Finally, Mr. Speaker, I have to certainly say that while I have apologized that Members are having to consider this matter at all, and I do apologize for it, at the same time I want to say this is a burden that they could relieve themselves of. This entire process violates the most basic American idea, that is, the idea of Federalism. It is the idea of local control on local matters.

The gentleman from New Jersey (Mr. FRELINGHUYSEN) and the gentleman from Pennsylvania (Mr. FATTAH) have worked very hard to make this process no worse than it already is by doing it as the law requires. I ask my colleagues to respect their work. I ask them to respect the people of the District of Columbia. I ask my colleagues to pass this rule so that we can get the District's own taxpayer-raised money to the District of Columbia.

Mr. HASTINGS of Florida. Mr. Speaker, I have no further requests for time, and I yield back the balance of my time.

Mr. LINDER. Mr. Speaker, I yield back the balance of my time, and I move the previous question on the resolution.

The previous question was ordered.

The resolution was agreed to.

A motion to reconsider was laid on the table.

GENERAL LEAVE

Mr. OXLEY. Mr. Speaker, I ask unanimous consent that all Members may have 5 legislative days within which to revise and extend their remarks and include extraneous material on H.R. 3574, the Stock Option Accounting Reform Act.

The SPEAKER pro tempore (Mr. LINDER). Is there objection to the request of the gentleman from Ohio?

There was no objection.

STOCK OPTION ACCOUNTING REFORM ACT

The SPEAKER pro tempore. Pursuant to House Resolution 725 and rule XVIII, the Chair declares the House in the Committee of the Whole House on the State of the Union for the consideration of the bill, H.R. 3574.

The Chair designates the gentleman from Iowa (Mr. LATHAM) as chairman of the Committee of the Whole, and requests the gentleman from Texas (Mr. BONILLA) to assume the chair temporarily.

□ 1156

IN THE COMMITTEE OF THE WHOLE

Accordingly, the House resolved itself into the Committee of the Whole House on the State of the Union for the consideration of the bill (H.R. 3574) to require the mandatory expensing of stock options granted to executive officers, and for other purposes, with Mr. BONILLA (Chairman pro tempore) in the chair.

The Clerk read the title of the bill.

The CHAIRMAN pro tempore. Pursuant to the rule, the bill is considered as having been read the first time.

Under the rule, the gentleman from Ohio (Mr. OXLEY) and the gentleman from Pennsylvania (Mr. KANJORSKI) each will control 30 minutes.

The Chair recognizes the gentleman from Ohio (Mr. OXLEY).

Mr. OXLEY. Mr. Chairman, I yield myself such time as I may consume.

I would like to commend the gentleman from Louisiana (Mr. BAKER), the chairman of the Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises, for his great leadership on the Stock Option Accounting Reform Act. His legislation strikes a significant compromise between those who believe that expensing options will help prevent some of the corporate governance abuses we have seen in the last few years and those who believe that expensing options will harm our most innovative companies, especially those in the high-tech industry, but not exclusive to them.

Requiring publicly held companies to record as an expense options granted to the chief executive and the next four most highly compensated officers will help preserve broad-based employee stock options and, at the same time, addresses the corporate governance concerns voiced by advocates of expensing.

Our most successful enterprises, many of which are small businesses and venture capital companies, would not be as successful as they are today but for their ability to attract and retain talented employees by giving them ownership in that endeavor. Ownership rewards due to one's personal contribution to a successful enterprise is the ethos of our capital markets system.

While I have been, and continue to be, a strong supporter of FASB's independence, I am supportive of the gentleman from Louisiana's (Chairman BAKER) legislation because I believe FASB's proposal, as currently drafted, would do harm to our most innovative companies. While I believe that FASB should be separated from the political process, and I have supported FASB's independence during all of my 20-plus years here in the Congress, its authority is subject to review by the Congress.

In extraordinary circumstances, and I believe this is one of those rare occasions, FASB's rule-making should be halted when its proposal will do harm to our economy, and I believe that is the case here. The Congress is ultimately responsible for the economic well-being of this country. Policies that could create an environment that is hostile to innovation and entrepreneurship must be reviewed and altered accordingly.

Therefore, I urge all of my colleagues to support the gentleman from Louisiana's (Chairman BAKER) important legislation.

Mr. Chairman, I reserve the balance of my time.

□ 1200

Mr. KANJORSKI. Mr. Chairman, I yield myself 6 minutes.

Mr. Chairman, we are unfortunately meeting today to consider the Stock Option Accounting Reform Act. This bill would begin the process of repealing the reforms we enacted in the historic Sarbanes-Oxley Act just 2 years ago. As I repeatedly noted during the Committee on Financial Services' consideration of these matters, deciding what should be accounted for and how it should be accounted for is the job of the Financial Accounting Standards Board, not the Congress.

Nevertheless, I recognize the strong feelings and deep concerns expressed by the parties on the other side of this contentious issue. The accounting treatment of stock options has caused significant controversy for more than a decade and FASB's decision to revisit this matter has rekindled a fiery debate.

Although I have great sympathy for those individuals in the high-tech community who have raised considerable reservations about the expensing of stock options and the effects on business operations and compensation plans, H.R. 3574 would interfere with FASB's independence. It could also undermine the credibility of financial reports.

We need to work in Washington, particularly in the wake of recent accounting scandals, to improve the transparency of financial reporting statements in order to help average investors make better decisions. A decade ago, the Congress strong-armed FASB into abandoning an effort to adopt a rule requiring stock option expensing. We now know that this retreat helped contribute to a recent financial storm on Wall Street. In fact, a recent study by economists at Texas A&M found that companies where CEOs had options equal to 52 times their annual salary were 70 percent more likely to have a restatement than similar-sized companies in similar industries where CEO had little option wealth.

In considering this bill today, we may, therefore, ultimately allow history to repeat itself. We would for the first time also be making the Congress an appeals board for the development of accounting standards. Support in the business community for mandatory expensing has increased significantly in the wake of the recent tidal wave of accounting scandals. A Merrill Lynch study found more than 90 percent of institutional investors want stock options expensed. This view is shared by the American Institute of Certified Public Accountants, the Investment Company Institute, and the Council for Institutional Investors. Our largest accounting firms have also called for the expensing of stock options.

In addition, nearly 600 companies have already voluntarily adopted or are in the process of adopting fair-value expensing of stock options. Respected corporations like Home Depot, General Motors, General Electric, Wal-Mart, Microsoft, and Amazon have all decided to treat stock options as expenses.

In a recent letter to FASB, Citigroup emphasized its ''strong support for private sector standard setting'' and ''its opposition to congressional intervention on the accounting for stock options.''

Furthermore, in recent proxy votes at IBM, Peoplesoft, Hewlett-Packard, and Texas Instruments, the shareholders of these leading high-tech companies have voted in favor of stock options expensing. Moreover, in May the shareholders of Intel approved a proposal asking the company to expense stock options. This proposal passed with 54 percent of the 5.7 billion votes cast. To date, however, Intel's management has disregarded the decision of its stockholders.

Numerous consumer groups, including the Consumer Federation of America, Consumers Union, and Consumer Action, are also supporting the expensing of stock options. They have determined that the legislation we are considering would deprive investors of comprehensive and transparent financial transactions. Many in the labor movement share these concerns. These entities include the AFL–CIO, the Teamsters, and AFSCME, among others. Each of these groups has called on us to reject H.R. 3574.

Additionally, our Nation's leading financial regulators have previously made the case for options expensing and recently advised us to preserve FASB's independence. In a recent letter to me, SEC Chairman Donaldson notes his strong support for an independent and open standard-setting process for establishing accounting standards.

At a congressional hearing in April, Federal Reserve Chairman Alan Greenspan said, ''I think the Congress would err in going forward and endeavoring to impede FASB,'' in its consideration of stock options expensing rule.

Moreover, leaders on Capitol Hill have already opined on the need to protect FASB's independence. In a recent op-ed in the Wall Street Journal, the chairman of the Senate Banking Committee asserted that Congress should ''stay out of FASB's rulemaking, and let the experts do their job.'' Because many of his colleagues in the other body on both sides of the aisle agree with this assessment, this legislation seems unlikely to become law.

In sum, Mr. Chairman, I agree with the assessments of my esteemed colleagues, leading regulators, reputable financial experts, concerned consumer groups, interested labor leaders, and a growing number in the business community regarding the need to protect FASB's independence.

To strengthen investor confidence and promote the international convergence of corporate reporting standards, FASB must proceed with diligence, and without political interference, in its consideration of a rule proposal on the mandatory expensing of stock options. I urge my colleagues to reject H.R. 3574.

Mr. OXLEY. Mr. Chairman, I ask unanimous consent that the gentleman from Louisiana (Mr. BAKER) be permitted to control the remainder of my time for consideration of this bill.

The CHAIRMAN. Is there objection to the request of the gentleman from Ohio?

There was no objection.

Mr. BAKER. Mr. Chairman, I yield 1 minute to the gentleman from Washington (Mr. INSLEE).

(Mr. INSLEE asked and was given permission to revise and extend his remarks.)

Mr. INSLEE. Mr. Chairman, I speak in favor of this bill for the fundamental reason that this protects an extremely successful tenet of the American innovation economy. I look around my district and what I see is a collection of companies, 10, 20, 30 employees doing incredible things and frequently using stock options. These are companies which may be on the cusp of actually developing a cure for diabetes, a company with a couple dozen employees which may develop a cure for stroke, a company with a couple dozen employees that have a solution so you cannot see muzzle fire from our soldiers' rifles. These type of companies use this system to bring in talent, and bringing in talent is absolutely fundamental to the innovation economy of America.

Stock options have been one of the most successful mechanisms to make sure that when someone has a good idea, they can marry it with good brains around them who can come in without a paycheck. Let us preserve and protect the ability to use stock options.

Mr. KANJORSKI. Mr. Chairman, I reserve the balance of my time.

Mr. BAKER. Mr. Chairman, I yield myself such time as I may consume.

Mr. Chairman, I wish to acknowledge at this time the leadership of the gentleman from Ohio (Chairman OXLEY) on this most important and difficult matter. Over the course of the past months, the committee has engaged in numerous hearings and roundtables to discuss the advisability of FASB's recommendation and to craft the appropriate remedy given the committee's concerns. The chairman at all times has been insistent on a balanced analytical process to afford all stakeholders the ability to be heard.

I certainly would also wish to extend my appreciation to the leader on the Democratic side, the gentlewoman from California (Ms. PELOSI); and the gentlewoman from California (Ms. ESHOO), who have been at the forefront of leading the charge from their perspective on what they both believe to be an important economic tool for job creation.

Mr. Chairman, I reserve the balance of my time.

Mr. KANJORSKI. Mr. Chairman, I yield 4 minutes to the gentlewoman from California (Ms. ESHOO), a chief sponsor of the bill.

Ms. ESHOO. Mr. Chairman, I thank the gentleman from Pennsylvania (Mr. KANJORSKI) for yielding me this time.

I am very proud to be the lead Democratic sponsor of this bill. My partner, the gentleman from Louisiana (Mr. BAKER), the gentleman from California (Mr. DREIER) before him, and colleagues from both sides of the aisle, this is a true bipartisan effort: over 100 cosponsors, including leadership from the Democratic side, our distinguished leader, the gentlewoman from California (Ms. PELOSI), as well as from the Republican side. This is not a partisan issue, nor should it be.

What this debate is about is not simply the grays and the green eye shade issues of accounting. What stands front and center in this issue is the American economy and how we continue to spur it. There are three major ingredients that other countries around the world have come to understand because they have studied it, and it has been part of our success: venture capital, the protection of intellectual property, and stock options. Why stock options? Because it is a magnet that attracts workers to a company; and with that magnet it is stated, yes, we are willing to take a risk and make this company grow. And when we do, we will all share in the rewards. That is intrinsically American.

Now, have there been people who have abused stock options at the top? Sadly, that was the case. And the Congress stepped in because the SEC needed us to step in. The SEC did not do what it was supposed to do, and the Sarbanes-Oxley legislation was passed. So in terms of the debate, leave the SEC alone, leave the FASB alone, we should not interfere, we should not step in, that case is absolutely blown by having adopted Sarbanes-Oxley.

The FASB has put out an accounting standard. They understand that they have nothing to do with the economy, and they are proud of saying that. The Congress does have a responsibility for anything that impinges on our economy. There are institutional investors in this country that are not interested in individual stakes and shareholders. That is all right; it is the view that they hold.

So this debate today, and make no mistake about it, listen carefully, this is about protecting a tool that has paid off for rank-and-file workers across the country. This is not only about high technology and biotechnology. In fact, most of the stock option holders' rank-and-file are outside of those two industries, and they represent 14.6 million workers in our country.

Now why expense the people at the top? Because they come to their compensation package differently. Rank-and-file workers do not negotiate with a board of directors; the top five in the company do. This is balanced. This is important. This is essential. Do not wreck one of the most valuable tools that we have in our country today to expand our economy, to expand new businesses and to have a stake in the future of America. I urge my colleagues to support H.R. 3574.

Mr. Chairman, I'm proud to be the lead Democratic sponsor of the Stock Option Accounting Reform Act, and thank Chairman BAKER for his leadership, moving it through the Financial Services Committee with such strong support. The legislation is urgently needed to avert the implementation of new accounting rules that would have a disastrous impact on American companies, and more importantly, American workers.

The Financial Accounting Standards Board (FASB) has long threatened to require stock options to be deducted from a company's earnings, and this bill would prevent FASB from implementing this requirement for many critical reasons. Mandatory expensing of stock options would have a terrible impact on companies that rely on options to recruit and retain the most talented employees. Without stock options, many of these companies—including some of the most successful high-tech and biotech firms—would not even exist today.

Stock options have become associated with corporate scandals and excessive executive compensation, leading to a call for expensing as the ultimate prescription for these problems. But stock options were not the cause of the recent corporate accounting scandals, and eliminating stock options would do nothing to instill corporate responsibility or accountability. The crimes committed at Enron, Tyco, and other companies would not have been prevented if expensing was the accounting rule of the day.

The Sarbanes-Oxley legislation, which I was proud to support, was passed to prevent future corporate swindles. If companies are forced to expense stock options, most will drop broad-based option plans because of the prospect of taking a huge and misleading charge against their bottom line in accounting statements.

Make no mistake about it. Stock option plans or some other form of lucrative compensation for senior executives will undoubtedly continue to be offered. Consider this: Only a small portion of employee-held options—about 15 percent—are held by corporate management. 14.6 million American workers—13 percent of private-sector workers nationwide—held stock options in 2002.

It's ironic that many are calling for the expensing of stock options in order to reign in executive compensation, when expensing stock options would do little to accomplish this. Rather rank and file employees would be the ones to lose, because they don't get to negotiate with a Board of Directors for their compensation package.

H.R. 3574 also answers many of the critics of stock options who maintain (wrongly) that this compensation is an ''executive perk'' and a tool to avoid reporting executive salaries. The Stock Option Accounting Reform Act requires companies to expense options granted to the CEO and the next four highest paid officers. Small businesses are exempted from this requirement and cannot be required to expense options for the 3 years following an initial public offering.

The bill would also enact new disclosure rules for companies who offer stock options, requiring them to disclose additional information regarding share value dilution and other stock option-related information.

Some have also argued that FASB's independence must be protected and accounting standards—like other technical rules—should not be set by Congress. While in general this is the case, there are many occasions when expert bodies fail to fully protect the public interest and it's incumbent on Congress to step in. For example, the Securities and Exchange Commission—an independent, expert agency—failed to adequately protect investors and the public from the corporate scandals of recent years: Congress stepped in to enact the reforms of Sarbanes-Oxley.

Recently, a ''determination on drug safety'' was made by the Food and Drug Administration which found that the morning-after birth control pill was not safe enough to approve for over-the-counter sale, despite ample evidence to the contrary. I would hope that if the FDA does not change its position on the morning-after pill, we will act to overturn this decision as well.

Even the Chairman of FASB recently acknowledged that the Board has proceeded too quickly and the implementation of the new expensing rules may need to be delayed. H.R. 3574 would simply ensure that the rules are not implemented for at least a year, pending economic impact studies by the Commerce and Labor Departments.

Given the radical change the new rules would establish and the potentially devastating impact on employee ownership programs, Congress has the responsibility to make sure that these rules are appropriate and implemented responsibly. I urge my colleagues to support this legislation and protect broad-based employee ownership programs.

Mr. BAKER. Mr. Chairman, I yield 1 minute to the gentlewoman from California (Ms. LOFGREN).

Ms. LOFGREN. Mr. Chairman, the illusion that stock options only benefit fat-cat corporate executives is just that, an illusion. Fifty-three percent of companies that offer stock option plans offer them to all employees. Within the tech sector, 88 percent offer them to all employees. With start-ups it is even more important. According to the National Venture Capital Association, more than 70 percent of venture-backed companies award stock options to all employees.

As my colleague, the gentlewoman from California (Ms. ESHOO), has noted, this is an essential component to the innovation economy that really is pulling the entire American economy forward, but that does not seem to matter to FASB.

□ 1215

When stock options that have a strike price of $40 are being traded at $18 and the FASB accounting system accounts for that as a valuable option, there is something wrong with the standards that they are using. We need to study this matter and to make sure that in our efforts to be clear, we do not destroy the tech economy.

Mr. KANJORSKI. Mr. Chairman, I yield 3 minutes to the gentleman from Ohio (Mr. GILLMOR).

Mr. GILLMOR. I thank the gentleman for yielding time.

Mr. Chairman, I rise today in strong opposition to this legislation and in support of the Kanjorski amendment which is going to be offered later.

The real issue we are debating today is whether or not we in the House want to set a dangerous precedent and politicize the process of setting accounting standards. The Financial Accounting Standards rule does not in any way, despite the implication of some other statements, prevent the issuance of stock options. It just says you have to honestly tell the shareholders what their real cost is.

If we pass this bill and prevent the SEC from adopting FASB's draft rule, American workers and other investors may invest their pensions and other retirement incomes in unprofitable companies because they will continue to be given misleading financial statements.

Under our current accounting standards, companies are allowed to choose whether or not to expense stock options, and many have chosen not to report any expense of this compensation, even when they claim stock option expenses on their tax returns. Stock options are the only form of compensation that may be omitted from a corporation's financial statements. The issue is not whether these forms of compensation provide useful incentives, but whether all of them should be reflected honestly on company financial records as company expenses.

Objective observers are virtually unanimous in calling for expensing of stock options. They include Federal Reserve Chairman Alan Greenspan, Treasury Secretary John Snow, SEC Chairman William Donaldson, Public Company Accounting Oversight Board Chairman William McDonough, former SEC Chairman Arthur Levitt, and investor Warren Buffett, who in a July 6, 2004 editorial gave, quote, this bill's opponents an ''A'' for imagination and a flat-out ''F'' for logic.

