

107TH CONGRESS
2D SESSION

S. 2822

To prevent publicly traded corporations from issuing stock options to top management in a manner that is detrimental to the long-term interests of shareholders.

IN THE SENATE OF THE UNITED STATES

JULY 30, 2002

Mr. WYDEN introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

A BILL

To prevent publicly traded corporations from issuing stock options to top management in a manner that is detrimental to the long-term interests of shareholders.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Prevention of Stock
5 Option Abuse Act”.

6 **SEC. 2. CONGRESSIONAL FINDINGS AND PURPOSE.**

7 (a) FINDINGS.—Congress finds that—

8 (1) granting stock options to corporate direc-
9 tors and executive officers can promote the interests

1 of shareholders, by enabling corporations to attract
2 and retain top managerial talent and by giving man-
3 agement a strong personal interest in improving the
4 corporation's performance; and

5 (2) recent corporate accounting scandals sug-
6 gest that, in some instances, grants of stock options
7 to directors and executive officers may have failed to
8 serve their intended purpose of aligning the interests
9 of management with the long-term interests of the
10 corporation. Instead, stock options grants in some
11 instances may have created perverse incentives for
12 directors and executive officers to pump up the cor-
13 poration's short term share price, without regard to
14 the corporation's long-term financial health.

15 (b) PURPOSE.—The purposes of this Act are—

16 (1) to increase shareholder input and oversight
17 with respect to stock option compensation plans by
18 requiring shareholder approval;

19 (2) to ensure that stock options provide incen-
20 tives for corporate directors and executive officers to
21 act in the best long term interests of their corpora-
22 tions, rather than to stimulate short term run-ups in
23 the stock price, by establishing substantial vesting
24 periods for options and holding periods for stock
25 shares; and

1 (3) to improve the transparency of stock option
2 grants to corporate directors and executive officers,
3 by providing better and more frequent information
4 to shareholders and investors.

5 **SEC. 3. RULEMAKING.**

6 Not later than 180 days after the date of enactment
7 of this Act, the Securities and Exchange Commission shall
8 issue final rules that—

9 (1) require any publicly traded corporation to
10 obtain prior shareholder approval of stock option
11 compensation plans;

12 (2) require that any stock options issued by a
13 publicly traded corporation to any of its directors or
14 executive officers have a vesting period of not less
15 than 5 years;

16 (3) prohibit any person who acquires stock,
17 whether through the exercise of stock options or by
18 any other means, in a publicly traded corporation for
19 which such person serves as a director or executive
20 officer from selling—

21 (A) any of such stock until 180 days after
22 the date of acquisition;

23 (B) more than 25 percent of such stock
24 until 3 years after the date of acquisition; and

1 (C) more than 75 percent of such stock
2 until 180 days after such person ceases to serve
3 as a director or executive officer of such cor-
4 poration; and

5 (4) require every publicly traded corporation to
6 include, in each regular quarterly filing to the Secu-
7 rities and Exchange Commission, a separately head-
8 ed section or subsection on stock options that
9 includes—

10 (A) information on the total quantity of
11 outstanding stock options held by directors, ex-
12 ecutive officers, and other employees of such
13 corporation;

14 (B) information on the number, terms, and
15 status of stock options that have been issued or
16 that the corporation has committed to issue to
17 individual directors and executive officers of
18 such corporation; and

19 (C) such other information as the Securi-
20 ties and Exchange Commission determines may
21 be useful in ensuring that investors fully under-
22 stand the potential impact of the corporation's
23 stock option practices on shareholder value and

- 1 on the incentives of corporate directors, execu-
- 2 tive officers, and employees.

