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ANALYST ASSOCIATION AIMR WANTS FASB TO FOLLOW IASB PLAN TO REQUIRE COMPANIES TO EXPENSE STOCK OPTION COSTS

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CHARLOTTESVILLE, Va., July 17, 2002 -The International Accounting Standards Board is "demonstrating leadership in putting the best interests of investors ahead of the preferences of corporate managements" by moving forward a proposed rule requiring companies to treat employee stock options as expenses, an official with the world's largest association of investment professionals said today.

Patricia Doran Walters, CFA, senior vice president of the Association for Investment Management and Research®, said, "The IASB has been debating this important issue for two years, and its indicative vote yesterday to issue an 'exposure draft' rule proposal within the next few months testifies to both the IASB's leadership and its commitment to move forward quickly to rectify a key deficiency in financial reporting.

"Despite the few U.S. companies that have announced in the last few days that they would voluntarily begin expensing employee stock options," Walters said, "most companies would prefer the status quo. And it is critical that there be an agreed upon standard for when and how to measure these costs, otherwise comparability across companies is lost. "We reiterate our long-standing and absolute position that employee stock options are a form of compensation that should be recognized as an expense on the income statement, and have argued from the beginning of the debate that the Financial Accounting Standards Board should require U.S. public companies to do so," Walters said.

Under intense lobbying in the mid-1990s, FASB chose instead only to recommend that companies recognize stock option expenses on the income statement, while requiring disclosure of the value of outstanding options in the footnotes to the financial statements.

"Footnote disclosure is better than nothing, but disclosure is no

substitute for recognition and measurement," Walters said. "On something so straightforward and basic as compensation, investors, or the financial media for that matter, shouldn't have to do their own calculations and make their own adjustments to the income statement to know how much a company earned. If the recent scandals have taught us anything, it is that markets demand transparency, not hidden expenses and liabilities that distort earnings and dress-up the balance sheet."

Walters added that, at the request of the IASB, AIMR surveyed financial analysts and portfolio managers around the world last September and found:

In the survey, AIMR found:

- 88% of respondents said they consider share-based or stock option plans to be compensation to the parties receiving the benefits.
- 83% said the accounting method for employee stock options should require recognition of an expense in the income statement.
- 81% use information about stock options when evaluating a firm's performance and determining its value. Two-thirds use the information regardless of where that information is found (usually in the notes to the financial statements).

The results were consistent across all categories of investment professionals and geographic regions of the world.

AIMR sent the survey to over 18,000 AIMR members and received 1,944 responses from equity and fixed-income analysts for investment-management firms (26% of respondents) and brokerage houses (15%), as well as those who manage portfolios for institutional or private clients (38%). Seventy-five percent of respondents were from North America, 13% from Europe and 10% from the Asia-Pacific region.

The International Accounting Standards Board is an independent, privately funded accounting standard-setter based in London. The Board develops global accounting and cooperates with national accounting standard setters to achieve convergence in accounting standards around the world.

The Association for Investment Management and Research® is a non-profit professional association of 58,000 securities analysts, fund managers and other investment professionals in 112 countries. AIMR is best known as the governing body for the rigorous Chartered Financial Analyst® curriculum and examination program. AIMR's membership includes 115 local professional societies in 37 countries. Headquartered in Charlottesville, Virginia (U.S.A.), AIMR also has offices in London and Hong Kong.



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