It is also supported by the Council of Institutional Investors, the Investment Company Institute, Financial Services Forum and the Consumer Federation of America. The FASB standards are about having honest and not misleading reporting to people who have invested in a company.

I urge my colleagues to oppose this legislation.

Mr. BAKER. Mr. Chairman, I yield 1½ minutes to the gentleman from New York (Mr. CROWLEY).

(Mr. CROWLEY asked and was given permission to revise and extend his remarks.)

Mr. CROWLEY. I thank the gentleman from Louisiana for yielding me this time.

Mr. Chairman, I rise in strong support of the Stock Option Accounting Reform Act, and I urge my colleagues on both sides of the aisle to support this bill without any damaging amendments. This legislation is a necessary response to proposed damaging regulations by the Financial Accounting Standards Board which threaten broad-based employee stock options. This bill will not cloud basic accounting principles as investors and analysts who are interested in adjusting an issuer's

income statements for the cost of stock options already have the necessary information available to them.

This FASB rule will lead to greater confusion for investors as this rule actually allows corporate accountants to pick and choose their expensing methods instead of implementing a uniform standard.

This FASB rule will effectively destroy broad-based stock option plans, plans that have spread real wealth creation among employees as opposed to the consolidation of wealth at the top of a corporate pyramid.

The FASB rule hurts the ability of high-tech firms to recruit and retain good personnel as stock options were and still are used by start-up and venture capital firms to attract the talent that is needed when capital is sparse.

Finally, FASB, by definition, does not take economic impacts into effect when issuing its regulations, meaning they did not take into consideration the negative effects of this bill when drafting this rule. This bill also actually allows for transparency at the top, the top five individuals of a corporation, those who are most at risk in putting a company in danger when they play around with stock options.

Mr. Chairman, for all those reasons I urge my colleagues to support this balanced approach to the issue of stock options.

Mr. KANJORSKI. Mr. Chairman, I yield 2½ minutes to the gentlewoman from Illinois (Ms. SCHAKOWSKY).

(Ms. SCHAKOWSKY asked and was given permission to revise and extend her remarks.)

Ms. SCHAKOWSKY. Mr. Chairman, I rise today to oppose H.R. 3574, the so-called Stock Option Accounting Reform Act. The bill will actually take away the power from the Financial Accounting Standards Board, an independent agency, to protect investors, pension holders and workers by requiring corporations to expense stock options.

In the wake of Enron and other corporate scandals, this is the wrong message to be sending to all those workers and investors who lost their life savings and retirement security, and it is the wrong policy to pursue if we want to boost consumer confidence and improve our economy.

We know from all the corporate scandals that have come to light that accurate and transparent accounting is vital to corporate accountability and shareholder confidence. Yet the accounting treatment of stock options allows corporations to continue to distort their true financial standing.

Stock options make up 80 percent of compensation packages for corporate managers. In 2003, CEO pay at 350 major U.S. public companies averaged $8 million, with stock options as the largest component. Despite those facts, stock options are the only form of compensation that may be completely absent from corporate financial statements.

H.R. 3574, a supposed compromise from the FASB rule, only counts stock options given to the top five executives, when calculated using what Warren Buffett describes as ''fuzzy math,'' in the bottom line but not those options given to all the other employees.

The special accounting treatment of stock options which this bill would allow to continue has fueled abuses linked to excessive executive pay, inflated earnings, dishonest accounting and corporate misconduct. Nobel prize winner Joseph Stiglitz believes that the absence of stock option expensing requirements has ''played an important part in the spread of other forms of financial chicanery.''

A report by a blue-ribbon panel of the Conference Board found that the current treatment of stock options has fostered a vicious cycle of increasing short-term pressures to manipulate earnings to bolster stock price so that those receiving options could cash in, take the money and run.

FASB is currently working to address this problem, yet Congress with the passage of this bill will undercut its effort. I would suggest that we let FASB do its job and oppose this legislation that would eliminate the possibility of the transparency that stockholders and pension recipients need.

Mr. Chairman, I rise today to oppose H.R. 3574, the so-called Stock Option Accounting Reform Act. This bill will take away Financial Accounting Standard's Bd., FASB's, an independent agency, power to protect investors, pension holders, and workers by requiring corporations to expense stock options. In the wake of Enron, and other corporate scandals, this is the wrong message to be sending to all those workers and investors who lost their lives' savings and retirement security, and it is the wrong policy to pursue if we want to boost consumer confidence and improve our economy.

We know from all the corporate scandals that have come to light that accurate and transparent accounting is vital to corporate accountability and shareholder confidence. Yet, the accounting treatment of stock options allows corporations to continue to distort their true financial standing.

Stock options make up 80 percent of compensation packages for corporate managers. In 2003, CEO pay at 350 major U.S. public companies averaged $8 million, with stock options as the largest component. Despite those facts, stock options are the only form of compensation that may be completely absent from corporate financial statements. H.R. 3574, a supposed compromise from the FASB rule, only counts stock options given to the top five executives—when calculated using what Warren Buffett describes as ''fuzzy math''—in the bottom line, but not those options given to others.

The special accounting treatment of stock options which this bill would allow to continue, has fueled abuses linked to excessive executive pay, inflated earnings, dishonest accounting, and corporate misconduct. Nobel Prize winner, Joseph Stiglitz, believes that the absence of stock option expensing requirements has ''played an important part in the spread of other forms of financial chicanery'' where corporate energy and creativity was ''directed less and less into new products and services, and more and more into new ways of maximizing executives' gains at unwary investors' expense.'' A report by a blue-ribbon panel of the Conference Board found that the current treatment of stock options has fostered a vicious cycle of increasing short-term pressures to manipulate earnings to bolster stock price so that those receiving options could cash-in, take the money, and run.

FASB is currently working to address this problem, yet Congress, with the passage of this bill, will undercut its effort. FASB's proposed rule would remove the perverse incentives to manipulate earnings and help bring transparency to corporate financial statements. FASB is trying to close an accounting loophole that has allowed corporations to understate executive compensation and distort the companies' financial standing. Investors and pension plan managers want the kind of accurate financial information that FASB's rule would provide: it would help them make informed investment decisions about retirement security. Let us let FASB do its job.

Two years ago, when we passed the Sarbanes-Oxley Act, we recognized the need to protect the Financial Accounting Standards Board, or FASB's, independence for setting accounting standards. We knew then that if we wanted true corporate accountability, if we wanted to protect investors and pension holders, then we needed to make sure that an independent body was overseeing accounting standards to which corporations had to adhere, and FASB's independence became an important part of the Act. We knew that then, but how soon we forget. As Consumers Union states, ''Those reforms (to hold corporations accountable) will have proven to be all but meaningless if less than two years after they were enacted, Congress reneges on its promise and subjects the independent, standard-setting process to political interference.'' That is exactly what we will do—render meaningless our own reforms—if we pass H.R. 3574.

As Alan Greenspan recently said, ''With respect to stock options, I think it would be a bad mistake for the Congress to impede FASB in this regard. And in this regard, as best I can judge, the FASB changes in recommendations with respect to accounting procedures strike me as correct, and it's not clear to me what the purpose of the Congress is in this particular procedure.'' It is not clear to me either. What is clear is that if this bill passes, we are telling investors, pension holders, and workers that Congress believes it is fine to keep them in the dark, and that corporations can continue to hide their true financial standing. I urge my colleagues to vote no on H.R. 3574.

Mr. BAKER. Mr. Chairman, I yield 2½ minutes to the gentleman from Arizona (Mr. SHADEGG), a member of the committee and an interested party in this most important issue.

Mr. SHADEGG. Mr. Chairman, I thank the gentleman for yielding time and I rise in strong support of H.R. 3574, the Stock Option Accounting Reform Act.

Let me make it very clear, this is not a technical issue which Congress should leave to FASB. This is not how do we account for something. Indeed, that issue presents itself here, and no

one can agree on how we should account for the expensing of stock options.

But the issue that brings us here is not a technical FASB issue; the issue that brings us here is one that has great implications on public policy. That is, do we continue to incent companies to use stock options to give employees a stake in their company, which I believe all Americans want and is the key to our Nation's vibrant economy, or do we squelch that by allowing a technical rule to go into place forcing the expensing of all stock options the minute they are issued.

I submit to my colleagues that it is FASB that is acting too fast. It is FASB that is acting imprudently and without taking the time to study this area closely. Indeed, there has been no study yet of the impact on our economy were we to suddenly jump forward and require the expensing of all stock options immediately. This economy is beginning to emerge from a recession and is getting stronger every day, but it is critically important that we allow America's companies to continue to give incentives to their employees.

This is particularly true of start-ups. It may be that the big companies, those with billions of dollars in assets, can handle this requirement, but the little start-ups, the small companies that bring ingenuity to the marketplace and challenge the existing large companies in the market and our high-tech industry, have survived and indeed prospered by using stock options. They are confident that this will damage them immensely.

Harvard professor William Sahlman has said, ''If the advocates of expensing win their small point and the spotlight on corporate America fades away as a result, I fear that we will end up having done nothing at all to prevent unscrupulous executives from yet again stealing their investors' money.''

It is absolutely critical that we not allow FASB to treat this as a technical issue. There is not yet an agreed-upon best or even good method for calculating the value of stock options. Expensing will not make our corporate expenditures more clear or bring greater clarity to investors. It solves nothing.

I urge my colleagues to oppose it because it will hurt start-ups and it will hurt high-tech companies.

Mr. KANJORSKI. Mr. Chairman, I yield 3 minutes to the gentleman from Massachusetts (Mr. FRANK), the ranking member of the Committee on Financial Services.

Mr. FRANK of Massachusetts. Mr. Chairman, I appreciate the leadership the ranking member of our subcommittee is showing here. I am somewhat torn on this bill because I do agree, it is certainly beyond question, that the granting of stock options in the high technology industry, especially for start-up companies, has been enormously beneficial, and I do not want to see it changed. I do not even want to take the strong risk of it being changed, so if I were in charge of the Financial Accounting Standards Board, I would defer this. But I am not, and I do not want to be.

We are in danger, I think, on this and on other issues of collapsing entirely the notion of a kind of respect for procedures. It is a mistake for this body always to legislate to get the specific outcome it wants on a particular issue without regard to the institutional frameworks. I think the institutional framework of a separate and independent and autonomous Financial Accounting Standards Board is a valuable asset. I do not want to impinge upon it.

Members of this body are well aware that we never do anything only once. Maybe you can eat one potato chip, but you cannot overrule a board once only. If we set the precedent today of dictating to the Financial Accounting Standards Board what the accounting standards ought to be, I believe we will live to regret it.

With regard to the options, here is the issue. I think they are a good thing in companies, particularly young start-ups. They ought to be able to give them. I guess if you are an old start-up, you ought to get out of the business. Young start-ups ought to be able to continue to give them.

Here is the argument, because nothing in what FASB says says you cannot do them. What we are talking about is this: If companies are mandated to change the way in which they do the accounting on this, no change in the reality, but they change the accounting, will this leave the investment community to abandon a whole class of investments? I do not think a large number of people are now misled because it is in the footnote. I would assume if you are going to invest, you read the footnotes. But neither do I think that people will abandon the whole class of investments because when the accounting changes and it goes in the footnote to an expense, some of these companies will have gone from having shown a profit in one form of accounting to showing a loss.

That is the argument. The argument is because nothing is being proposed. It would ban stock options from being done.

What we are being told by the high-tech community, and I understand their fears, they do not want to take this risk. They are arguing that the investment community is apparently pretty dense and as long as the options are put into a footnote and they show a profit, they will invest. But if we change the accounting, the reality has not changed one iota, they will walk away from the whole class of places.

Where is the gentleman from Texas, the former majority leader, Mr. Armey? Because he is the one who said, government is stupid and markets are smart. Would he please explain to them that markets are not stupid?

In this case, he may have been right, because this is the argument. The crux of the argument is that if you change the accounting and do not change the reality, you will collapse investor interest in this whole class of industry, and I think that is wrong.

Mr. BAKER. Mr. Chairman, I yield myself such time as I may consume.

I wish to speak to the issue of FASB's independence and their track record on matters of financial accounting standards. It was in the fall of 1998 when FASB issued a statement relative to concerns about earnings manipulations by registrants in a number of industries, specifically banks, in the treatment of what was called loan loss reserves.

□ 1230

The allegation was that executives were exacerbating the amount of reserves necessary in order to offset potential volatility in financial institutions' earnings. Suffice it to say, it is a technical issue, again beginning in fall of 1998. I reference testimony of Governor Lawrence Meyer, member of the Federal Reserve, speaking on behalf of the Federal Reserve and all finance regulators. Six years later a letter issued then by the FDIC indicated that institutions should continue to determine the appropriateness of all their loan loss reserves on the basis of existing guidance set forth in GAAP and in the agency's supervisory guidance. Translation: they should ignore what FASB started 6 years earlier as an ill-conceived modification of safety and soundness provisions.

The point of this historic analysis is to provide the Congress with the understanding that FASB does not always get it right. I join with many Members of Congress in that era in expressing concerns about the unintended consequences of the implementation of FASB's rule should it be implemented.

Let us talk about what FASB has done in the course of the consideration of the issue currently at hand. The board announced their positions before a single comment from the public was solicited. The board disinvited comments on key issues of the current matter. The board disregarded the overwhelming majority of comments solicited. The board created an option valuation group to discuss valuation.

After all was said and done, apparently FASB did not find the board's work to be of much use since it decided to revert to the same valuation models before appointing the board. FASB refuses to conduct road tests of actual valuation models, meaning it is not trying out to see what the real-world consequence is of its valuation methodology. It has refused to respond to industry presentations on the existing valuation methodologies. It has refused to respond to recommended alternatives and compromises.

What has the board done? I alert the Members who have not yet received it to an e-mail distributed by a representative of FASB's foundation, I assume an independent arm of an independent

agency prescribed with the responsibility of engaging in political correspondence. What is a sad note about this particular e-mail, if one goes to the two phone numbers listed at the bottom of the e-mail, which is probably in all Members' offices, and they call those numbers, they can then refer themselves to directory assistance and ask for FASB's telephone numbers.

The two numbers cited in this independent political correspondence are numbers listed as FASB's official phone numbers. If one were to apply their own standards of financial transparency to their own e-mail, it should say FASB is now lobbying the Congress and using our phone numbers for ones to respond and make significant inquiry into the matter. It would appear although they find political interference a sullied and tawdry business, they have now engaged in such practice in attempting to influence the Congress on the direction of appropriate conduct.

What is an option, and what does it mean to our economic direction? Assume for the moment we are trying to gather a half dozen young bright people into a garage at someone's home to construct a new innovative product and we bring these people in without sufficient cash to pay them salary; but we offer them the opportunity, should their intellectual prowess be sufficient in building value to a company, to one day cash in on the options we are giving them as a piece of their investment. Assume for the moment the value of the options are $20. Things go awry. Things go poorly. Six months hence the stock price may be worth $10. The employees will not cash in their right to those options because they are called, in the terms of the industry, underwater. They are not worth what they were when they were granted. The employee may leave and go elsewhere. Without the passage of this bill, what would FASB require them to do? To expense that option at the time of granting even though it were later not exercised. The result: an underreporting of financial value of corporate value. That seems to me to be just as big a problem as what those opponents allege is some grand misrepresentation of current financial condition.

Options are reported today in the footnotes. One who persists can find out the dilutive effect on other shareholders. Translation: one can find out the facts about accurate financial condition if they choose to seek it out in currently published information.

It is quite clear that many have accused the current administration and others of finding ourselves in a jobless economic recovery. Were that to be the case, which I certainly dispute, there is no dispute that the granting of options to a broad base of employees has been and remains a very strong component of job creation within our economy. Does it make sense for those who criticize a jobless economic recovery to take away one of the proven tools that does create jobs when they are so badly needed? I think not.

So where are we to go? The identified problem was that a handful of executives were manipulating the granting of options for their personal financial gain. I, frankly, do not think the bill before us is a perfect remedy. I think it is a flawed remedy because the valuation of the option cannot be accurately predicted. But in response to the critics, we have said those top five must expense their options. Let us make them accountable for the reported wrongdoings of the past, but please do not affect adversely the broad-based stock option plans for the vast numbers of employees who have gained from their hard work, shared in the dynamic capital enhancement of corporations, and, yes, made money.

I am one of those staunch advocates in the Congress who believe that money is the cure to poverty. And by allowing employees to invest and work and believe in the great American Dream that one day they can have a part of it, stock options represent a magnificent tool of economic opportunity.

I urge this Congress to adopt H.R. 3574 as balanced; fair; transparent; and, most importantly, important for our economy.

Mr. Chairman, I reserve the balance of my time.

Mr. KANJORSKI. Mr. Chairman, I yield 3½ minutes to the gentleman from Florida (Mr. STEARNS).

(Mr. STEARNS asked and was given permission to revise and extend his remarks.)

Mr. STEARNS. Mr. Chairman, I rise in opposition to the bill.

And let me talk to my good friend from Louisiana. I heard him say in his statement that this bill is a flawed remedy. That is what I heard him say. And I agree with him. The bill is flawed.

He mentions the footnotes. During the oversight hearings on Enron, we had the dean of the Dartmouth School of Business spend 3 weeks looking at the footnotes of Enron. He could not, he could not understand them, and he said nobody in their right mind could understand the footnotes. We could go from Enron across any of these corporations and see the lack of clarity in their corporate footnotes. WorldCom is another one, where Bernie Ebbers paid himself tens of millions of dollars in stock options, and they were never accounted for. People are not going to find them in the footnotes.

This legislation is attacking accounting standards, and he is criticizing FASB. Certainly one could criticize the Securities and Exchange Commission. Where were they during all this corporate corruption?

Options are immensely valuable to those who receive them, and we all agree options are good. That is not the debate. The debate is what this bill is about. Options are fully deductible against corporate income tax. A congressional mandate to ignore economic reality does not change economic reality.

If my colleagues are thinking of voting for this legislation, they should ask themselves why Congress should forbid that stock options be deducted from corporate income when reporting to investors but fully deductible against income when paying corporate taxes. It is a distinction that makes no sense.

Listening to the debate today, we know that this legislation is opposed by Allen Greenspan; Treasury Secretary John Snow; SEC Chairman Bill Donaldson, the chairman of the SEC. Warren Buffet has ridiculed this legislation, saying it is absolutely flawed, it makes no sense.

I know of no occasion in history in which the United States Congress by statute has written an accounting rule, and that is what we are doing today. Are Members so confident in this body in their knowledge of accounting and financial markets that they will disregard the unanimous advice of the President's leading economic indicators, advisers, and the most famous investor in history? He has had 62 years of investing. How many of us have done that? He has ridiculed and said this bill is flawed.

Obviously, we should make some change to FASB. I agree with that, and I believe we are missing an opportunity today because there is another way to approach the problem of accounting for options that would be less heavy handed and might improve the quality of information investors receive so when they go to the footnotes, they will be there and they can actually understand what the stock options are all about.

