

Expensing Employee Stock Options Looks Like a Major Mistake

Thursday, January 8, 2004, 11:00 a.m.–1:00 p.m.
Wohlstetter Conference Center, Twelfth Floor, AEI
1150 Seventeenth Street, N.W., Washington, D.C. 20036

Since Enron, public officials and others have urged the Financial Accounting Standards Board to require that companies place a value on the stock options they grant to employees and treat that value as an expense in computing their earnings. The FASB has responded with a commitment to impose this requirement for financial statements beginning in the year 2005. It now appears, however, that there is no accepted method for establishing the value of employee stock options, which are long-term contracts with many variables and contingencies. Most observers agree that the Black-Scholes model, which values short-term options and which the FASB initially preferred, is inadequate to value employee stock options. Other models have also failed to provide sufficient specificity.

Two papers that will be presented at this conference argue that it would be questionable accounting policy to require the expensing of employee stock options without an accepted and adequate method for doing so and could subject companies using different valuation methods to substantial litigation costs. The authors contend that the FASB should abandon the effort to expense stock options until a satisfactory method of establishing their value has been developed.

10:45 a.m. Registration

11:00 *Introduction:* Kevin A. Hassett, AEI

11:15 **Panel I: Modeling the Value of Employee Stock Options**
Presenter: Charles W. Calomiris, AEI and Columbia University
Discussant: Deen Kemsley, Columbia University
Moderator: James K. Glassman, AEI

12:15 p.m. **Panel II: Accounting Issues**
Presenters: Kevin A. Hassett, AEI
Peter J. Wallison, AEI
Discussants: Paul Atkins, Securities and Exchange Commission
George Benston, Emory University
Moderator: James K. Glassman, AEI

1:00 Adjournment

I will attend the employee stock options event on Thursday, January 8.

Name: _____

Title: _____

Affiliation: _____

Address: _____

City/State/Zip: _____

Telephone: _____ Fax: _____

E-mail: _____

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Please register online at www.aei.org/events or by faxing this form to 202.862.7171.

For additional information, please contact Jessica Browning at 202.862.5853 or jbrowning@aei.org.

For media inquiries, please contact Veronique Rodman at vrodman@aei.org.