

108TH CONGRESS
1ST SESSION

S. 690

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

MARCH 21, 2003

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 of 2003”.

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, and instead, stock options grants in
11 some instances may have created perverse incentives
12 for directors and executive officers to pump up the
13 corporation's short term share price, without regard
14 to the corporation's long-term financial health.

15 (b) PURPOSES.—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
8 (hereafter in this Act referred to as the “Commission”)
9 shall issue final rules that—

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

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

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

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

24 (B) more than 25 percent of such stock
25 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 each publicly traded corporation to
6 include, in each regular quarterly filing with the
7 Commission, a separately headed section or sub-
8 section on stock options that includes—

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

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

18 (C) such other information as the Commis-
19 sion determines may be useful in ensuring that
20 investors fully understand the potential impact
21 of the corporation's stock option practices on
22 shareholder value and on the incentives of cor-
23 porate directors, executive officers, and employ-
24 ees.

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