U.S. GAAP is very detail oriented. It needs to be changed. On that I agree with my colleague from Louisiana. We learned from our investigation of Enron and WorldCom that the very complexity of GAAP itself can be exploited by those who obscure rather than enlighten. The legislation we are considering today mandates a dictatorial rule grafted on to the current GAAP regime that needs change, that simply forbids expensing except for the top five executives. Why is that so sacrosanct that we take just the top five? What about six? What about seven? What about eight? What about four? What about three? No. Just the top five. And then so long as those executives can significantly undervalue their options. If my colleagues stand for a rigorous accounting, oppose this bill.

Mr. KANJORSKI. Mr. Chairman, I yield 2 minutes to the gentlewoman from New York (Mrs. MALONEY).

Mrs. MALONEY. Mr. Chairman, I thank the gentleman for his leadership and for yielding me this time.

I rise in opposition to this bill and in support of the amendments by the gentleman from California (Mr. SHERMAN) and the gentleman from Pennsylvania

(Mr. KANJORSKI) and me. And in opposition to this bill, I am joined with comments from Arthur Levitt, John Bogle, Warren Buffet, Allen Greenspan, John Snow, SEC Chairman Donaldson, and many others. Their comments I will include for the RECORD.

Some of my colleagues today have said that it is necessary for companies to not show the cost of stock options to investors in order to encourage innovation. So my question is why is it necessary for companies to hide an expense to innovate? Why in the world is this good public policy? On the contrary, this accounting loophole encourages companies like Enron and WorldCom to artificially inflate the value of their stock, deceive investors, and evade corporate income taxes. Many large companies have employee stock options and expense them, including Home Depot, Microsoft, Netflix. We should continue and have one standard.

In understanding stock options and their use, there is probably no greater authority than the indicted Enron president and CEO, Jeffrey Skilling. This is what Jeffrey Skilling has to say about stock options when he testified before the Senate: ''Because stock options are not required to be disclosed as an expense on public filings, corporations use them to hide expenses and inflate the balance sheet. You issue stock options to reduce compensation expense and therefore increase your profitability.'' He ought to know, and he is going to jail.

Hidden stock options encourage accounting fraud. End of story. I urge a ''no'' vote on the underlying bill.

Mr. BAKER. Mr. Chairman, I yield 2 minutes to the gentleman from California (Mr. COX), a respected Member on matters of financial reporting.

Mr. COX. Mr. Chairman, I thank the gentleman from Louisiana (Mr. BAKER) for bringing this bill to the floor.

It is vitally important because I agree with the last speaker, hidden stock options are a tool of fraud artists. What we are about to do at FASB is give corporate managers, the new Jeff Skillings, an opportunity to manipulate earnings because, by choosing whether or not to issue stock options, they will now be able to do what they cannot do today, and that is fudge the earnings figure. Currently, stock options are not run through the income statement. But if we make this change where we imagine a notional value for stock options, where nobody real knows really what they are worth, run them not through the balance sheet but through the income statement, we have now got a new tool to manage earnings. That is exactly what Enron taught us we should not do.

We should fully disclose stock options, and there is ample evidence that we can do much better in disclosing to investors stock option costs to the company, to the shareholders, and the place we do that is on the balance sheet.

□ 1245

The issuance of stock and the issuance of an option on stock is a dilution event. It is an adjustment to the capital accounts. It belongs on the balance sheet; it does not belong on the income statement.

The FASB chairman testified before the Committee on Energy and Commerce 2 weeks ago that FASB wants to make this change not because it is technically correct or professionally sound, but rather ''because of the high level of public concern expressed by investors.''

But during the most recent proxy season, shareholders across the country are rejecting proposals to expense stock options. Shareholders of Gillette where Warren Buffett, the champion of stock option expensing on the income statement, sits on the board and controls nearly 10 percent of the shares, voted against expensing on the income statement.

The people for whom FASB claims to be acting, the people with money at stake, are not only not convinced, but they recognize if FASB goes forward with this, it is going to be a new tool for manipulation.

Let us keep the earnings statement honest. Let us vote for the bill.

Mr. KANJORSKI. Mr. Chairman, I yield 2 minutes to the gentleman from Georgia (Mr. MARSHALL).

Mr. MARSHALL. Mr. Chairman, I spent a lot of my career as a lawyer representing small banks and small businesses and individuals that felt that they had been defrauded as a result of false financial statements that had been provided them in order to induce investment or induce credit.

Most folks who are watching this understand that they cannot file a false financial statement in order to get a credit card, that they cannot file a false financial statement in order to get a loan. They have got to comply to the letter with the information that is requested and provide that information, failing which they could end up in jail. That, I think, is largely what is going on here.

The question is whether or not we are going to defer to the Financial Accounting Standards Board, which historically has set the standard for providing the financial statements of a corporation, whether we are going to defer to that body so that that body can figure out what kind of information must be provided so that the financial statements of a corporation fairly reflect the condition of the corporation, or are we going to interfere and essentially enable start-up venture capital corporations to mislead those who are investing in those businesses.

Now, most investors are sophisticated enough they are going to read the footnotes and understand that there are stock options that have been granted, and that consequently the value of the corporation and its earnings have been affected as a result of that. But some are not.

We should leave it to the experts, independent experts that do not have a dog in this fight as far as money is concerned, to try to come up with the standards that are appropriate in order to assure that the best kind of financial reporting is available to those who are investors, to those who are shareholders.

It is no different really than seeking a credit card, wanting to get money from an investment company, wanting to get money from a bank, wanting to get money from somebody else, and having to fill out a financial statement. It is as simple as that. We ought not to be interfering.

Mr. BAKER. Mr. Chairman, I yield 2 minutes to the gentleman from Ohio (Mr. BOEHNER), a staunch defender of free enterprise.

Mr. BOEHNER. Mr. Chairman, I rise before my colleagues today to urge support for the bill offered by the gentleman from Louisiana (Mr. BAKER).

In many respects, the use of broad-based stock options reflects what we have come to understand about our new economy, that is, that economic growth and opportunity are all about unleashing the talents, ideas and knowledge of workers who create constant improvements and constant innovation. The employers who have best answered this call and who have best generated the kinds of jobs that our workers need are those who have understood that these products and services come from bright, enterprising workers who will share their imagination and experience with their employers. That is why stock options have become such a fixture of economic growth, and it is important that we preserve the ability of employers to give their employees a stake in the success of their organization.

Regrettably, instead of recognizing stock option plans for what they are, incentive plans, FASB has deemed them a net cost to the company and supports requiring these firms to calculate and deduct those costs from corporate earnings. If companies do, the real losers in this will be American workers and the U.S. economy.

Who knows at what value companies will be required to charge their earnings? I think the point that was made by the gentleman from Louisiana (Mr. BAKER) and the gentleman from California (Mr. COX) that the ability of corporate managers to manipulate earnings based on the value of their stock options is in fact a real concern.

So, while we can get hung up on whether we should interfere with FASB or not, we are elected by the American people to represent their interests; and I believe when you look at the use of broad-based stock options in the American economy, it really is the incentive that is driving many companies and their employees to be creative, to be inventive and to continue to be the real leaders in the world economy.

Mr. BAKER. Mr. Chairman, I yield 2 minutes to the gentleman from Virginia (Mr. GOODLATTE).

(Mr. GOODLATTE asked and was given permission to revise and extend his remarks.)

Mr. GOODLATTE. Mr. Chairman, I thank the gentleman from Louisiana (Chairman BAKER) for his leadership on this issue, and I rise in strong support of H.R. 3574, the Stock Option Accounting Reform Act.

For years, companies in the U.S. have been using stock options to attract the most skilled applicants in the world. Because many new companies do not have the financial resources to attract the best qualified candidates, stock options provide a much-needed incentive for the brightest workers to work for them.

Not only do stock options hold the potential of additional income for employees, but they create a sense of ownership that helps workers recognize they have a stake in the company.

Now is not the time to bind the hands of America's technology companies by imposing additional layers of red tape on them. If U.S. companies are to continue to win the global competition for tech talent, they need to have the most flexibility to run their companies, including the flexibility to offer innovative compensation and benefits packages like stock options.

H.R. 3574, the Stock Option Accounting Reform Act, would allow companies to continue their practices of offering stock options to employees as a method of attracting the best and brightest workers without mandating that companies expense these stock options in annual reports.

There are also important safeguards in the Stock Option Accounting Reform Act to guard against corporate fraud. While companies would not have to expense the stock options given to rank-and-file employees, they would have to expense any stock option given to the chief executive officer and the next four most highly compensated executive officers of the company. In addition, this legislation requires companies to clearly disclose all information related to stock options in plain English in their financial statements.

H.R. 3574 protects an important tool that small businesses and start-up companies use to compete with others all over the world to bring the most skilled employees to work in the U.S. With companies in China and other competitors using stock option compensation packages to attract workers, we must ensure our government does not impede the ability of U.S. companies to compete in the highly-skilled labor market.

H.R. 3574 contains important safeguards against corporate fraud and ensures that American businesses have the tools they need to compete in the global marketplace.

Mr. Chairman, I urge each of my colleagues to support this important legislation.

Mr. BAKER. Mr. Chairman, I yield 1½ minutes to the gentleman from Minnesota (Mr. KENNEDY), a member of the committee.

Mr. KENNEDY of Minnesota. Mr. Chairman, I too rise in support of the Stock Option Accounting Reform Act. This is about innovation that drives our economy. So many businesses have stock options as a primary tool to get the innovative juices of their employees going. It also really helps align the employees of the company with the interests of the company, moving it forward, helping it to be competitive.

This is a prime source of our innovation and success here in America. We do not need to limit it beyond the top five officers, as this does. If we went ahead with expensing stock options, the volatility and uncertainty, I think, would end the use of stock options and be detrimental to our economy.

So I do believe that we have to move forward to protect this innovative source of energy in our economy, keep our small businesses creating the new jobs of the future, keep America at the cutting edge, keep employees motivated and aligned with the interests of their enterprises, and this, in the end, will be good for America and good the American economy.

Mr. KANJORSKI. Mr. Chairman, I reserve the balance of my time.

Mr. BAKER. Mr. Chairman, I yield 1 minute to the gentleman from Texas (Mr. HINOJOSA).

Mr. HINOJOSA. Mr. Chairman, I rise as a cosponsor and a strong supporter of H.R. 3574, the Stock Option Accounting Reform Act.

Stock options are extremely important to America's economic growth. They allow companies, particularly start-ups, to recruit and retain top-flight talent when the salaries they offer cannot compare with more established competitors. This is particularly important since the majority of the new jobs in the economy come from start-ups, and that issuance of stock options did not lead to corporate corruption.

The mandatory expensing of stock options as proposed by the Financial Accounting Standards Board will result in stock options being offered to only the most senior managers, if at all. Requiring the expenses of all stock options will make companies less inclined to offer such options to employees and thereby hamper the ability of companies that currently offer options to attract and retain talented employees.

Because options are used extensively by small innovative start-up companies, requiring expensing would have an adverse impact on innovation, economic growth and competitiveness.

It will confuse investors, because they cannot be accurately valued and do not reflect a cash cost. The expensing of stock options reflects a desire to reduce all potential liabilities to a single number in a company's earnings statement. However, GAAP earnings are only one measure to which investors should be looking.

Mr. BAKER. Mr. Chairman, I yield 2 minutes to the gentleman from New Jersey (Mr. MENENDEZ), the chairman of the Democratic Caucus.

Mr. MENENDEZ. I thank the gentleman for yielding me time.

Mr. Chairman, I rise today in strong support of H.R. 3574, the Stock Option Accounting Reform Act. This bill I believe is proworker and corporate accountability. It is a true compromise that will protect broad-based stock options for rank-and-file workers, while ensuring accountability and transparency of the top corporate executives.

This bill requires stock option expensing of the top five corporate executives, which ensures public disclosure of executive compensation packages. So there is full disclosure and full transparency for corporate executives. At the same time, the bill protects the stock options that rank-and-file workers currently receive.

More than 14 million U.S. workers receive stock options and 15 percent of union workers receive stock options. That means that rank-and-file workers, not just corporate executives, are sharing in the benefit of stock options. These options are crucial to the global competitiveness of high-growth industries in this country. Companies such as the high-tech industry have to rely on stock options to recruit and retain high-skilled workers, very often keeping these good-paying jobs in the United States, rather than sending them overseas.

Stock options also give employees a stake in their company, creating incentives for every employee to work hard and ensure that the company succeeds. That gives U.S. companies an additional competitive advantage over their foreign competitors.

Some have argued that this bill just benefits fat-cat executives, but I believe nothing could be further from the truth. No one should be fooled into thinking that this bill lets corporate executives off the hook, because it does not. It actually requires the expensing and full accounting of the top executives' stock options.

It is naive to think if we require the expensing of all stock options, that suddenly executive compensation packages are going to be reduced or eliminated. That simply is not going to happen. What will happen if this bill is not passed, however, is that the stock options of 14 million rank-and-file workers will be in jeopardy. I encourage my colleagues to support the bill.

Mr. BAKER. Mr. Chairman, I yield 1 minute to the gentleman from Oregon (Mr. BLUMENAUER).

Mr. BLUMENAUER. Mr. Chairman, I appreciate the gentleman's courtesy in permitting me to comment briefly.

I want to make three points: One, WorldCom and Enron, some of the abusers that we have talked about here, did not have broad-based stock option programs. If you have listened carefully to the debate, no one has given an example of abuse from any broad-based company scheme. Indeed, the fact that they are broad-based makes it less likely that they will be abused.

□ 1300

Second, cash poor, innovative companies deserve this tool. This is how they can compete with the more mature companies that the Warren Buffetts of this world invest in, where cash is king.

Third, contrary to what some of my friends have asserted, if one talks to investors, employees in these companies, and executives, they all agree that the highly variable balance sheet values that will be produced by this scheme will have a very negative impact on the perceptions of these companies, making it much less likely that they will use this technique.

The consensus is clear, and I hope my colleagues will approve the legislation.

Mr. BAKER. Mr. Chairman, I yield to the gentleman from Michigan (Mr. SMITH) for the purpose of making a unanimous consent request.

(Mr. SMITH of Michigan asked and was given permission to revise and extend his remarks.)

Mr. SMITH of Michigan. Mr. Chairman, I rise to oppose the bill and ask that my ''no'' vote be submitted in the RECORD at this point because of the uniqueness of the intrusion of the Federal Government in demanding accounting principles.

I oppose H.R. 3574 for two reasons. First, it would set a precedent of Congress interfering in accounting minutia. According to CRS, Congress has never passed a law telling the private sector how to do accounting other than taxes. Second, if this bill were to become law, it would require different accounting standards for the United States and the rest of the world. It would, in effect, require two different accounting numbers for international companies, one with U.S. standards and one with international standards, as set by the International Accounting Standards Board (IASB). FASB, Federal Reserve Chairman Greenspan, SEC Chairman Donaldson, and many others have said that this type of rule change may harm the transparency of American accounting rules.

Mr. Chairman, I add to my ''no'' vote explanation, comments by some financial experts:

The Honorable Alan Greenspan, Chairman, Federal Reserve System, April 21, 2004

With respect to stock options, I think it would be a bad mistake for the Congress to impede FASB in this regard. And in this regard, as best I can judge the FASB changes in recommendations with respect to accounting procedures strike me as correct, and it's not clear to me what the purpose of Congress is in this particular procedure. I think the Congress would err in going forward and endeavoring to impede FASB in its particular activities:

William H. Donaldson, Chairman, United States Securities and Exchange Commission, May 3, 2004

For the policy reasons described above, recently underscored by the Sarbanes-Oxley Act, I strongly support an independent and open standard-setting process for establishing accounting principles for U.S. public companies. Accordingly, I believe that the process established by the FASB to consider the pending stock option proposal should be allowed to run its course:

The Honorable Paul A. Volcker, Chairman of the Trustees of the International Accounting Standards Committee Foundation, and former Chairman of the Federal Reserve System, April 20, 2004

I suggest that, before acting, Senators and Congressmen ask themselves two simple questions: Do I really want to substitute my judgment on an important but highly technical accounting principle for the collective judgment of a body carefully constructed to assure professional integrity, relevant experience, and independence from parochial and political pressures? Have I taken into account the adverse impact of overruling FASB on the carefully constructed effort to meet the need, in a world of globalized finance, for a common set of international standards?

Warren Buffett, Chairman and CEO, Berkshire Hathaway, May 1, 2004

Write your congresspeople giving them your views on whether options should be expensed. . . . It was a disgrace 10 years ago when Congress bludgeoned the SEC and the [Financial] Accounting Standards Board to override FASB's decision to expense options. It accelerated the anything-goes mentality of the 1990s.

The Honorable Richard C. Shelby, Chairman of the Committee on Banking, Housing, and Urban Affairs, United States Senate, June 30, 2003

I don't think we should make those rules in the Banking Committee or even in Congress. . . . [FASB] understands the implications. There are economic implications here, but it also gets into corporate governance and honesty in financial statements.

In conclusion Mr. Chairman, options clearly have a value and failing to expense them, despite the difficulty of doing so, distorts financial statements and is misleading and unfair to the casual investor.

Mr. BAKER. Mr. Chairman, I yield reluctantly only 1 minute, because of time limitations, to the gentleman from Texas (Mr. BARTON), the chairman of the Committee on Commerce.

Mr. BARTON of Texas. Mr. Chairman, I thank the distinguished subcommittee chairman, the gentleman from Louisiana (Mr. BAKER); and I want to commend the full committee chairman, the gentleman from Ohio (Mr. OXLEY), for bringing this bill to the floor.

There have been some issues about how to get it to the floor, and I am happy to report that we were able to work those out. The committee I chair was given a sequential referral, which we handled very expeditiously on Friday while we were not in session, so we were able to move on this bill.

I think the policies in the bill are a fair compromise between those who think all stock options should be expensed and those who think no stock options should be expensed. The gentleman from Ohio (Mr. OXLEY) and the gentleman from Louisiana (Mr. BAKER) and others on the Committee on Financial Services have given us a compromise that sets a finite number of the most senior management team whose options should be expensed.

So I am happy to support the bill. I would encourage all Members to vote for the bill and hope that we can move it to the other body and hopefully get a positive vote on this piece of legislation in the other body.

So on behalf of the Committee on Energy and Commerce, we are happy to cooperate with our friends on the Committee on Financial Services to bring this bill to the floor.

Mr. KANJORSKI. Mr. Chairman, I yield 2 minutes to the gentleman from California (Mr. SHERMAN).

(Mr. SHERMAN asked and was given permission to revise and extend his remarks.)

Mr. SHERMAN. Mr. Chairman, I come here as a CPA to fight for the independence of the FASB, an independent board that has given us generally accepted accounting principles which this bill would change to generally political accounting principles. America has to fight in the world for capital.

In China, domestic companies just report pretty much whatever they want on their financial statements. America competes with tough, transparent, enforced, nonpolitical accounting standards. That image has been recently tarnished by recent scandals, and now we are being told to adopt generally political accounting principles that will further tarnish our image.

