

NEWS RELEASE

August 21, 2002

Mutual Fund Industry Urges Uniform Expensing of Stock Options, August 2002

Mutual Fund Industry Urges Uniform Expensing of Stock Options

Washington, DC, August 21, 2002 - The Institute today urged the Financial Accounting Standards Board (FASB) to propose and adopt, as soon as practicable, a new accounting standard that would require companies to treat stock options as an expense and ensure uniformity in how stock options are valued.

“Maintaining investor confidence in the U.S. financial markets is imperative,” said Institute President Matthew P. Fink. “The mutual fund industry, on behalf of millions of individual investors, invests nearly \$4 trillion in equity and fixed-income securities issued by U.S. corporations. Expensing stock options will benefit investors and enhance our nation’s reputation for having the most rigorous accounting and disclosure standards in the world.”

In a [letter](#) to FASB, the Institute explained how a mandatory, uniform standard for expensing stock options would improve current accounting standards:

- First, there is no standard methodology for valuing the cost of stock options. A standardized approach would help all investors evaluate the effects of stock options upon company earnings on a uniform basis.
- Second, the effects of stock options currently are required to be disclosed only in footnotes, rather than in the body of financial statements. While mutual funds and other institutional investors use the information currently provided in the footnotes, it is unclear if all investors make use of this information. Including the effects of stock options in financial statements will ensure that commonly reported items, such as earnings per share, have the same meaning for all companies.
- Third, accounting rules should not treat stock options differently than other forms of compensation. The mutual fund industry does not believe stock options should be favored, or disfavored, compared to other forms of compensation.
- Lastly, enhanced disclosure by public companies will help ensure that U.S. accounting and disclosure standards are the most rigorous in the world.

The U.S. mutual fund industry has consistently sought to achieve corporate and market reforms that will benefit its 93 million shareholders. The Institute’s support for expensing stock options is the latest in a series of reforms supported by the industry. In 1998, the industry began urging the New York Stock Exchange to require [shareholder approval](#) of stock option plans. For several years, the Institute has called for measures to reduce

trading costs through improvements in the function and regulation of the equity markets and supported [enhanced disclosure](#) of municipal securities.

This year, the Institute has called for: [earnings announcements](#) to be improved and expeditiously filed with the SEC; enhanced disclosure rules for loans to and [insider selling](#) by senior executives; and disclosure of [critical accounting](#) policies. The Institute also supported the [Sarbanes-Oxley Act](#), which makes essential reforms in corporate governance, disclosure, and accountability and ensures strengthened SEC oversight and enforcement.

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.