



U.S. Securities and Exchange Commission

STATEMENT OF CHAIRMAN CHRISTOPHER COX REGARDING USE OF MARKET INSTRUMENTS IN VALUING EMPLOYEE STOCK OPTIONS

**FOR IMMEDIATE RELEASE
2005-129**

Washington, D.C., Sept. 9, 2005 - U.S. Securities and Exchange Commission Chairman Christopher Cox announced today the issuance of informal staff progress reports on the ongoing Commission evaluation of proposals to value employee stock options for financial reporting purposes. The full text of his statement follows:

"It has been nine months since the Financial Accounting Standards Board issued its statement requiring the expensing of stock options, and almost six months since the SEC published a Staff Accounting Bulletin regarding the implementation of the FASB standard. Today, the Commission's staff are issuing informal commentary that assesses progress toward using market approaches to valuation of employee stock options. This commentary is intended to stimulate discussion and promote further efforts at the development of market instruments to value employee stock options.

"As our previous staff guidance has stated, it will be rare when there is only one acceptable choice in estimating the fair value of employee stock options. Indeed, many valuation approaches and measurement techniques are currently under study, or in various stages of development and implementation. The Commission's approach has been, and remains, the encouragement of robust efforts in the private sector to design market instruments that have the potential to accurately measure the cost of employee stock option grants to the issuer. Because so little empirical data is available, the views expressed today are necessarily tentative and subject to ongoing assessment.

"Over time, as issuers and accountants gain more experience in valuing employee stock options for financial reporting purposes, particular approaches may begin to emerge as best practices, and the range of potential methodologies will likely narrow. For now, however, it is not our intention to narrow the field and to limit experimentation, but rather to welcome it.

"Today's incremental advancement of this cause comprises two documents: an overview by the Chief Accountant, and a brief progress report by the Office of Economic Analysis, setting forth their analysis to date of candidate

instrument designs that have come to their attention in the last six months.

"As the OEA memorandum makes clear, the use of an appropriate market instrument for estimating the fair value of employee stock options has some distinct advantages over a model-based approach. Most importantly, the instrument's price could establish the issuer's true cost of the option grant, by having it priced by the market.

"We remain committed to the promotion of competition between different approaches. Ideally, that competition will also lead to further innovation in models used to value employee stock options. I thank the professional staff of the Commission for their diligent work on this subject thus far, and pledge the continuing support of the SEC in evaluating the wide range of proposals that we expect will be submitted for our review."

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➤ [See Chief Accountant's Statement](#)

➤ [See Office of Economic Analysis Memo](#)

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