We are told that it is difficult to estimate the expense amount of stock options, that accountants cannot do it. Well, it is actually a lot easier than things accountants have been doing for centuries involving amortization, obsolescence, depreciation, and dozens of other estimates. We are talking here about executive compensation, some $40 billion a year.

Now, imagine if you gave a crumb to 999 people and a giant cake to one person. You could then come to the floor and talk about a broad-based distribution of carbohydrates. That is in effect what we have here.

When the academics came before our committee, they explained roughly 30 percent of all stock options are in the hands of the top five executives, and the remaining 70 percent is spread very narrowly among other top executives. We have crumbs for the rank-and-file, almost all the options in the hands of the top executives. That is why 80 percent of CEO compensation in this country is in the form of stock options.

Let us say, even though that phoney accounting was good, should we not do it for health care instead of executive compensation? Why not have an accounting principle that says companies can provide employee health care, and we are going to encourage them to do so, and they do not have to list it as an expense on their income statement? The users of accounting information do not want this bill. The Investment Company Institute representing the mutual funds, and Alan Greenspan, for example, have come out against it.

Finally, this bill is absurd politics. It will hurt America in the fight for capital around the world.

This bill, for the first time in history, would overrule the FASB. Let us vote it down.

Mr. BAKER. Mr. Chairman, I yield 1 minute to the gentleman from Texas (Mr. HENSARLING), a member of the

committee and an outspoken advocate for the bill.

Mr. HENSARLING. Mr. Chairman, I thank the gentleman for yielding me this time, and I thank the gentleman from Louisiana (Chairman BAKER) and the gentleman from Ohio (Chairman OXLEY) for their work on this compromise legislation that is so important to our economy.

H.R. 3574 would prevent the proposed FASB rule from hurting start-ups and other small companies who very often rely on stock options as an incentive to hire and retain employees. If FASB is permitted to require these companies to report their options as an expense, the result will be a distorted view of earnings by investors and less confidence in our markets.

This bill will help improve the transparency and disclosure of stock options, while not negatively impacting the ability of businesses to provide this valuable incentive to their employees.

As our economy continues to improve and investor confidence rises, we must be careful not to place any excessive burdens on private business or act in any way that would reduce confidence in our markets.

If expensing options is mandated, I believe inaccurate and certainly misleading information will be produced, leaving investors with more questions than answers about a company's financial statements and economic conditions.

Also, Mr. Chairman, studies have shown that companies with broad-based option plans are generally more productive, and I urge my colleagues to support this legislation.

Mr. KANJORSKI. Mr. Chairman, I yield 2 minutes to the gentleman from Illinois (Mr. EMANUEL).

Mr. EMANUEL. Mr. Chairman, I rise in strong support of the bipartisan Kanjorski-Castle substitute and oppose the underlying bill.

I find it ironic, on a day in which the Wall Street Journal reports in its lead story about the disparity in the economy between the top 1 percent who are benefiting from this economy and the middle class who are hitting a dry hole as it relates to income costs, college costs, savings and retirement, here we are on the floor debating a bill in which the bulk of the benefits go to the top 1 percent.

Eighty percent of the compensation for CEOs is in the form of stock options. This is the year in which we are supposed to debate a higher education reauthorization bill. We do not do it. This is the year in which 44 million Americans are without health insurance, 33 million who work full-time. We do not debate it. So what does this Congress do? Rather than do the things it is supposed to be involved in, it is involving itself in the things that we should not be involved in. I wonder why the American people are so cynical about what we do around here.

The fact is, let me give Warren Buffett's quote about expensing stock options, with all due respect to the intelligence and the wisdom of 435 Members when it comes to the private sector. Warren Buffett says, if options are not a form of compensation, what are they? And if compensation is not an expense, what is it? And if expenses should not go into the calculation of earnings, where in the world should they go?

That was Warren Buffett's analysis. That is why he believes this is the right thing for FASB to do.

The fact is, FASB was right to say that there should be expensing of options. What they need to continue to work on is how we come up with the issue of value and how we evaluate them. The work of FASB on this issue is not done, but they are right when it comes to the issue of expensing. It is time for Congress to return to the work of focusing on the middle-class families who are facing squeezes as it relates to their income that has been stagnated, college costs that have gone up by 26 percent, health care costs that have risen by 33 percent, 44 million Americans who are without health care, rather than get sidetracked into issues that do not relate to middle-class families and the forces of this economy on their living standards.

I support and ask Members to support the Kanjorski bill and not the underlying legislation.

Mr. BAKER. Mr. Chairman, I yield myself the remaining time.

Mr. Chairman, under the current FASB proposal, one would either use the binomial or the Black-Scholes methodology to determine the valuation of a stock option. During the intervening period, staff has calculated the remaining debate time available to me to close through both Black-Scholes and binomial, and the result has come out anywhere from zero to an hour and a half. Recognizing we have a commonsense limit of 1 minute, I shall proceed diligently.

The current proposal under H.R. 3574 would lead us to a transparent disclosure regime. It would continue a very important job-creation tool to our free enterprise system. It would allow employees to share in the free-enterprise dream of participating in the growth and ultimate financial profitability in the corporation for which they work.

Make no mistake: this bill nails those executives who have been held up as the abusive forces within our system by requiring the top five to expense their options granted.

The solution is not perfect; frankly, I would not require expensing at all. But it is a response to the critics who said executives have abused their privilege. For commonsense job creation and reform, I urge this body to support H.R. 3574.

Mr. UDALL of Colorado. Mr. Chairman, I rise in reluctant support of this bill.

I support what the bill attempts to preserve. Stock options have been an important way for companies to attract and retain talented workers. Many small, start-up companies—competing for employees with larger firms that can pay more—have been able to offset the advantage of these larger firms by offering stock options to their employees.

I am not opposed to companies electing to expense stock options voluntarily—in fact, I voted for Representative OXLEY's amendment today that clarifies the right of those companies to continue to do so. But with so many millions of our workers still depending on these options at a time when we need entrepreneurship and innovation more than ever, I believe that if we are going to require the expensing of options, we have to make sure it is done right.

I am not an accountant, so I don't claim to know what is the ''right'' way to value options. The Financial Accounting Standards Board (FASB)—not Congress—is the appropriate institution to be addressing that question.

I do know, however, that I have heard from constituents, business leaders, and small and large companies alike representing many industry sectors that they are concerned about how FASB's current proposal would value options. One business leader wrote to me that ''the FASB rule in its current form is unworkable, complex, extremely hard for investors to understand—let alone management to certify—and costly to implement.''

I also know that I have heard many concerns expressed about FASB's process in formulating the stock options expensing rule, and many calls for Congress to intervene to prevent FASB's current proposal from taking effect. Many expressing those concerns think that FASB strayed from its own mission to be objective in its decisionmaking.

Mr. Chairman, this has left me and some of my colleagues in a quandary. While requiring the expensing of stock options might be the right course, it is the wrong course if it is done the wrong way. And with FASB moving ahead on its rule, I believe it is important to support this bill to send the message that FASB needs to slow down and work to come up with a standard that has broader support.

So let me be clear that my support for this bill is based less on the bill's provisions than it is on what I believe are the inadequacies of the FASB proposal. A better bill would provide investors with the information they need, but without penalizing the entrepreneurial spirit and employee ownership that stock options make possible. The bill we are considering today does not include these improvements.

Mr. Chairman, I strongly support making financial statements more accurate and transparent. But I also strongly believe that companies in Colorado and throughout this country have been able to innovate and contribute to the growth of our economy in part because of the stock option plans they have been able to offer to their employees. We must find the right way to value these options so as not to put this country's workers, their employees, and the economy in jeopardy.

Mr. SMITH of Texas. Mr. Chairman, I support H.R. 3574, the Stock Option Accounting Reform Act, which preserves broad-based stock options. It is vital that we preserve these incentives to promote stock ownership for millions of workers as we try to fulfill President Bush's goal of creating an ''ownership society.''

In my home state of Texas, numerous high-tech companies offer stock options to attract the best and the brightest employees. Options

have become a vital tool used to attract educated and highly-skilled employees to companies both in Texas and elsewhere.

Broad-based employee stock option plans give employees at all levels a chance to own a ''piece of the rock.'' This in turn fuels innovation and the entrepreneurial spirit and increases productivity, because employees feel as though they have a vested interest in the success of the company.

However, the Financial Accounting Standards Board wants to change the rules in a way that would make it more difficult for companies to continue offering stock options to their rank-and-file employees.

Passage of H.R. 3574 is essential in our efforts to create more jobs and growth in the high tech sector of our economy. It would be a huge mistake to discourage companies from offering stock options. Many of our international competitors are increasing the use of stock options to gain competitive advantage. So they are a vital tool to recruit and retain high tech workers in America.

Mr. KIND. Mr. Chairman, I rise today in strong support of H.R. 3574, the Stock Option Accounting Reform Act. I believe it is extremely important to the nearly 15 million Americans who hold stock options that we pass this legislation.

As a member of the New Democrat Coalition, I have always supported protecting stock options. The promotion of stock options is an important tool for businesses seeking to recruit and keep employees. Innovative, creative companies have recognized that a key component to keeping the brightest and most talented workers is giving employees a stake in their company. The increasing accumulation of stock options by American workers has proved a financial success for employees and an important tool in helping the economy.

Another mark of the success of stock options is that employees at all ranks of companies hold them. Contrary to popular belief, it is not only corporate executives who hold stock options; rather, 85 percent of stock options are held by non-management workers. H.R. 3574 simply assures that these rank-and-file workers will have continued access to an important benefit. At a time when Americans are increasingly worried about losing jobs overseas and many small businesses are struggling, the protection of stock options is crucial to helping this country's economy.

Employee stock options are threatened, however, by a Financial Accounting Standards Board (FASB) proposed standard that would require companies to expense all employee stock options. This decision was made over the objection of numerous businesses and despite the likely negative economic consequences of the proposed standard. If Congress does not react, we run the risk of allowing millions of hard-working Americans to lose the financial benefit they have enjoyed from stock options as well as hurting small and large businesses throughout the country.

Cleary, there is a great need for the Stock Option Accounting Reform Act, which would require that stock options given to the top five executives of a company be expensed and require a study to review the possible implications of the FASB proposal on workers, businesses, and the American economy. The FASB ruling has the potential to do great harm to our country's economy and its workers. To prevent such harm, I urge my colleagues to support this bipartisan bill that is so important to American workers.

Mr. HONDA. Mr. Chairman, as a Member of the Silicon Valley Congressional Delegation, I fully support H.R. 3574, the Stock Option Accounting Reform Act.

This sensible and balanced legislation promotes corporate transparency while protecting broad-based employee stock option plans. Such plans are good for workers, good for business and good for our Nation!

I would caution my colleagues against believing that stock options are bestowed upon a privileged few. A 2002 study concluded that 13 percent of American workers held stock options. That equals 14.6 million Americans, 85 percent of whom are in non-management positions.

It is no wonder then that workers are some of the most vocal opponents to expensing of stock options.

Just consider the comments submitted to FASB by one San Jose employee, ''I have never felt the same ownership as I do now because of stock options. I am not an executive in the company but a supervisor-level engineer. This sense of ownership is true even for the entry-level technicians who also receive options.''

Another high tech employee rightly concludes, ''Making stock options less available only hurts the little guys—your constituents.''

I ask my colleagues to act in the best interests of their constituents. Rather than allow FASB's rules to take effect, Congress should encourage more companies to offer stock options, so that thousands more can enjoy the financial security realized by 13 percent of American workers that have taken advantage of stock option purchase plans.

Employee stock option plans set our country apart from others; they reward hard work, ingenuity and dedication—the very qualities that have helped make our Nation the success story that it is. This bill is critical to preserving this important tradition.

I urge my colleagues to support H.R. 3574.

Mr. DINGELL. Mr. Chairman, the House should be ashamed today.

Two years after Jeff Skilling of Enron testified before the Congress about how stock option accounting can be abused to overstate earnings, and two years after we passed the Sarbanes-Oxley Act to clean up corporate and accounting fraud, the House has come to this Floor to pass legislation sanctifying phony accounting. We told the Financial Accounting Standards board (FASB) to fix this problem—now we're telling them, and investors, that the political fix is in.

H.R. 3574 is a bad bill. Federal Reserve Board Chairman Alan Greenspan warned in Congress that ''it would be a bad mistake for the Congress to impede FASB'' because the proposed FASB changes to accounting for stock options ''strike me as correct.''

Famed investor Warren Buffett says the legislation is ''nonsensical'' based on ''fuzzy math'' and ''Alice-in-Wonderland assumptions.''

Why does he say that? Well the bill mandates that, when a company is calculating the expense of the options given to the five highest paid executives—the only ones allowed to be expensed—it must assume that the stock price has zero volatility, i.e., it never goes up or down. As Buffett notes, the only reason for making such an assumption is to ''significantly understate'' the value of the few options the bill allows to be accounted ''to enable chief executives to lie about what they are truly being paid and to overstate the earnings of the companies they run.''

The Chairman of the Securities and Exchange Commission (SEC) also opposes this legislation: it runs counter to the SEC's mandate to protect investors and to make sure that companies provide honest and transparent information.

The bill gets worse. Not content to sprinkle holy water on bad numbers, it goes on to prohibit the voluntary expensing of stock options by companies that want to present honest accounts. There are currently over 575 companies, including Ford, General Motors, Microsoft, and Citigroup, voluntarily expensing their options at fair value. If this bill were enacted in the form reported by the Committee on Financial Services, they would have to cease doing so and restate their financials at substantial cost and disruption to the market. Only after a hearing on the subject before the Committee on Energy and Commerce did the manager of the bill produce a Floor amendment to fix this flaw.

Finally, H.R. 3574 is opposed by FACTS (the Financial Accounting Coalition for Truthful Statements), a broad coalition of 30 pension funds, consumer groups, labor unions, and investors. Their July 19, 2004, statement to the House warns that ''the proposed legislation is worse than current accounting practice.''

I urge my colleagues to vote ''yes'' on the Kanjorski substitute, which affirms the independence of FASB and the importance of honest and credible accounting standards. If it fails, vote ''no'' on H.R. 3574.

The CHAIRMAN pro tempore (Mr. LAHOOD). All time for general debate has expired.

Pursuant to the rule, the committee amendment in the nature of a substitute printed in the bill shall be considered read.

The text of the committee amendment in the nature of a substitute is as follows:

H.R. 3574

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the ''Stock Option Accounting Reform Act''.

SEC. 2. MANDATORY EXPENSING OF STOCK OPTIONS HELD BY HIGHLY COMPENSATED OFFICERS.

Section 13 of the Securities Exchange Act of 1934 (15 U.S.C. 78m) is amended by adding at the end the following:

''(m) MANDATORY EXPENSING OF STOCK OPTIONS.—

''(1) NAMED EXECUTIVE OFFICER.—As used in this subsection, the term 'named executive officer' means—

''(A) all individuals serving as the chief executive officer of an issuer, or acting in a similar capacity, during the most recent fiscal year, regardless of compensation level; and

''(B) the 4 most highly compensated executive officers, other than an individual identified under subparagraph (A), that were serving as executive officers of an issuer at the end of the most recent fiscal year.

''(2) IN GENERAL.—Subject to paragraph (4), every issuer of a security registered pursuant to section 12 shall show as an expense in the annual report of such issuer filed under subsection (a)(2), the fair value of all options to purchase

the stock of the issuer granted after December 31, 2004, to a named executive officer of the issuer.

''(3) FAIR VALUE.—

''(A) IN GENERAL.—The fair value of an option to purchase the stock of the issuer that is subject to paragraph (2) shall—

''(i) be equal to the value that would be agreed upon by a willing buyer and seller of such option, who are not under any compulsion to buy or sell such option; and

''(ii) take into account all of the characteristics and restrictions imposed upon the option.

''(B) PRICING MODEL.—To the extent that an option pricing model, such as the Black-Scholes method or a binomial model, is used to determine the fair value of an option, the assumed volatility of the underlying stock shall be zero.

''(4) EXEMPTIONS.—

''(A) SMALL BUSINESS ISSUERS.—This subsection shall not apply to an issuer, if—

''(i) the issuer has annual revenues of less than $25,000,000;

''(ii) the issuer is organized under the laws of the United States, Canada, or Mexico;

''(iii) the issuer is not an investment company (as such term is defined under section 3 of the Investment Company Act of 1940 (15 U.S.C. 80a–3));

''(iv) the aggregate value of the outstanding voting and non-voting common equity securities of the issuer held by non-affiliated parties is less than $25,000,000; and

''(v) in the case of an issuer that meets the criteria in clauses (i) through (iv) and is a majority-owned subsidiary, the parent of the issuer meets the requirements of this paragraph.

''(B) DELAYED EFFECTIVENESS.—The requirements of this subsection shall not apply to an issuer before the end of the 3-year period beginning on the date of the completion of the initial public offering of the securities of the issuer, and shall only apply to an option to purchase the stock of an issuer granted after such date.''.

SEC. 3. PROHIBITION ON EXPENSING AND ECONOMIC IMPACT STUDY.

(a) PROHIBITION.—Section 19(b) of the Securities Act of 1933 (15 U.S.C. 77s(b)) is amended by adding at the end the following:

''(3) PROHIBITION ON EXPENSING STANDARDS.—

''(A) IN GENERAL.—The Commission shall not recognize as 'generally accepted' any accounting principle relating to the expensing of stock options unless—

''(i) it complies with the requirements of subparagraph (B); and

''(ii) the economic impact study required under section 3(b) of the Stock Option Accounting Reform Act has been completed.

''(B) REQUIREMENTS.—A standard referred to in subparagraph (A) shall require that—

''(i) if an option to purchase the stock of an issuer that is subject to the requirements of section 13(m) of the Securities Exchange Act of 1934 is exercised—

''(I) any expense that had been reported under that section 13(m) with respect to such option shall be recomputed as of the date of exercise and shall be equal to the difference between the price of the underlying stock and the exercise price; and

''(II) to the extent the recomputed amount differs from the amount previously reported under section 13(m) with respect to such option, the difference shall be reported in the fiscal year in which the option is exercised as a reduction or increase, as the case may be, of the total expense required to be reported under that section 13(m) during that fiscal year;

''(ii) if an option to purchase the stock of an issuer that is subject to the requirements of section 13(m) of the Securities Exchange Act of 1934 is forfeited or expires unexercised, any expense that had been reported under that section 13(m) with respect to such option shall be reported in the fiscal year in which the option expires or is forfeited as a reduction of the total expense required to be reported under that section 13(m) during that fiscal year; and

''(iii) to the extent that any reduction required under clause (i) or (ii) exceeds total option expenses for any fiscal year, such excess shall be reported as income with respect to options to purchase the stock of the issuer.''.

