) of rule XIII (requiring a three-day layover of the committee report), because the report (H. Rept. 108–609, Part I) did not become available until July 19, 2004, and the bill may be considered by the House as early as July 20, 2004.

SUMMARY OF AMENDMENTS MADE IN ORDER

(Summaries of amendments derived from information provided by the sponsor.)

1. Oxley No. 5: Manager’s Amendment. Clarifies the original intent of the bill to ensure that any company that wishes to voluntarily expense stock options in certain filings required under the securities laws may do so. (10 minutes)

2. Sherman No. 1: Eliminates the requirement in the bill that an assumption of zero volatility be used when calculating the value of stock option expense for the top-five executives. (10 minutes)

3. Maloney No. 3: Preserves the authority of the Securities and Exchange Commission (SEC) to establish accounting principles or standards on its own initiative as the SEC deems necessary in the public interest or for the protection of investors. It is intended to preserve the SEC’s ability to prescribe the contents of public filings. (10 minutes)

4. Kanjorski/Castle No. 2: Amendment in the Nature of a Substitute. Includes findings concerning the SEC authority over standard setting, the importance of the Financial Accounting Standards Board (FASB) independence and credible accounting standards to the economy and investors, the recent actions of Congress in Sarbanes-Oxley to strengthen the standard-setting process, the comparative advantage provided to the U.S. by high quality accounting standards, and the damage to the standard-setting process of legislative pre-emption. Includes a sense of the Congress that preserving the integrity of the accounting standard-setting process and FASB independence is crucial to the financial reporting system and markets and that the SEC should be permitted to adopt new standards without Congressional intervention. Directs the SEC to oversee the process of setting standards for equity-based compensation to ensure that all comments are appropriately reviewed and that any modifications necessary to insure the highest quality accounting standards are adopted. (20 minutes.)

TEXT OF AMENDMENTS MADE IN ORDER

1. AN AMENDMENT TO BE OFFERED BY REPRESENTATIVE OXLEY OF OHIO, OR HIS DESIGNEE, DEBATABLE FOR 10 MINUTES.

At the end of subsection (m)(4)(B) of the matter proposed to be inserted by section 2 of the bill, strike the close quotation mark and following period and insert the following:

“(5) VOLUNTARY EXPENSING.—Notwithstanding the requirements of this subsection, issuers may elect to expense the fair value of all officer and employee stock options in the annual report of such issuer under subsection (a)(2), in accordance with the expensing alternative of Statement of Financial Accounting Standards Number 123, and any such issuer making such election in the annual report for a fiscal year shall not be

subject to paragraphs (2) through (4) of this subsection for such fiscal year.”.

At the end of paragraph (3)(B) of the matter proposed to be inserted by section 3 of the bill, strike the close quotation mark and following period and insert the following:

“(C) EXCEPTION FOR VOLUNTARY EXPENSING.—Nothing in this paragraph or in any other provision of the Stock Option Accounting Reform Act shall prevent the Commission from continuing to recognize the expensing alternative of Statement of Financial Accounting Standards Number 123 as part of generally accepted accounting principles for issuers that elect to expense the fair value of all officer and employee stock options in the annual report of such issuer pursuant to section 13(m)(5) of the Securities Exchange Act of 1934.”.

2. AN AMENDMENT TO BE OFFERED BY REPRESENTATIVE SHERMAN OF CALIFORNIA, OR HIS DESIGNEE, DEBATABLE FOR 10 MINUTES

In subsection (m) of the matter proposed to be inserted by section 2 of the bill, strike

“(3) FAIR VALUE.—

“(A) IN GENERAL.—The”.

and insert

“(3) FAIR VALUE.—The”.

In subsection (m)(3) of the matter proposed to be inserted by section 2 of the bill, strike subparagraph (B).

3. AN AMENDMENT TO BE OFFERED BY REPRESENTATIVE MALONEY OF NEW YORK, OR HER DESIGNEE, DEBATABLE FOR 10 MINUTES

At the end of the bill, insert the following:

SEC. 5. CONFIRMATION OF S.E.C. AUTHORITY.

Nothing in this Act shall be construed to impair or limit the authority of the Commission to establish accounting principles or standards on its own initiative as the Commission deems necessary in the public interest or for the protection of investors.

4. AN AMENDMENT IN THE NATURE OF A SUBSTITUTE TO BE OFFERED BY REPRESENTATIVE KANJORSKI OF PENNSYLVANIA, OR HIS DESIGNEE, DEBATABLE FOR 20 MINUTES

Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE.

This Act may be cited as the “Accounting Standards Integrity Act”.

SEC. 2. FINDINGS.

Congress finds the following:

(1) The Securities and Exchange Commission has broad authority to prescribe accounting standards applicable to issuers of publicly traded securities, and generally has relied on the Financial Accounting Standards Board to establish generally accepted accounting standards for private sector businesses.

(2) Objective accounting standards are essential to the efficient functioning of the economy and the capital markets, as

investors, creditors, analysts, auditors, and others rely on credible, transparent, and comparable results of operations in making decisions regarding the allocation of capital.

(3) Congress recently acknowledged the importance of the accounting standard-setting process to our capital markets and strengthened the the Financial Accounting Standards Board's independence as part of the Sarbanes-Oxley Act of 2002, which passed the House of Representatives and the Senate by votes of 423–3 and 99–0, respectively.

(4) Congress, in the Sarbanes-Oxley Act of 2002, also recognized the importance of the convergence of United States and international accounting standards on high quality accounting standards.

(5) The United States capital markets enjoy a competitive advantage as a result of the high quality and integrity of our financial reporting system and the accounting standards that underlie it and would lose that advantage over foreign markets if our accounting standards and policies are considered less than objective.

(6) Investors benefit from independent and fair accounting standards that are free from undue political interference.

(7) The rulemaking authority and credibility of the Financial Accounting Standards Board may be irreparably damaged by legislation that preempts the existing public and fair deliberative process.

(8) The Securities and Exchange Commission of the United States has the ultimate authority over the content and process for setting standards for issuers of publicly traded securities.

SEC. 3. SENSE OF THE CONGRESS.

It is the sense of Congress that—

(1) preserving the integrity of the accounting standard-setting process and the independence of the Financial Accounting Standards Board is crucial to the functioning and transparency of the financial reporting systems and capital markets of the United States; and

(2) the Securities and Exchange Commission should be permitted to recognize or adopt new accounting standards without Congress or other parties intervening in the process before it is completed to override or delay recognition of those standards.

SEC. 4. SECURITIES AND EXCHANGE COMMISSION MANDATE.

Consistent with its established procedures, the Securities and Exchange Commission shall—

(1) oversee the process of accounting standard-setting to ensure a process that assures that all of the comments, concerns, and recommendations gathered during the comment period on any proposal regarding equity-based compensation are subject to appropriate review; and

(2) before a final standard is adopted, ensure that any modifications are made that are appropriate for the purposes of adopting the highest quality accounting standards that will

best serve the purposes of our financial reporting system and the United States economy as a whole.

