

April 21, 2004

Opening Statement by Congressman Paul E. Gillmor
House Financial Services Committee
Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises
Hearing entitled, "The FASB Stock Options Proposal: Its Effect on the U.S. Economy and Jobs"

Thank you, Mr. Chairman, for holding this hearing and allowing our Committee an opportunity to discuss the Financial Accounting Standards Board's (FASB) recently released Exposure Draft on their proposal to require firms to recognize the fair value of employee stock options as an expense.

I also anticipate that at today's hearing, we will discuss the Congressional Budget Office (CBO) Paper released on April 4, 2004 entitled, "Accounting for Employee Stock Options," and its important findings. As the CBO Paper details in its summary,

If firms do not recognize as an expense the fair value of employee stock options, measured when the options are granted, the firms' reported net income will be overstated... Although complicated to calculate, the fair value of employee stock options may be estimated as reliably as many other expenses.

The CBO Paper goes on to address the subject of today's hearing, the effect of FASB's new proposal on the U.S. economy, with its conclusion that "[r]ecognizing the fair value of employee stock options is unlikely to have a significant effect on the economy."

I applaud FASB for their continued hard work on this issue and for the release of their Exposure Document on March 31, 2004 and have included, in the submitted text of my opening statement, a letter I received from the Ohio Public Employees Retirement System (OPERS) expressing their strong support for FASB's proposal.

The Ohio Public Employees Retirement System is the 10th largest state pension fund in the United States, a \$58.7 billion fund, serving three quarters of a million Ohioans. As their Executive Director, Laurie Hacking, states,

Investor interests are best served when financial reporting provides useful information that is reliable and accurately depicts the underlying economics of events and transactions that have occurred. Achieving this reporting objective

requires that FASB be neutral as it relates to the economic consequences of its accounting standards. Financial information should be reported in accordance with standards that assist investors in making rational decisions about capital allocation among various investment opportunities.

U.S. Financial markets remain the envy of the world due to the quality, timeliness and credibility of the financial information and disclosures provided by companies. The result is better allocation of resources and lower overall cost of capital. We here in Congress must ensure that this remains the case by allowing our standard-setter to operate independent of public and private special interests.

As we discuss FASB's proposal, I continue to encourage my colleagues to support the position that the role of FASB is to pursue transparency and accuracy in accounting standards, not to choose among competing public policies. We should not be setting accounting standards on a political basis.

Again, thank you Mr. Chairman for calling this hearing and I look forward to a thorough debate.



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OPERS Ohio Public Employees Retirement System

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April 13, 2004

The Honorable Paul Gillmor
U.S. House of Representatives
1203 Longworth House Office Building
Washington, DC 20515-3505

Re: Financial Accounting Standards Board, Exposure Draft regarding Proposed Statement of Financial Accounting Standards (on stock option expensing) issued March 31, 2004, File Reference No. 1102-100

Dear Congressman Gillmor:

The Ohio Public Employees Retirement System (OPERS) is a \$58.7 billion fund serving three quarters of a million Ohioans, making the system the 10th largest state pension fund in the U.S. On March 31, 2004, the Financial Accounting Standards Board (FASB) released its long anticipated Stock Option Expensing Exposure Draft that proposes companies deduct the cost of options from income, using a method based on fair value. We are writing to you to again express our views on H.R. 3574, "Stock Option Accounting Reform Act" and to urge Congress not to prevent the Financial Accounting Standards Board from doing its job of independently setting U.S. accounting standards. We believe that this pending legislation should be withdrawn and that the authority of FASB not be undermined by this legislation.

We strongly disagree with claims by opponents that there is no meaningful way to value employee stock options. First, FASB is only requiring that companies reflect the cost of employee compensation. FASB is not taking a position on whether or not companies should issue options. In fact, there is no rational reason not to treat options as an expense like other forms of compensation such as salaries, cash bonuses, restricted stock, and benefits. Second, the fair value of an option can be measured just as accurately as other items currently measured under the accrual accounting method.

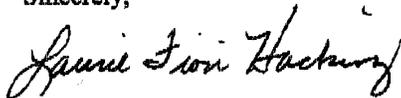
Investor interests are best served when financial reporting provides useful information that is reliable and accurately depicts the underlying economics of events and transactions that have occurred. Achieving this reporting objective requires that FASB be neutral as it relates to the economic consequences of its accounting standards. Financial information should be reported in accordance with standards that assist investors in making rational decisions about capital allocation among various investment opportunities.

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We strongly support the FASB Expensing Stock Options Exposure Draft and urge you to act in the best interests of the capital markets, investors, the existing accounting standards setting process, and the public interest.

Thank you for providing us this opportunity to comment on this important and timely issue. Please feel free to contact Cynthia L. Richson, Corporate Governance Officer, at 614/222-0398, crichson@opers.org, or Jim Miller, legislative consultant, at james3558@earthlink.net should you need any additional information.

Sincerely,

A handwritten signature in cursive script that reads "Laurie Hacking".

Laurie Hacking
Executive Director