(b) ECONOMIC IMPACT STUDY.—Not later than 1 year after the date of enactment of this Act, the Secretary of Commerce and the Secretary of Labor shall conduct and complete a joint study on the economic impact of the mandatory expensing of all employee stock options, including the impact upon—

(1) the use of broad-based stock option plans in expanding employee corporate ownership to workers at a wide range of income levels, with particular focus upon non-executive employees;

(2) the role of such plans in the recruitment and retention of skilled workers;

(3) the role of such plans in stimulating research and innovation;

(4) the effect of such plans in stimulating the economic growth of the United States; and

(5) the role of such plans in strengthening the international competitiveness of businesses organized under the laws of the United States.

SEC. 4. IMPROVED EMPLOYEE STOCK OPTION TRANSPARENCY AND REPORTING DISCLOSURES.

(a) ENHANCED DISCLOSURES REQUIRED.—Not later than 180 days after the date of enactment of this Act, the Commission shall, by rule, require each issuer filing a periodic report under section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m, 78o(d)) to include in such report more detailed information regarding stock option plans, stock purchase plans, and other arrangements involving an employee acquisition of an equity interest in the company. Such information shall include—

(1) a discussion, written in ''plain English'', in accordance with the Plain English Handbook published by the Office of Investor Education and Assistance of the Commission, of the dilutive effect of stock option plans, including tables or graphic illustrations of such dilutive effects;

(2) expanded disclosure of the dilutive effect of employee stock options on the issuer's earnings per share;

(3) prominent placement and increased comparability and uniformity of all stock option related information;

(4) the number of outstanding stock options;

(5) the weighted average exercise price of all outstanding stock options; and

(6) the estimated number of stock options outstanding that will vest in each year.

(b) DEFINITIONS.—As used in this section:

(1) COMMISSION.—The term ''Commission'' means the Securities and Exchange Commission.

(2) ISSUER.—The term ''issuer'' has the meaning provided in section 2(a)(7) of the Sarbanes-Oxley Act of 2002 (15 U.S.C. 7201(a)(7)).

(3) EQUITY INTEREST.—The term ''equity interest'' includes common stock, preferred stock, stock appreciation rights, phantom stock, and any other security that replicates the investment characteristics of such securities, and any right or option to acquire any such security.

SEC. 5. PRESERVATION OF AUTHORITY.

Nothing in this Act shall be construed to limit the authority over the setting of accounting principles by any accounting standard setting body whose principles are recognized by the Securities and Exchange Commission under section 19(b)(1) of the Securities Act of 1933 (15 U.S.C. 77s(b)(1)).

The CHAIRMAN pro tempore. No amendment to the committee amendment is in order except those printed in House Report 108–616. Each amendment may be offered only in the order printed in the report, by a Member designated in the report, shall be considered read, shall be debatable for the time specified in the report, equally divided and controlled by a proponent and an opponent, shall not be subject to amendment, and shall not be subject to demand for division of the question.

It is now in order to consider amendment No. 1 printed in House Report 108–616.

AMENDMENT NO. 1 OFFERED BY MR. OXLEY

Mr. OXLEY. Mr. Chairman, I offer an amendment.

The CHAIRMAN pro tempore. The Clerk will designate the amendment.

The text of the amendment is as follows:

Amendment No. 1 offered by Mr. OXLEY:

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.''.

The CHAIRMAN pro tempore. Pursuant to House Resolution 725, the gentleman from Ohio (Mr. OXLEY) and a Member opposed each will control 5 minutes.

The Chair recognizes the gentleman from Ohio (Mr. OXLEY).

Mr. OXLEY. Mr. Chairman, I yield myself such time as I may consume.

The manager's amendment to H.R. 3574 makes an important clarification to the bill as reported by the Committee on Financial Services. The bill was never designed to prevent any company that either currently expenses its employee stock options or wishes to do so in the future from doing so. The manager's amendment makes it explicit that a company that wishes to voluntarily expense its employee stock options may do so based on the expensing rules that companies are using today to expense their stock options.

The bill's requirement that companies expense the employee stock options with the five top executives would not apply to any company that voluntarily expenses all of its employee stock options under current rules.

Mr. Chairman, this is an important distinction, because if companies feel

it is important to expense these stock options, if they feel they may perhaps have a competitive advantage over competitors, they may choose to do so. It literally is a free country, and they have that obligation. This amendment simply clarifies that option that all companies, publicly traded companies, have; and I urge my colleagues to support the manager's amendment.

Mr. Chairman, I reserve the balance of my time.

Mr. KANJORSKI. Mr. Chairman, we have no objection to the manager's amendment and support it.

Mr. OXLEY. Mr. Chairman, I yield back the balance of my time.

The CHAIRMAN pro tempore. The question is on the amendment offered by the gentleman from Ohio (Mr. OXLEY).

The amendment was agreed to.

The CHAIRMAN pro tempore. It is now in order to consider amendment No. 2 printed in House Report 108–616.

AMENDMENT NO. 2 OFFERED BY MR. SHERMAN

Mr. SHERMAN. Mr. Chairman, I offer an amendment.

The CHAIRMAN pro tempore. The Clerk will designate the amendment.

The text of the amendment is as follows:

Amendment No. 2 offered by Mr. SHERMAN:

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).

The CHAIRMAN pro tempore. Pursuant to House Resolution 725, the gentleman from California (Mr. SHERMAN) and a Member opposed each will control 5 minutes.

The Chair recognizes the gentleman from California (Mr. SHERMAN).

Mr. SHERMAN. Mr. Chairman, I yield myself 1 minute.

Mr. Chairman, this bill is packaged as a bill that requires the expensing of stock options that are issued to the top five executives of every company. This amendment allows the bill to achieve its stated purpose.

The bill, in fact, when one reads the fine print, says that in calculating the value of options given to the top five executives of the company, one does not use either of the two formulas that are established. One does not use the best estimate. But one instead assumes that the stock does not go up or down in price over time, an absurd assumption, an assumption that yields a zero valuation for the stock options given to many top executives in this country.

If we adopt this amendment, then the bill will at least achieve the purpose it sets, namely, that we will have a fair expense reported on the income statement for options given to the top five executives.

Mr. Chairman, I reserve the balance of my time.

Mr. OXLEY. Mr. Chairman, I rise in opposition to the amendment, and I yield myself such time as I may consume.

Mr. Chairman, as I say, we have debated this amendment in committee, and it was defeated on a vote of 13 ayes and 43 nays, precisely because while the gentleman's intentions I think are good, as debate in the committee clearly showed, this amendment, should it be adopted, would, frankly, confuse investors far more than it would educate them.

□ 1315

An options value is estimated by applying an options pricing model at the date the option is granted.

It was interesting that one national accounting firm, which incidentally supports expensing, wrote FASB last year to support zero volatility, something that the Sherman amendment would bring into question. ''We believe that using zero as the expected volatility of the stock price would increase the reliability of option values.''

So what we are trying to do with the underlying bill is not only provide the top five executives with the need to expense stock options, but also to give the investing public the kind of information they need so they can compare apples to apples in this regard; and unfortunately, the Sherman amendment does just quite the opposite.

So for those reasons, I would oppose the Sherman amendment.

Mr. Chairman, I reserve the balance of my time.

Mr. SHERMAN. Mr. Chairman, I yield 2 minutes to the gentleman from Delaware (Mr. CASTLE).

Mr. CASTLE. Mr. Chairman, I rise in very, very strong support of the Sherman amendment. We need to understand there is $126 billion in stock options granted in any one year, there was in 2000 in the United States of America. We are talking about small potatoes here, and frankly, the underlying bill here, in my judgment, is completely wrong in terms of the direction that the country and the stockholders are going. Who is speaking here for the stockholders of America, for those who have their value diluted because of what happens with stock options without any expensing whatsoever?

I yield to the gentleman from California (Mr. SHERMAN) in terms of his knowledge about accounting, but what I know about volatility is that without volatility, you would not have anybody in the stock market whatsoever. Without volatility, you really have no value in terms of the stock options which are being granted. Without volatility, that means you basically are not really expensing the stock options so that the other stockholders and other potential investors can see what is happening out there.

For all these reasons, I believe absolutely we should pass this amendment in order to insert the measure of what these expenses are really worth by putting the volatility back into it. It is almost impossible to determine value if you do not do that.

And I might just add, while we are talking about this, that in the area of accounting, we can talk about Black-Scholes being imprecise and laugh about it, whatever it might be, and certainly it is imprecise, but so is sometimes the good will, depreciation and a whole series of other accounting measures that are used in determining the values of corporations. It is not all quite as black and white as everybody would like.

So for all these reasons, but mostly because it is the stockholders, the shareholders who are suffering, by far the largest bulk. It is not the CEOs running the companies. It is not even the employees of the companies. It is the stockholders of the companies who are, in my judgment, being faulted by the methodology which we use now.

For all these reasons, I would encourage everyone here to consider supporting the Sherman amendment.

Mr. OXLEY. Mr. Chairman, I yield 2 minutes to the gentleman from Pennsylvania (Mr. TOOMEY).

Mr. TOOMEY. Mr. Chairman, I thank the chairman for yielding me this time and commend him and the subcommittee chairman for their work on this legislation, as well as my colleagues on the other side of the aisle.

But I wanted to continue this discussion that we have had in committee, that I have had with the gentleman from California about this issue.

See, I do not think that the best argument for having zero as our volatility number is actually a plausible argument, that valuing these options is inherently a very difficult task and assigning the appropriate volatility is very difficult.

I prefer the argument that we should not be expensing these at all. See, I think what some of my colleagues are confusing here is the difference between value and expense. Nobody is disputing that a stock option has value, but what I would dispute very vigorously is that issuing an option is equal to an expense on the part of the company issuing it.

Let us look at what happens. You grant an option to an employee. There is no cash outlay, and in fact, if that option expires worthless, there never will be a cash outlay. And, yet, if this amendment were to be adopted and became law, you would have to show an expense on an income statement in which no expense ever is incurred. And it is not just the options that expire worthless; in most cases, options that expire in the money are not bought out by the company. If they are, then current law requires that that cash event be represented on the income statement as it should be. But in fact, that expiration, most options that expire in the money are dealt with by a company issuing new shares. Again, there is no expense. There is no cash event. It never happens. There is a dilution in earnings, and that needs to be represented.

But what the gentleman is proposing in this amendment is to make a difficult situation worse.

I respect the compromise that is in this bill. If I could write it, I would write it differently, but I think it makes much more sense than what FASB is proposing and much more sense than what this amendment suggests, because this amendment suggests that we knowingly and systematically list an expense on an income statement even when it is not going to be incurred, and we never correct for that. So I would urge my colleagues to vote ''no'' on this amendment.

Mr. SHERMAN. Mr. Chairman, I yield myself such time as I may consume.

We are told by the gentleman from Pennsylvania that you should not list an item as expense on the income statement unless cash leaves the company. What if stock options were given to a health insurance company in return for providing health insurance to the employees? Everyone in this hall agrees that would be listed as an expense. What if a company issues stock in return for employee services or stock in return for supplies? Everyone agrees that would be listed as an expense.

Again and again, when a company is getting supplies, when it is rewarding its rank-and-file employees, when it is providing health care, everybody agrees you list that as an expense, even if no cash leaves the treasury of the company. And, yet, we are asked to make one exception, and that is for executive compensation.

Keep in mind the vast majority of these options are going to top executives. Thirty percent of the options are going to just the top five individuals. Now, there is a compromise that is set forward by the authors of this bill, and that is that at least the options going to the top five are going to be expensed. That is the compromise stated in the title of the bill.

And yet, when you look at the details, you see that roughly a quarter of the companies in this country expense stock options. Some use the binomial method. Some use Black-Scholes. No one uses the phony method, also known as the minimum-value method, under which you say you are expensing stock options, but assume zero volatility, a unique approach used only to conceal what the bill would accomplish.

Mr. Chairman, I yield back the balance of my time.

Mr. OXLEY. Mr. Chairman, I yield myself such time as I may consume.

Let me say this debate raged in the committee. I think the committee made a wise choice in defeating that. It only got 14 votes and 33 against because of some of the arguments that were purported from members on both sides of the aisle regarding the innate confusion the gentleman's amendment would cause to the investing public.

Mr. Chairman, I yield such time as he may consume to the gentleman from Pennsylvania (Mr. TOOMEY).

Mr. TOOMEY. Mr. Chairman, I thank the gentleman for yielding.

I would just make one brief further point, and that is, I think what accounting is supposed to be all about is providing the most accurate information, and by ''accurate,'' I think we mean information that either immediately or at least in time converges with economic reality. We do not want corporations to be showing income or expenses that never occur. That is common sense, but that is the reality we are dealing with here.

And what this amendment does is it moves us away from that convergence to economic reality, and I think the underlying bill does a better job of capturing that economic reality, which ultimately in the case of stock options, I believe, should be primarily captured by showing the dilution that occurs in the form of new stock that is issued.

Mr. OXLEY. Mr. Chairman, I yield as much time as he might consume to the gentleman from Kansas (Mr. RYUN).

Mr. RYUN of Kansas. Mr. Chairman, I want to speak in opposition to the amendment. I want to thank the gentleman from Louisiana (Mr. BAKER) for drafting this thoughtful and thorough legislation.

I believe the approval of H.R. 3574 is essential to the economic well-being of many businesses, most significantly, many small businesses. As for the gentleman's amendment, while H.R. 3574 only requires the expensing of stock options granted to the top five employees of a given company, it is still necessary to accurately determine a value for the option to be expensed. Determining this value has proven tedious at best and extremely inconsistent and inaccurate at worst.

One of the reasons for the unreliability of these valuations is the requirement to factor in the anticipated volatility of a company's future stock prices. The value has proven virtually impossible and actually difficult to determine and is highly susceptible to error and manipulation.

I urge my colleagues to reject this amendment.

Mr. Chairman, I want to speak in opposition to the gentleman's amendment.

Mr. Chairman, I want to thank my friend, Mr. BAKER, for drafting this thoughtful and thorough legislation. I believe that the approval of H.R. 3574 is essential to the economic wellbeing of many businesses, most significantly many small businesses.

As for the gentleman's amendment, while H.R. 3574 only requires the expensing of stock options granted to the top five employees of a given company, it is still necessary to accurately determine a value for the options to be expensed. Determining this value has proven tedious at best and extremely inconsistent and inaccurate at worst.

One of the reasons for the unreliability of these valuations is the requirement to factor in the anticipated volatility of a company's future stock price. This value has proven virtually impossible to accurately determine and is highly susceptible to error and manipulation. By setting the volatility to zero, we greatly reduce the possibility of manipulation. Some have incorrectly stated that setting volatility to zero will result in an expense value of zero. This is inaccurate. Other factors, including the underlying price of the stock, the exercise price of the option, and the life of the option will still be used to determine a value for the option.

I urge my colleagues to defeat the amendment.

Mr. OXLEY. Mr. Chairman, I yield back the balance of my time.

The CHAIRMAN pro tempore (Mr. LAHOOD). The question is on the amendment offered by the gentleman from California (Mr. SHERMAN).

The question was taken; and the Chairman pro tempore announced that the noes appeared to have it.

Mr. SHERMAN. Mr. Chairman, I demand a recorded vote.

The CHAIRMAN pro tempore. Pursuant to clause 6 of rule XVIII, further proceedings on the amendment offered by the gentleman from California (Mr. SHERMAN) will be postponed.

AMENDMENT NO. 3 OFFERED BY MRS. MALONEY

Mrs. MALONEY. Mr. Chairman, I offer an amendment.

The CHAIRMAN pro tempore. The Clerk will designate the amendment.

The text of the amendment is as follows:

Amendment No. 3 offered by Mrs. MALONEY:

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.

The CHAIRMAN pro tempore. Pursuant to House Resolution 725, the gentlewoman from New York (Mrs. MALONEY) and a Member opposed each will control 5 minutes.

The Chair recognizes the gentlewoman from New York (Mrs. MALONEY).

Mrs. MALONEY. Mr. Chairman, I yield myself such time as I may consume.

My amendment preserves the full power of the SEC to determine what companies report and how they report it. This power was given to the SEC in 1934 after the accounting scandals in the 1920s and 1930s. My amendment preserves the current authority to protect investors and the public interest.

Under present law, and I quote from the law, if ''the SEC determines that the public interest or the protection of investors so requires,'' it can set an accounting standard even if it has to override another law to do so, but only to protect the public interest.

This underlying bill takes away the SEC's power to protect investors. It would prevent the SEC from adopting any accounting standard, except the one set in the underlying bill.

So I would urge my colleagues on both sides of the aisle to be very careful with their vote on this amendment. If you vote against this amendment, you will be walking away from accounting standards that are set on the

principle of protecting the 84 million investors in our country and moving to a different standard, one that does not focus on protecting investors but gives a competitive advantage to a small number of companies.

This amendment protects investors. This amendment saves independent accounting standard setting, and this amendment prevents this body from making what Alan Greenspan called, ''a bad mistake.'' And it is expressly supported by Arthur Levitt, Warren Buffett, John Bogle, the founder of the first mutual fund, and many other financial experts.

So I hope that this body will listen to the overwhelming views of financial experts and professionals and protect investors by supporting my amendment.

Mr. Chairman, I reserve the balance of my time.

Mr. OXLEY. Mr. Chairman, I rise in opposition to the amendment, and I yield myself such time as I may consume.

Let me first say, while I oppose the amendment, the gentlewoman from New York has made an excellent contribution to the committee on a number of fronts, and we appreciate her efforts. We just happen to disagree on this particular amendment.

Mr. Chairman, I yield such time as he may consume to the gentleman from Louisiana (Mr. BAKER).

Mr. BAKER. Mr. Chairman, I thank the gentleman for yielding me this time.

This, of course, is an important amendment, and we should not forget for a moment that the lawmaking business is a very difficult course to follow. If one introduces a measure in the House of Representatives, it may be subject to numerous hearings and, of course, examination by many people over the course of many months, in some cases, years. It then must go to the United States Senate, where it goes through a similar process.

Assuming the House and Senate may disagree, there is an extensive conference committee process. Ultimately, if passed by both Houses as a conference committee report, it goes on to the President of the United States, either for his signature or for his veto.

What is contemplated by the gentlewoman's amendment is to dramatically alter the course of public policy consideration. If one were to take, for example, the 1934 Securities Act, considered after many, many months of deliberation and debate, I would point out that we start in the United States Congress or in the United States Senate.

Both Houses meet, deliberate, hear witnesses, stakeholders, public comment, lobbyists abound, even FASB running around through the halls, and ultimately we pass a bill out that makes its way to the White House, and the White House may or may not sign or choose to veto such a proposal.

The effect of the gentlewoman's amendment from New York would be to say after that lengthy process which, by the way, in the case of the stock option expensing debate has raged now for some time, after considerable hearings within the House Committee on Financial Services, even the cursory examination in the Committee on Energy and Commerce, now this public debate on the House floor.

