

107TH CONGRESS  
2D SESSION

# S. 2822

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

---

## IN THE SENATE OF THE UNITED STATES

JULY 30, 2002

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

---

## A BILL

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

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

3 **SECTION 1. SHORT TITLE.**

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

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

7 (a) FINDINGS.—Congress finds that—

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

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

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

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

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

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

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

5 **SEC. 3. RULEMAKING.**

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

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

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

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

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

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

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

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

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

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

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

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