And might I remind you we are now officially in an open public comment period by FASB, which we all of course know is closed, but for the sake of public discourse, we have an open public comment period. I would suggest the Congress is getting ready to comment on the matter.

What some are proposing with the Maloney amendment in the last circling at the end of the chart is that it would be the ''oops'' provision. The SEC could say, ''Oops, the Congress got it wrong. The President got it wrong. We are simply going to disregard the actions of our public policymakers and decide we are going to do it differently.''

□ 1330

Nowhere in the text of the public policy is there an arbitrary and capricious grant of authority for any bureaucratic enterprise to set aside the public policy determinations of the United States Congress. This, in fact, would be a first.

Now, I understand the dispute over the underlying reform proposal; but this, I suggest to Members of the House, is not an appropriate remedy for the concerns expressed by Members opposed to this H.R. 3574.

Should you be opposed to it, I suggest you vote against this measure and simply vote against the bill on final passage. However, I, for one, think it an extremely well-crafted remedy to the identified problem and urge my colleagues to support it on final passage.

Mrs. MALONEY. Mr. Chairman, I yield 1 minute to the gentleman from Delaware (Mr. CASTLE).

Mr. CASTLE. Mr. Chairman, I have a different solution than the gentleman from Louisiana (Mr. BAKER). I would suggest that we vote for the Maloney amendment and then against the underlying legislation, because the Maloney amendment would reinstate where all of this should be with the SEC. Have we not had enough corporate malfeasance in this country, say for the last decade?

We should let the SEC do the job that they are supposed to do. They are charged with the responsibility of dealing with this. It has the authority to establish financial reporting standards applicable to public companies since its inception. This bill would limit that authority for the first time ever, preventing the SEC from adopting an accounting standard for stock options even if it finds that it is needed to protect the interest of the public or the investors.

It prevents the SEC from performing one of its most important functions, establishing those accounting standards. It is that simple. That is where the expertise is.

I love the chart the gentleman from Louisiana (Mr. BAKER) had up there because eventually it showed that the regulators are the ones who are going to make the decisions. Perhaps they are better equipped to make these kinds of decisions. Perhaps people should sit down and talk to the FASB people and to the SEC people and understand that is where the decision should be made with respect to the expensing of stock options. Vote for the Maloney amendment.

The CHAIRMAN pro tempore (Mr. LAHOOD). The time remaining is 1½ minutes on each side.

Mrs. MALONEY. Mr. Chairman, I yield the balance of my time to the gentleman from Massachusetts (Mr. FRANK), the ranking member of the Committee on Financial Services.

The CHAIRMAN pro tempore. The gentleman is recognized for 90 seconds.

Mr. FRANK of Massachusetts. Mr. Chairman, I welcome the gentleman from Louisiana's (Mr. BAKER) concern for congressional prerogative and not excessive delegation. I just wish it extended to the war power and a few other trivial matters.

On this particular subject, the gentlewoman's amendment is quite sensible. We have had criticism of the FASB arguing that they are going to make a decision that has broader public policy implications on grounds that are too technical. The gentlewoman's amendment gets us out of that box. And I have some sympathy with that argument because I do not think the FASB ought to go ahead, but I do not want to set the precedent of overturning the regulators.

What her amendment does is to say, okay, it will not be up to the FASB, making a narrow technical accounting decision; it will be up to the Securities and Exchange Commission and specifically instructs them to take into account the public interest. In other words, it seems to me that this is what Members have been saying, that this decision obviously should not ignore accounting principles but that should be leavened by a concern for the public interest. So it is not simply a repeat of the whole bill. It does say it will not be up only to the FASB as current law would allow it, but it does say we will let the SEC make that decision.

As to the argument this would somehow let the SEC overrule Congress, we would be voting to say to the SEC, here, we think based on invested protection and the public interest, you should make that decision. It would not be setting any precedent of overruling us or giving away our authority at all.

I would love to have a consistent regard for congressional authority. I wish we could do it with regard to overtime rules and the war powers. This is not one of those problems.

Mr. OXLEY. Mr. Chairman, I yield 45 seconds to the gentlewoman from California (Ms. ESHOO), who has been enormously helpful throughout this process and, in fact, testified before the Committee on Financial Services on this legislation.

Ms. ESHOO. Mr. Chairman, I thank the gentleman from Ohio (Mr. OXLEY) for yielding me time.

Mr. Chairman, I oppose this amendment, and let me state very clearly why. Number one, this amendment allows the SEC to override what the Congress wants. I think that stands our process on its head. And I am not suggesting that our process is always perfect and tidy. I thought that when I came here that when the Congress legislates and the executive signs on to that and a bill becomes law that it is up to the executive branch of government to carry that out.

We have gotten nowhere with this accounting board. They do not want to sit down and hear the other side of this, which is economic. And so that is why I urge my colleagues to reject the amendment.

It essentially guts the bill. If you are opposed to stock options for rank-and-file employees, be opposed to that; but to do this the other way around, I think really begs the question.

The CHAIRMAN pro tempore. The question is on the amendment offered by the gentlewoman from New York (Mrs. MALONEY).

The question was taken; and the Chairman pro tempore announced that the noes appeared to have it.

Mrs. MALONEY. Mr. Chairman, I demand a recorded vote.

The CHAIRMAN pro tempore. Pursuant to clause 6 of rule XVIII, further proceedings on the amendment offered by the gentlewoman from New York (Mrs. MALONEY) will be postponed.

It is now in order to consider amendment No. 4 printed in House Report 108–616.

AMENDMENT NO. 4 OFFERED BY MR. KANJORSKI

Mr. KANJORSKI. Mr. Chairman, I offer an amendment.

The CHAIRMAN pro tempore. The Clerk will designate the amendment.

The text of the amendment is as follows:

Amendment No. 4 offered by Mr. KANJORSKI:

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.

The CHAIRMAN pro tempore. Pursuant to House Resolution 725, the gentleman from Pennsylvania (Mr. KANJORSKI) and the gentleman from Ohio (Mr. OXLEY) each will control 10 minutes.

The Chair recognizes the gentleman from Pennsylvania (Mr. KANJORSKI).

Mr. KANJORSKI. Mr. Chairman, I yield myself such time as I may consume.

Mr. Chairman, the Kanjorski-Castle-Dingell-Maloney-Emanuel substitute is simple in its structure and intent. In short, it would replace the current text of H.R. 3574 with language designed to preserve the independence of the Financial Accounting Standards Board in establishing accounting standards.

Specifically, the substitute incorporates a series of findings concerning SEC authority over standards setting and the importance of credible accounting standards to the economy and investors. It also puts forward a sense of Congress that preserving the integrity of the accounting standards setting process is crucial to the financial reporting systems and markets.

Finally, it provides direction to the SEC to oversee the process of setting standards for equity-based compensation to ensure that all comments, including those of the high-tech industry, are appropriately reviewed and that any modifications necessary to ensure the highest quality accounting standards are adopted.

Mr. Chairman, deciding what should be accounted for and how it should be accounted for is the job of the Financial Accounting Standards Board, not the Congress. As a Washington Post recently editorialized, ''The accounting standards, like interest rates and determinations of drug safety, should not be set by Congress.'' They should be set by the experts at the Financial Accounting Standards Board.

Moreover, we should not start proceeding down a slippery slope of establishing accounting standards via political process. As the Financial Accounting Foundation has noted, ''Once Congress starts setting accounting standards through its political process, the integrity of the United States accounting standards-setting and the credibility of the U.S. financial reporting will be dangerously compromised.''

In short, we should ensure that the Congress does not become an appellate court for accounting standards. I hope my colleagues, therefore, would support our bipartisan substitute.

Mr. Chairman, I reserve the balance of my time.

Mr. OXLEY. Mr. Chairman, I yield 2 minutes to the gentleman from California (Mr. DREIER), the chairman of the Committee on Rules.

Mr. DREIER. Mr. Chairman, I thank my friend for yielding me time. I congratulate him on the role that he has played in getting us to this point.

I rise in strong opposition to this substitute because just as the amendment that was proposed by my friend, the gentlewoman from New York (Mrs. MALONEY), it basically guts the bill. I believe it is very important for us to recognize that the United States Congress has a very important role here. We all recognize the independence of the Financial Accounting Standards Board, the Securities and Exchange Commission, but the United States Congress has oversight responsibility. And we have important oversight responsibility, especially in light of the fact that we are looking at a provision which is so amorphous, because no one

has been able to actually quantify exactly what the value of these options is. Whether it is Black-Scholes or binomial, virtually everyone has come to the conclusion that it is impossible, impossible for us to accurately do it no matter how hard we try to base it on a balance sheet.

But I think the important point that needs to be raised and why I am so strongly opposed to this substitute, which again would undermine the whole basis of what it is that we are trying to do with this legislation, is we are forgetting the fact that while the Financial Accounting Standards Board, the SEC, may not focus on the issues of economic growth, every single day we, as Members of Congress, have a responsibility to do what we can to make sure that we take steps to unleash the creative potential of the American worker. And that improves the quality of life, the standard of living for people here in the United States and around the world.

So I believe that it would be a real mistake for us to pass this substitute. We need to do everything we can to make sure that we as Members of the United States Congress encourage productivity, encourage innovation and make sure we have economic growth succeed.

Oppose this substitute and support final passage on the bill.

Mr. KANJORSKI. Mr. Chairman, I yield 3 minutes to the gentleman from Delaware (Mr. CASTLE), a co-sponsor of the substitute amendment.

Mr. CASTLE. Mr. Chairman, I thank the gentleman for yielding me time.

I would like to paint a little bit of a different picture here. Let us assume instead of Members of Congress, these 435 seats were filled with stockholders of various companies in this country, and I said, look, we have $126 billion worth of expenses to the various corporations, but you will never see it because we will do it without any kind of an entry whatsoever.

That is what this is really all about. That is what we are dealing with.

We are really not expensing stock options at all. It is, in my judgment, ludicrous to suggest that the bill which is before us actually expenses stock options without any kind of a volatility standard in them. So we are just letting that go on as we did for some time.

But what is happening around the United States of America as we speak here today? What is happening is that a lot of people who are a heck of a lot more knowledgeable about corporations, equity and running of corporations than we are, are saying, hey, this is wrong; we need to expense stock options.

I have these names here; I cannot go through them all. I do not have time to do that in the 3 minutes I have, but we recognize a lot of them. Alan Greenspan, Paul Volcker, Warren Buffet, names such as that. A significant number of people who have looked at this very carefully have come to the conclusion that we absolutely must do something about it.

A number of stockholders, as well, have done the same thing. For the first time ever, public proxies opposed by corporations are actually passing in the United States of America, some 40 of them this year, because stockholders have actually spoken out and have actually made the statement that we are going to do something about this; we are going to start to expense stock options.

Then, in addition to that, many corporations have looked at this and they said, we really do not need to have stock options unexpensed. We can expense them. We can live with that. Or we can issue restricted stock. There is a whole variety of ways in which we can compensate our executives and our other employees in a fair manner but in a way that would be shown to everybody who has invested in the corporation or might want to invest in the corporation.

Then there are all those companies that are voluntarily expensing their stock options. Again, I do not have the time to go through all of them, but Amazon, American Express, AT&T, Capital One, Coca-Cola, Daimler Chrysler. You name it and they are all beginning to do it.

The proposal which we have before us allows a regulatory body, the SEC working through FASB, to be able to come up with the fairest methodology of doing this. They have issued a rule. They are now listening to whatever the suggestions are. They should perhaps listen to Congress. I will be the first to tell you that Black-Scholes and other methodologies are not necessarily precise, but at least we are showing the expense of stock options so that all of the investors in this world, well over 50 percent of Americans who have invested in either mutual funds or corporations, will actually know what the heck is happening with those corporations.

If we vote for this legislation, we are basically going to brush it right back under the rug, and that is not where it belongs. So I would encourage everybody to take a careful look at this substitute which I think makes a lot of sense in terms of giving FASB the right to continue to do what they are doing. I would encourage us to look at all the amendments which are outstanding at this point and to vote for them and to oppose the legislation when the final say comes for the stockholders and the people of America.

□ 1345

Mr. OXLEY. Mr. Chairman, I yield 2 minutes to the gentleman from Louisiana (Mr. BAKER), the chairman of the subcommittee.

Mr. BAKER. Mr. Chairman, I thank the chairman for yielding me time.

Since 1969, the current debate has been in some form or fashion engaged by FASB, 1969, 35 years. You would not think that that would be considered a new and innovative strategy to begin expensing or not expensing options.

In 1995, the current methodology was adopted as a compromise. Yes, you can expense, if you so choose, determined by your board, driven perhaps by your shareholders, but you may also disclose in the footnotes.

What are footnotes? They are notes in the annual report to shareholders. If you are a shareholder and you are worried about diluted effect, in other words, they are giving an option to someone, what does that do to my asset in the company, you can find that out with an examination of the annual report.

To suggest that this is a new tactic developed by some executive in a back room to cheat shareholders or Americans out of value gained in their corporate investment is simply not accurate. This has been a practice common in the business world for many, many years.

Now, at question is whether or not a handful of executives who are identified as abusing their privileges ought to be brought to some account. The answer with the passage of this bill is ''yes.'' If you are one of the top five executives who, by some accounts, hold the majority of options granted, you will now be required to expense those options at the time they are granted to the employee. It does not, however, require the large number of employees who benefit from investment, showing up early, staying late, investing their intellectual and personal capital into the business, who ultimately benefit from the overall growth and value of that corporation by seeing their shares increase in value.

Forty-five percent of the venture capital in this country goes to the Silicon Valley, 45 percent, and the bulk of that goes to these new technology start-up companies. If my colleagues wish to see them in the future, please vote for H.R. 3574. It is rational reform headed in the right direction.

Mr. KANJORSKI. Mr. Chairman, I yield 2 minutes to the gentleman from Massachusetts (Mr. FRANK), the ranking member of the Committee on Financial Services.

MR. FRANK of Massachusetts. Mr. Chairman, I am delighted to take up where the previous speaker left off.

No, I do not want to see an end to venture capital in the Silicon Valley, and my argument is that this is greatly overblown. Here is the argument; we have just heard it.

We have this very valuable resource in America, these high-tech start-ups. They are, on the whole, quite productive; they generate wealth, venture capitalists give them money, and we are being told that the venture capitalists in America are so stupid that a change in accounting, which represents no change in reality, will drive them away from this business.

Now, I agree with those who say that the options are a good thing. I do not

think investors are misled. If you are going to invest in a company, read the footnotes, and if you did not read the footnotes when you invested, do not complain to me. I have got constituents with real problems.

On the other hand, the argument that if you change the accounting and the reality is not changed, remember this has not been the issue. Nothing about what FASB is proposing would stop the issuance of options. It simply changes the way they are accounted for literally.

The argument is that the most sophisticated investors in America will see a change in the accounting and they will say, Oh, my God, I had better stop investing in these companies; I did not know that they were doing this. Well, of course they know. Both sides know. No one is getting any new information out of this.

The question is, if the accounting takes them from a gain on paper to a loss on paper with no change in reality, will that dry up capital?

Now, I understand where if you are one company out of many and you did this and others did not, maybe you would be at a disadvantage, but are venture capitalists so dumb that they do not know what apparently everybody here does? I think they at least tie us in intelligence and understanding of economic processes. Are they going to say, Oh, now that the accounting is changed, now that this is expensed, even though the realities are the same, I will withdraw my investment? I am wholly skeptical of that argument.

Mr. OXLEY. Mr. Chairman, I am pleased to yield 2 minutes to the gentlewoman from California (Ms. ESHOO).

Ms. ESHOO. Mr. Chairman, I thank the gentleman from Ohio for the time, and Mr. Chairman, I would like to point out a few things here about the substitute.

First of all, obviously I respect the gentleman from Pennsylvania, but I do not support the substitute, and let me tell my colleagues why.

There was a chart that was here on the floor a little earlier of companies that expense. I wish we had a chart on the floor that demonstrated that those companies that do do not offer stock options to their rank-and-file employees.

This debate is not about the venture capitalists. They are going to make their investments. They are going to pick and choose. But this is a magnet that attracts individuals to form new companies to allow them to grow and bring them up to profitability. We want to destroy this? Well, it is going to be in the hands of the Congress to do that. That is what this debate is about.

Those that have problems with executive compensation have problems with it. Talk to the board of directors that form those packages, but rank-and-file employees do not get to negotiate their compensation or those packages. That is why their stock options are so important.

This substitute does not address FASB's failure to develop accurate expensing formulas. They are unwilling to even road-test the standards that they are talking about.

Now, I think that that is really unfair. That is why, as a Member of Congress, I stepped in. I think we should, and I think it is appropriate because we do have a responsibility to answer to the American people about economics and economic impacts on our people.

That is why I urge my colleagues to reject and to vote against the Kanjorski substitute. It was rejected in the committee and it should be on the floor.

Mr. KANJORSKI. Mr. Chairman, I yield 1½ minutes to the gentleman from Ohio (Mr. KUCINICH).

Mr. KUCINICH. Mr. Chairman, I thank the gentleman for giving me an opportunity to talk about the Stock Option Accounting Reform Act.

This is Alice in Wonderland. The notion that the legislation could be labeled with such a title originates in a statement by Warren Buffett, CEO of Berkshire Hathaway.

Why does the second richest man in America oppose a bill that could conceivably make his company look more profitable? It is because the bill only makes the profit look better on paper, while the real bottom line does not change.

The bill perpetuates an accounting gimmick that has harmed far too many investors. Think Enron.

The bill's suggested method for valuing options could grossly underestimate their true value and provide an inflated view of a company's profits. That is misleading to investors who have a right to accurate information.

Take Intel as an example. If this bill were law, Intel would be able to overstate their profits by $991 million. If every company can overstate profits, as this bill allows, then no investor will have accurate information and our markets will be neither efficient nor truly free.

I ask my colleagues to vote against H.R. 3574. It is a misleading and irresponsible bill, and we ought to be here protecting small investors, and that ought to be a goal of the United States Congress.

Mr. OXLEY. Mr. Chairman, I am pleased to yield 1½ minutes to the gentleman from California (Mr. CUNNINGHAM).

Mr. CUNNINGHAM. Mr. Chairman, I thank the chairman for the time.

I think that some speakers seem to distrust big business. Some do need it, but I would tell my colleagues, California was hit extensively with defense cuts. A lot of the jobs were lost, a lot of not just DOD but jobs in the high-tech industries, defense and so on.

We have replaced a lot of our businesses with bio-tech, and quite often the young entrepreneurial company does not have the capital to start up the business. So what did they do? They reach out to scientists and say, Hey, we cannot pay you the amount necessary to study a cure for AIDS or cancer, but we can give you a piece of the rock.

Some of my colleagues talked about creation of jobs. Well, we have gotten rid of the high-paying jobs and only have the low-service jobs.

These quite often are high-paying jobs. It is an investment in the future, not only of the company but for the workers on all levels of that company that do have stock options. For California, our job market is improving, primarily of those young entrepreneurial companies. There are some that want to tax those, put a tax on it, but we think that that is wrong. When we could create an environment that produces jobs on all levels of the scientists, all the way from the people that take out the trash, and that is good, and it means that the economy can recover; and in the State of California it helps us, and I rise in strong support of this bill.

Mr. KANJORSKI. Mr. Chairman, I yield 1½ minutes to the gentleman from California (Mr. SHERMAN).

Mr. SHERMAN. Mr. Chairman, I thank the gentleman for yielding me time.

America has to fight to get capital. China lets its domestic companies put anything they want on their financial statements. We respond with independent, nonpolitical, generally accepted accounting principles written by the FASB, an independent board. Under this bill, we would have generally political accounting principles. Capital will go abroad.

No wonder perhaps the best group defending investors, Greenspan, Buffett, the mutual funds represented by the Investment Company Institute and the major pension plans representing public employees all oppose this bill.

We are told that options are broadly based. Thirty percent of the options goes to the top five executives; the other 70 percent are narrowly spread among top executives. That is why 80 percent of CEO compensation in this country comes in the form of stock options.

We are told that it is difficult to do the calculations to expense stock options, but accountants do much more difficult calculations already and have for generations.

We are told that we should adopt an absurd accounting standard, one where if you give an option to the number five person at a company, that is an expense, but the number six person at the company gets an option that is not an expense. Only a political body like Congress would decide that the weights and measures varied dependent upon whether you are dealing with the number five executive or the number six executive.

In sum, Mr. Chairman, imposing political standards in an effort to conceal executive compensation will tarnish America's image for objective financial

reporting and hurt our efforts to attract capital from around the world.

Mr. OXLEY. Mr. Chairman, I yield myself such time as I may consume.

This has been an excellent debate, and I have great respect for the two gentlemen who have offered this substitute, the gentleman from Delaware (Mr. CASTLE) and the gentleman from Pennsylvania (Mr. KANJORSKI), but the issue here is whether duly elected public policymakers, that is, the Congress, have a responsibility to deal with issues that come into the realm of the economy, job creation, economic growth and the like, and I think clearly the answer is ''yes.''

How many arguments have we heard about outsourcing? How many arguments have we heard about the fact that we are falling behind in the technology gap with Asian countries? How many times have we heard the arguments about the number of engineers that are produced in other parts of the world compared to here or in science and the like? How many times have we heard about the competition out there for good quality people who have an idea, who want to bring that idea to fruition?

That is really what employee stock options do. It gives them an incentive. It incentivizes these folks to work harder and to come up with more innovations because they have a piece of the action. They own part of that company, and this is clearly what it is.

The fastest growing area for employee stock options is Asia, and among the Asian countries, the fastest growing country for creation of employee stock options is Communist China.

□ 1400

When our American companies have to compete for talent with Japan and China and other countries in Asia, and at the same time we have politicians and pundits complaining about outsourcing and about our inability to be competitive, do we have to stand back as elected Members of Congress and say we are willing to allow those decisions to be made by unelected bureaucrats and the private sector? I say, no.

So this idea that the gentleman from Louisiana (Mr. BAKER) came up with, which deals with that 30 percent, the top five people in a corporation, this deals directly with that. It says we are going to have them report those stock options. That is precisely the point behind this.

If the argument is that somehow all of the business scandals resulted from the fact that people were abusing stock options, then this bill is the answer to that problem. I ask Members to oppose the substitute and for a strong bipartisan vote for final passage.

The CHAIRMAN pro tempore (Mr. LAHOOD). The question is on the amendment offered by the gentleman from Pennsylvania (Mr. KANJORSKI).

The question was taken; and the Chairman pro tempore announced that the noes appeared to have it.

Mr. KANJORSKI. Mr. Chairman, I demand a recorded vote.

The CHAIRMAN pro tempore. Pursuant to clause 6 of rule XVIII, further proceedings on the amendment offered by the gentleman from Pennsylvania (Mr. KANJORSKI) will be postponed.

SEQUENTIAL VOTES POSTPONED IN COMMITTEE OF THE WHOLE

The CHAIRMAN pro tempore. Pursuant to clause 6 of rule XVIII, proceedings will now resume on those amendments on which further proceedings were postponed, in the following order: amendment No. 2 offered by the gentleman from California (Mr. SHERMAN); amendment No. 3 offered by the gentlewoman from New York (Mrs. MALONEY); and amendment No. 4 offered by the gentleman from Pennsylvania (Mr. KANJORSKI).

The Chair will reduce to 5 minutes the time for any electronic vote after the first vote in this series.

AMENDMENT NO. 2 OFFERED BY MR. SHERMAN

The CHAIRMAN pro tempore. The pending business is the demand for a recorded vote on the amendment offered by the gentleman from California (Mr. SHERMAN) on which further proceedings were postponed and on which the noes prevailed by voice vote.

The Clerk will redesignate the amendment.

The Clerk redesignated the amendment.

RECORDED VOTE

The CHAIRMAN pro tempore. A recorded vote has been demanded.

A recorded vote was ordered.

The vote was taken by electronic device, and there were—ayes 126, noes 296, not voting 11, as follows:

[Roll No. 394]

AYES—126

Abercrombie	Fossella	Oberstar
Ackerman	Frank (MA)	Obey
Alexander	Gilchrest	Olver
Andrews	Gillmor	Owens
Baldwin	Grijalva	Pallone
Bass	Gutierrez	Pascrell
Becerra	Hastings (FL)	Pastor
Bell	Hinchey	Payne
Bereuter	Holt	Peterson (MN)
Berman	Hoyer	Petri
Berry	Jackson (IL)	Platts
Bishop (NY)	Jackson-Lee (TX)	Pomeroy
Bono	Jones (OH)	Rahall
Brady (PA)	Kanjorski	Rangel
Brown (OH)	Kaptur	Rodriguez
Brown, Corrine	Kleczka	Rohrabacher
Capps	Kucinich	Rothman
Cardin	Leach	Roybal-Allard
Castle	Lee	Rush
Clay	Levin	Ryan (OH)
Clyburn	Lewis (GA)	Sabo
Conyers	Lipinski	Sánchez, Linda T.
Costello	Lowey	Sanders
Davis (CA)	Maloney	Schakowsky
Davis (FL)	Markey	Serrano
Davis (IL)	Marshall	Shays
DeFazio	Matsui	Sherman
DeGette	McCollum	Skelton
Delahunt	McDermott	Slaughter
DeLauro	McNulty	Smith (MI)
Deutsch	Meek (FL)	Solis
Dingell	Michaud	Spratt
Doggett	Millender-McDonald	Stark
Doyle	Miller, George	Stearns
Duncan	Murtha	Strickland
Ehlers	Nadler	Stupak
Emanuel	Napolitano	Taylor (MS)
Evans	Neal (MA)	Thompson (MS)
Fattah	Oberstar	Tierney
Filner	Obey	Udall (CO)
	Olver	Visclosky
	Owens	Waters
	Pallone	Watson
	Pascrell	Watt
	Pastor	Waxman
	Payne	Weiner
	Peterson (MN)	Weldon (PA)
	Petri	Wexler
	Platts	
	Pomeroy	
	Rahall	
	Rangel	
	Rodriguez	
	Rohrabacher	
	Rothman	
	Roybal-Allard	
	Rush	
	Ryan (OH)	
	Sabo	
	Sánchez, Linda T.	
	Sanders	
	Schakowsky	
	Serrano	
	Shays	
	Sherman	
	Skelton	
	Slaughter	
	Smith (MI)	
	Solis	
	Spratt	
	Stark	
	Stearns	
	Strickland	
	Stupak	
	Taylor (MS)	
	Thompson (MS)	
	Tierney	
	Udall (CO)	
	Visclosky	
	Waters	
	Watson	
	Watt	
	Waxman	
	Weiner	
	Weldon (PA)	
	Wexler	

NOES—296

Aderholt	Gibbons	Miller (NC)
Akin	Gingrey	Miller, Gary
Allen	Gonzalez	Mollohan
Baca	Goode	Moore
Bachus	Goodlatte	Moran (KS)
Baird	Gordon	Moran (VA)
Baker	Goss	Murphy
Barrett (SC)	Granger	Musgrave
Bartlett (MD)	Graves	Myrick
Barton (TX)	Green (TX)	Nethercutt
Beauprez	Green (WI)	Neugebauer
Berkley	Greenwood	Ney
Biggert	Gutknecht	Northup
Bilirakis	Hall	Norwood
Bishop (GA)	Harman	Nunes
Bishop (UT)	Harris	Nussle
Blackburn	Hart	Ortiz
Blumenauer	Hastings (WA)	Osborne
Blunt	Hayes	Ose
Boehlert	Hayworth	Otter
Boehner	Hefley	Oxley
Bonilla	Hensarling	Paul
Bonner	Herger	Pearce
Boozman	Herseth	Pelosi
Boswell	Hill	Pence
Boucher	Hinojosa	Peterson (PA)
Boyd	Hobson	Pickering
Bradley (NH)	Hoekstra	Pitts
Brady (TX)	Holden	Pombo
Brown (SC)	Honda	Porter
Brown-Waite, Ginny	Hooley (OR)	Portman
Burgess	Hostettler	Price (NC)
Burns	Houghton	Pryce (OH)
Burr	Hulshof	Putnam
Burton (IN)	Hunter	Radanovich
Buyer	Hyde	Ramstad
Calvert	Inslee	Regula
Camp	Israel	Rehberg
Cannon	Issa	Renzi
Cantor	Istook	Reyes
Capito	Jefferson	Reynolds
Capuano	Jenkins	Rogers (AL)
Cardoza	John	Rogers (KY)
Carson (OK)	Johnson (CT)	Rogers (MI)
Carter	Johnson (IL)	Ros-Lehtinen
Case	Johnson, E. B.	Ross
Chabot	Johnson, Sam	Royce
Chandler	Jones (NC)	Ruppersberger
Chocola	Keller	Ryan (WI)
Coble	Kelly	Ryun (KS)
Cole	Kennedy (MN)	Sanchez, Loretta
Cox	Kennedy (RI)	Sandlin
Cramer	Kildee	Saxton
Crane	Kilpatrick	Schiff
Crenshaw	Kind	Schrock
Crowley	King (IA)	Scott (GA)
Cubin	King (NY)	Scott (VA)
Culberson	Kingston	Sensenbrenner
Cummings	Kirk	Sessions
Cunningham	Kline	Shadegg
Davis (AL)	Knollenberg	Shaw
Davis (TN)	Kolbe	Sherwood
Davis, Jo Ann	LaHood	Shimkus
Davis, Tom	Lampson	Shuster
Deal (GA)	Langevin	Simmons
DeLay	Lantos	Simpson
DeMint	Larsen (WA)	Smith (NJ)
Diaz-Balart, L.	Larson (CT)	Smith (TX)
Diaz-Balart, M.	Latham	Smith (WA)
Dicks	LaTourette	Snyder
Dooley (CA)	Lewis (CA)	Souder
Doolittle	Lewis (KY)	Stenholm
Dreier	Linder	Sullivan
Dunn	LoBiondo	Sweeney
Edwards	Lofgren	Tancredo
Emerson	Lucas (KY)	Tanner
English	Lucas (OK)	Tauscher
Eshoo	Lynch	Tauzin
Etheridge	Manzullo	Taylor (NC)
Everett	Matheson	Terry
Farr	McCarthy (MO)	Thomas
Feeney	McCarthy (NY)	Thompson (CA)
Flake	McCotter	Thornberry
Foley	McGovern	Tiahrt
Forbes	McHugh	Tiberi
Ford	McInnis	Toomey
Franks (AZ)	McIntyre	Towns
Frelinghuysen	McKeon	Turner (OH)
Frost	Meehan	Turner (TX)
Gallegly	Meeks (NY)	Udall (NM)
Garrett (NJ)	Menendez	Upton
Gephardt	Mica	Van Hollen
Gerlach	Miller (FL)	Velázquez
	Miller (MI)	Vitter

Walden (OR)
Walsh
Wamp
Weldon (FL)
Weller
Whitfield
Wicker
Wilson (NM)
Wilson (SC)
Wolf
Woolsey
Wu
Wynn
Young (AK)
Young (FL)

NOT VOTING—11

Ballenger
Carson (IN)
Collins
Cooper
Engel
Ferguson
Hoeffel
Isakson
Majette
McCrery
Quinn

□ 1426

Mrs. WILSON of New Mexico, Ms. KILPATRICK, and Messrs. GUTKNECHT, WYNN, BRADLEY of New Hampshire, LANTOS and BISHOP of Georgia changed their vote from ''aye'' to ''no.''

Ms. CORRINE BROWN of Florida, Mr. DEUTSCH and Mr. DINGELL changed their vote from ''no'' to ''aye.''

So the amendment was rejected.

The result of the vote was announced as above recorded.

AMENDMENT NO. 3 OFFERED BY MRS. MALONEY

The CHAIRMAN pro tempore (Mr. LAHOOD). The pending business is the demand for a recorded vote on the amendment offered by the gentlewoman from New York (Mrs. MALONEY) on which further proceedings were postponed and on which the noes prevailed by voice vote.

The Clerk will redesignate the amendment.

The Clerk redesignated the amendment.

RECORDED VOTE

The CHAIRMAN pro tempore. A recorded vote has been demanded.

A recorded vote was ordered.

The CHAIRMAN pro tempore. This will be a 5-minute vote.

The vote was taken by electronic device, and there were—ayes 114, noes 308, not voting 11, as follows:

[Roll No. 395]

AYES—114

Abercrombie
Ackerman
Alexander
Andrews
Baldwin
Becerra
Bereuter
Berman
Berry
Bishop (NY)
Bono
Brady (PA)
Brown (OH)
Capps
Cardin
Castle
Clay
Clyburn
Conyers
Costello
Cummings
Davis (CA)
Davis (FL)
Davis (IL)
DeFazio
DeGette
Delahunt
DeLauro
Deutsch
Dingell
Doyle
Emanuel
Engel
Fattah
Fossella
Frank (MA)
Gilchrest
Gillmor
Grijalva
Gutierrez
Hastings (FL)
Hinchey
Holt
Hoyer
Jackson (IL)
Jackson-Lee (TX)
Johnson (IL)
Jones (NC)
Kanjorski
Kaptur
Kleczka
Kucinich
Leach
Lee
Levin
Lipinski
Lowey
Maloney
Markey
Marshall
Matsui
McCollum
McDermott
McNulty
Miller (NC)
Miller, George
Murtha
Nadler
Napolitano
Neal (MA)
Oberstar
Obey
Olver
Owens
Pascrell
Pastor
Payne
Peterson (MN)
Petri
Pomeroy
Rahall
Rangel
Rohrabacher
Rothman
Roybal-Allard
Rush
Ryan (OH)
Sabo
Sánchez, Linda T.
Sanders
Schakowsky
Serrano
Shays
Sherman
Slaughter
Solis
Spratt
Stark
Strickland
Stupak
Taylor (MS)
Thompson (MS)
Tierney
Towns
Van Hollen
Visclosky
Waters
Watson
Watt
Waxman
Weiner
Wexler
Wu
Wynn

NOES—308

Aderholt
Akin
Allen
Baca
Bachus
Baird
Baker
Barrett (SC)
Bartlett (MD)
Barton (TX)
Bass
Beauprez
Bell
Berkley
Biggert
Bilirakis
Bishop (GA)
Bishop (UT)
Blackburn
Blumenauer
Blunt
Boehlert
Boehner
Bonilla
Bonner
Boozman
Boswell
Boucher
Boyd
Bradley (NH)
Brady (TX)
Brown (SC)
Brown, Corrine
Brown-Waite, Ginny
Burgess
Burns
Burr
Burton (IN)
Buyer
Calvert
Camp
Cannon
Cantor
Capito
Capuano
Cardoza
Carson (OK)
Carter
Case
Chabot
Chandler
Chocola
Coble
Cole
Cox
Cramer
Crane
Crenshaw
Crowley
Cubin
Culberson
Cunningham
Davis (AL)
Davis (TN)
Davis, Jo Ann
Davis, Tom
Deal (GA)
DeLay
DeMint
Diaz-Balart, L.
Diaz-Balart, M.
Dicks
Doggett
Dooley (CA)
Doolittle
Dreier
Duncan
Dunn
Edwards
Ehlers
Emerson
English
Eshoo
Etheridge
Evans
Everett
Farr
Feeney
Filner
Flake
Foley
Forbes
Ford
Franks (AZ)
Frelinghuysen
Frost
Gallegly
Garrett (NJ)
Gephardt
Gerlach
Gibbons
Gingrey
Gonzalez
Goode
Goodlatte
Gordon
Goss
Granger
Graves
Green (TX)
Green (WI)
Greenwood
Gutknecht
Hall
Harman
Harris
Hart
Hastings (WA)
Hayes
Hayworth
Hefley
Hensarling
Herger
Herseth
Hill
Hinojosa
Hobson
Hoekstra
Holden
Honda
Hooley (OR)
Hostettler
Houghton
Hulshof
Hunter
Hyde
Inslee
Israel
Issa
Istook
Jefferson
Jenkins
John
Johnson (CT)
Johnson, E. B.
Johnson, Sam
Jones (OH)
Keller
Kelly
Kennedy (MN)
Kennedy (RI)
Kildee
Kilpatrick
Kind
King (IA)
King (NY)
Kingston
Kirk
Kline
Knollenberg
Kolbe
LaHood
Lampson
Langevin
Lantos
Larsen (WA)
Larson (CT)
Latham
LaTourette
Lewis (CA)
Lewis (GA)
Lewis (KY)
Linder
LoBiondo
Lofgren
Lucas (KY)
Lucas (OK)
Lynch
Manzullo
Matheson
McCarthy (MO)
McCarthy (NY)
McCotter
McGovern
McHugh
McInnis
McIntyre
McKeon
Meehan
Meek (FL)
Meeks (NY)
Menendez
Mica
Michaud
Millender-McDonald
Miller (FL)
Miller (MI)
Miller, Gary
Mollohan
Moore
Moran (KS)
Moran (VA)
Murphy
Musgrave
Myrick
Nethercutt
Neugebauer
Ney
Northup
Norwood
Nunes
Nussle
Ortiz
Osborne
Ose
Otter
Oxley
Pallone
Paul
Pearce
Pelosi
Pence
Peterson (PA)
Pickering
Pitts
Platts
Pombo
Porter
Portman
Price (NC)
Pryce (OH)
Putnam
Radanovich
Ramstad
Regula
Rehberg
Renzi
Reyes
Reynolds
Rodriguez
Rogers (AL)
Rogers (KY)
Rogers (MI)
Ros-Lehtinen
Ross
Royce
Ruppersberger
Ryan (WI)
Ryun (KS)
Sanchez, Loretta
Sandlin
Saxton
Schiff
Schrock
Scott (GA)
Scott (VA)
Sensenbrenner
Sessions
Shadegg
Shaw
Sherwood
Shimkus
Shuster
Simmons
Simpson
Skelton
Smith (NJ)
Smith (TX)
Smith (WA)
Snyder
Souder
Stearns
Stenholm
Sullivan
Sweeney
Tancredo
Tanner
Tauscher
Tauzin
Taylor (NC)
Terry
Thomas
Thompson (CA)
Thornberry
Tiahrt
Tiberi
Toomey
Turner (OH)
Turner (TX)
Udall (CO)
Udall (NM)
Upton
Velázquez
Vitter
Walden (OR)
Walsh
Wamp
Weldon (FL)
Weldon (PA)
Weller
Whitfield
Wicker
Wilson (NM)
Wilson (SC)
Wolf
Woolsey
Young (AK)
Young (FL)

NOT VOTING—11

Ballenger
Carson (IN)
Collins
Cooper
Ferguson
Hoeffel
Isakson
Majette
McCrery
Quinn
Smith (MI)

ANNOUNCEMENT BY THE CHAIRMAN PRO TEMPORE

The CHAIRMAN pro tempore (during the vote). Members are advised that 2 minutes remain in this vote.

□ 1435

Mr. WYNN and Mr. FOSSELLA changed their vote from ''no'' to ''aye.''

So the amendment was rejected.

The result of the vote was announced as above recorded.

AMENDMENT NO. 4 OFFERED BY MR. KANJORSKI

The CHAIRMAN pro tempore (Mr. LAHOOD). The pending business is the demand for a recorded vote on the amendment offered by the gentleman from Pennsylvania (Mr. KANJORSKI) on which further proceedings were postponed and on which the noes prevailed by voice vote.

The Clerk will redesignate the amendment.

The Clerk redesignated the amendment.

RECORDED VOTE

The CHAIRMAN pro tempore. A recorded vote has been demanded.

A recorded vote was ordered.

The CHAIRMAN pro tempore. This will be a 5-minute vote.

The vote was taken by electronic device, and there were—ayes 127, noes 293, not voting 13, as follows:

[Roll No. 396]

AYES—127

Abercrombie
Ackerman
Alexander
Andrews
Baldwin
Bass
Becerra
Bell
Bereuter
Berman
Berry
Bilirakis
Bishop (NY)
Bono
Brady (PA)
Brown (OH)
Brown, Corrine
Capps
Cardin
Castle
Clay
Clyburn
Conyers
Costello
Cummings
Davis (CA)
Davis (FL)
Davis (IL)
DeFazio
Delahunt
DeLauro
Deutsch
Dingell
Doyle
Emanuel
Engel
Evans
Fattah
Ford
Fossella
Frank (MA)
Gilchrest
Gillmor
Grijalva
Gutierrez
Hall
Hastings (FL)
Hinchey
Hoeffel
Hoyer
Jackson (IL)
Jackson-Lee (TX)
Johnson (IL)
Jones (OH)
Kanjorski
Kaptur
Kildee
Kleczka
Kolbe
Kucinich
Leach
Lee
Levin
Lipinski
Lowey
Maloney
Markey
Marshall
Matsui
McCollum
McDermott
McInnis
McNulty
Miller, George
Murtha
Nadler
Napolitano
Neal (MA)
Oberstar
Obey
Olver
Osborne
Owens
Pascrell
Pastor
Payne
Peterson (MN)
Petri
Platts
Pomeroy
Rahall
Rangel
Rohrabacher
Rothman
Roybal-Allard
Rush
Ryan (OH)
Sabo
Sánchez, Linda T.
Sanders
Schakowsky
Scott (VA)
Serrano
Shays
Sherman

Shimkus
Simmons
Slaughter
Smith (MI)
Solis
Spratt
Stark
Stearns
Strickland
Stupak
Taylor (MS)
Thompson (MS)
Tierney
Towns
Van Hollen
Visclosky
Waters
Watt
Waxman
Weiner
Wexler

NOES—293

Aderholt
Akin
Allen
Baca
Bachus
Baird
Baker
Barrett (SC)
Bartlett (MD)
Barton (TX)
Beauprez
Biggert
Bishop (GA)
Bishop (UT)
Blackburn
Blumenauer
Blunt
Boehlert
Boehner
Bonilla
Bonner
Boozman
Boswell
Boucher
Boyd
Bradley (NH)
Brady (TX)
Brown (SC)
Brown-Waite, Ginny
Burgess
Burns
Burr
Burton (IN)
Buyer
Calvert
Camp
Cannon
Cantor
Capito
Capuano
Cardoza
Carson (OK)
Carter
Case
Chabot
Chandler
Chocola
Coble
Cole
Cox
Cramer
Crane
Crenshaw
Crowley
Cubin
Culberson
Cunningham
Davis (AL)
Davis (TN)
Davis, Jo Ann
Davis, Tom
Deal (GA)
DeGette
DeLay
DeMint
Diaz-Balart, L.
Diaz-Balart, M.
Dicks
Doggett
Dooley (CA)
Doolittle
Dreier
Duncan
Dunn
Edwards
Ehlers
Emerson
English
Eshoo
Etheridge
Everett
Farr
Feeney
Filner
Flake
Foley
Forbes
Franks (AZ)
Frelinghuysen
Frost
Gallegly
Garrett (NJ)
Gephardt
Gerlach
Gibbons
Gingrey
Gonzalez
Goodlatte
Gordon
Goss
Granger
Graves
Green (TX)
Green (WI)
Gutknecht
Harman
Harris
Hart
Hastings (WA)
Hayes
Hayworth
Hefley
Hensarling
Herger
Herseth
Hill
Hinojosa
Hobson
Hoekstra
Holden
Holt
Honda
Hooley (OR)
Hostettler
Houghton
Hulshof
Hunter
Hyde
Inslee
Israel
Issa
Istook
Jefferson
Jenkins
John
Johnson, E. B.
Johnson, Sam
Jones (NC)
Keller
Kelly
Kennedy (MN)
Kennedy (RI)
Kilpatrick
Kind
King (IA)
King (NY)
Kingston
Kirk
Kline
Knollenberg
LaHood
Lampson
Langevin
Lantos
Larsen (WA)
Larson (CT)
Latham
LaTourette
Lewis (CA)
Lewis (GA)
Lewis (KY)
Linder
LoBiondo
Lofgren
Lucas (KY)
Lucas (OK)
Lynch
Manzullo
Matheson
McCarthy (MO)
McCarthy (NY)
McCotter
McGovern
McHugh
McIntyre
McKeon
Meehan
Meek (FL)
Meeks (NY)
Menendez
Mica
Michaud
Millender-McDonald
Miller (FL)
Miller (MI)
Miller (NC)
Miller, Gary
Mollohan
Moore
Moran (KS)
Moran (VA)
Murphy
Musgrave
Myrick
Nethercutt
Neugebauer
Ney
Northup
Norwood
Nunes
Nussle
Ortiz
Ose
Otter
Oxley
Pallone
Paul
Pearce
Pelosi
Pence
Peterson (PA)
Pickering
Pitts
Pombo
Porter
Portman
Price (NC)
Pryce (OH)
Putnam
Radanovich
Ramstad
Regula
Rehberg
Renzi
Reyes
Reynolds
Rodriguez
Rogers (AL)
Rogers (KY)
Rogers (MI)
Ros-Lehtinen
Ross
Royce
Ruppersberger
Ryan (WI)
Ryun (KS)
Sanchez, Loretta
Sandlin
Saxton
Schiff
Schrock
Scott (GA)
Sensenbrenner
Sessions
Shadegg
Shaw
Sherwood
Shuster
Simpson
Skelton
Smith (NJ)
Smith (TX)
Smith (WA)
Snyder
Souder
Stenholm
Sullivan
Sweeney
Tancredo
Tanner
Tauscher
Tauzin
Taylor (NC)
Terry
Thompson (CA)
Thornberry
Tiahrt
Tiberi
Toomey
Turner (OH)
Turner (TX)
Udall (CO)
Udall (NM)
Upton
Velázquez
Vitter
Walden (OR)
Walsh
Wamp
Watson
Weldon (FL)
Weldon (PA)
Weller
Whitfield
Wicker
Wilson (NM)
Wilson (SC)
Wolf
Woolsey
Wu
Wynn
Young (AK)
Young (FL)

NOT VOTING—13

Ballenger
Berkley
Carson (IN)
Collins
Cooper
Ferguson
Greenwood
Isakson
Johnson (CT)
Majette
McCrery
Quinn
Thomas

ANNOUNCEMENT BY THE CHAIRMAN PRO TEMPORE

The CHAIRMAN pro tempore (during the vote). Members are advised there are 2 minutes remaining in this vote.

□ 1442

Mr. CONYERS changed his vote from ''no'' to ''aye.''

So the amendment was rejected.

The result of the vote was announced as above recorded.

PERSONAL EXPLANATION

Mr. MCINNIS. Mr. Chairman, during today's consideration of H.R. 3574, a bill introduced by Representative BAKER, I mistakenly voted ''no'' on one of the amendments to this legislation. Representative KANJORSKI introduced a substitute amendment to H.R. 3574, (rollcall No. 396). I voted in favor of Representative KANJORSKI's amendment. Please let the RECORD reflect that I intended to vote against that amendment.

The CHAIRMAN pro tempore. There being no other amendments, the question is on the committee amendment in the nature of a substitute, as amended.

The committee amendment in the nature of a substitute, as amended, was agreed to.

The CHAIRMAN pro tempore. Under the rule, the Committee rises.

Accordingly, the Committee rose; and the Speaker pro tempore (Mr. SWEENEY) having assumed the chair, Mr. LAHOOD, Chairman pro tempore of the Committee of the Whole House on the State of the Union, reported that that Committee, having had under consideration the bill (H.R. 3574) to require the mandatory expensing of stock options granted to executive officers, and for other purposes, pursuant to House Resolution 725, he reported the bill back to the House with an amendment adopted by the Committee of the Whole.

The SPEAKER pro tempore. Under the rule, the previous question is ordered.

Is a separate vote demanded on the amendment to the committee amendment in the nature of a substitute adopted by the Committee of the Whole? If not, the question is on the committee amendment in the nature of a substitute.

The committee amendment in the nature of a substitute was agreed to.

The SPEAKER pro tempore. The question is on the engrossment and third reading of the bill.

The bill was ordered to be engrossed and read a third time, and was read the third time.

The SPEAKER pro tempore. The question is on the passage of the bill.

The question was taken; and the Speaker pro tempore announced that the ayes appeared to have it.

Mr. OXLEY. Mr. Speaker, on that I demand the yeas and nays.

The yeas and nays were ordered.

The vote was taken by electronic device, and there were—yeas 312, nays 111, not voting 10, as follows:

[Roll No. 397]

YEAS—312

Ackerman
Aderholt
Akin
Allen
Andrews
Baca
Bachus
Baird
Baker
Barrett (SC)
Bartlett (MD)
Barton (TX)
Beauprez
Becerra
Bell
Berkley
Biggert
Bilirakis
Bishop (GA)
Bishop (UT)
Blackburn
Blumenauer
Blunt
Boehlert
Boehner
Bonilla
Bonner
Boozman
Boswell
Boucher
Boyd
Bradley (NH)
Brady (TX)
Brown (SC)
Brown, Corrine
Brown-Waite, Ginny
Burgess
Burns
Burr
Burton (IN)
Buyer
Calvert
Camp
Cannon
Cantor
Capito
Capuano
Cardoza
Carson (OK)
Carter
Case
Chabot
Chandler
Chocola
Clay
Coble
Cox
Cramer
Crane
Crenshaw
Crowley
Cubin
Culberson
Cunningham
Davis (AL)
Davis (CA)
Davis (IL)
Davis (TN)
Davis, Jo Ann
Davis, Tom
Deal (GA)
Delahunt
DeLay
DeMint
Deutsch
Diaz-Balart, L.
Diaz-Balart, M.
Dicks
Doggett
Dooley (CA)
Doolittle
Dreier
Duncan
Dunn
Edwards
Ehlers
Emerson
English
Eshoo
Etheridge
Everett
Farr
Feeney
Filner
Flake
Foley
Forbes
Ford
Franks (AZ)
Frelinghuysen
Frost
Gallegly
Garrett (NJ)
Gephardt
Gerlach
Gibbons
Gonzalez
Goodlatte
Gordon
Goss
Granger
Graves
Green (TX)
Green (WI)
Greenwood
Gutknecht
Hall
Harman
Harris
Hart
Hastings (WA)
Hayes
Hayworth
Hefley
Hensarling
Herger
Herseth
Hill
Hinojosa
Hobson
Hoekstra
Holden
Holt
Honda
Hooley (OR)
Hostettler
Houghton
Hulshof
Hunter
Hyde
Inslee
Israel
Issa
Istook
Jefferson
Jenkins
John
Johnson (CT)
Johnson (IL)
Johnson, E. B.
Johnson, Sam
Jones (NC)
Keller
Kelly
Kennedy (MN)
Kennedy (RI)
Kind
King (IA)
King (NY)
Kingston
Kirk
Kline
Knollenberg
Lampson
Langevin
Lantos
Larsen (WA)
Larson (CT)
Latham
LaTourette
Lewis (CA)
Lewis (KY)
Linder
LoBiondo
Lofgren
Lucas (KY)
Lucas (OK)
Lynch
Manzullo
Matheson
McCarthy (MO)
McCarthy (NY)
McCollum
McCotter
McGovern
McHugh
McInnis
McIntyre
McKeon
Meehan
Meek (FL)
Meeks (NY)
Menendez
Mica
Michaud
Millender-McDonald
Miller (FL)
Miller (MI)
Miller (NC)
Miller, Gary
Miller, George
Mollohan
Moore
Moran (KS)
Moran (VA)
Murphy
Musgrave
Myrick
Nethercutt
Neugebauer
Ney
Northup
Norwood
Nunes
Nussle
Ortiz
Ose
Otter
Owens
Oxley
Pallone
Paul
Pearce
Pelosi
Pence
Peterson (PA)
Pickering
Pitts
Pombo
Porter
Portman
Price (NC)
Pryce (OH)
Putnam
Radanovich
Ramstad
Rangel
Regula
Rehberg
Renzi
Reyes
Reynolds
Rodriguez
Rogers (AL)

Rogers (KY)	Smith (NJ)	Udall (NM)
Rogers (MI)	Smith (TX)	Upton
Ros-Lehtinen	Smith (WA)	Velázquez
Ross	Snyder	Vitter
Royce	Solis	Walden (OR)
Ruppersberger	Souder	Walsh
Ryan (WI)	Stenholm	Wamp
Ryun (KS)	Sullivan	Watson
Sanchez, Loretta	Sweeney	Weldon (FL)
Sandlin	Tancredo	Weldon (PA)
Saxton	Tanner	Weller
Schiff	Tauscher	Wexler
Schrock	Tauzin	Whitfield
Scott (GA)	Taylor (NC)	Wicker
Sensenbrenner	Thomas	Wilson (NM)
Sessions	Thompson (CA)	Wilson (SC)
Shadegg	Thornberry	Wolf
Shaw	Tiahrt	Woolsey
Sherwood	Tiberi	Wu
Shuster	Toomey	Wynn
Simmons	Turner (OH)	Young (AK)
Simpson	Turner (TX)	Young (FL)
Skelton	Udall (CO)	

NAYS—111

Abercrombie	Hoeffel	Petri
Alexander	Hoyer	Platts
Baldwin	Jackson (IL)	Pomeroy
Bass	Jackson-Lee (TX)	Rahall
Bereuter	Jones (OH)	Rohrabacher
Berman	Kanjorski	Rothman
Berry	Kaptur	Roybal-Allard
Bishop (NY)	Kildee	Rush
Bono	Kilpatrick	Ryan (OH)
Brady (PA)	Kleczka	Sabo
Brown (OH)	Kolbe	Sánchez, Linda T.
Capps	Kucinich	Sanders
Cardin	LaHood	Schakowsky
Castle	Leach	Scott (VA)
Clyburn	Lee	Serrano
Cole	Levin	Shays
Conyers	Lewis (GA)	Sherman
Costello	Lipinski	Shimkus
Cummings	Lowey	Slaughter
Davis (FL)	Maloney	Smith (MI)
DeFazio	Markey	Spratt
DeGette	Marshall	Stark
DeLauro	Matsui	Stearns
Dingell	McDermott	Strickland
Doyle	McNulty	Stupak
Emanuel	Murtha	Taylor (MS)
Emerson	Nadler	Terry
Evans	Napolitano	Thompson (MS)
Fattah	Neal (MA)	Tierney
Fossella	Oberstar	Towns
Frank (MA)	Obey	Van Hollen
Gilchrest	Olver	Visclosky
Gillmor	Osborne	Waters
Goode	Pascrell	Watt
Grijalva	Pastor	Waxman
Gutierrez	Payne	Weiner
Hastings (FL)	Peterson (MN)	
Hinchey		

NOT VOTING—10

Ballenger	Ferguson	McCrery
Carson (IN)	Gingrey	Quinn
Collins	Isakson	
Cooper	Majette	

ANNOUNCEMENT BY THE SPEAKER PRO TEMPORE

The SPEAKER pro tempore (Mr. SWEENEY) (during the vote). Members are advised 2 minutes remain in this vote.

□ 1500

Mr. PAYNE changed his vote from ''yea'' to ''nay.''

So the bill was passed.

The result of the vote was announced as above recorded.

A motion to reconsider was laid on the table.

Stated for:

Mr. GINGREY. Mr. Speaker, on rollcall No. 397 I was unavoidably detained. Had I been present, I would have voted "yea."

AUTHORIZING THE CLERK TO MAKE CORRECTIONS IN ENGROSSMENT OF H.R. 3574, STOCK OPTION ACCOUNTING REFORM ACT

Mr. BAKER. Mr. Speaker, I ask unanimous consent that in the engrossment of the bill, H.R. 3574, the Clerk be authorized to correct section numbers, punctuation, and cross-references and to make such other technical and conforming changes as may be necessary to reflect the actions of the House.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Louisiana?

There was no objection.

CONFERENCE REPORT ON H.R. 2443, COAST GUARD AND MARITIME TRANSPORTATION ACT OF 2004

Mr. YOUNG of Alaska submitted the following conference report and statement on the bill (H.R. 2443) to authorize appropriations for the Coast Guard for fiscal year 2004, to amend various laws administered by the Coast Guard, and for other purposes:

CONFERENCE REPORT (H. REPT. 108–617)

The committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 2443), to authorize appropriations for the Coast Guard for fiscal year 2004, to amend various laws administered by the Coast Guard, and for other purposes, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the House recede from its disagreement to the amendment of the Senate to the text of the bill and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment, insert the following:

SECTION 1. SHORT TITLE.

This Act may be referred to as the ''Coast Guard and Maritime Transportation Act of 2004''.

SEC. 2. TABLE OF CONTENTS.

The table of contents for this Act is as follows: