File No. 4350

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AICPA
American Institute of Certified Public Accountants

INTERNAL MEMORANDUM

Date: June 29, 1993 Reply:

To: Tom Higginbotham

From: Maryanne McCormick

Subject: S.1175 to overturn FASB's stock option ruling

Legislation to repeal FASB's rules on accounting for stock options and to change the tax treatment of stock options was introduced by Senator Lieberman.

S. 1175, the Equity Expansion Act of 1993, directs the SEC to end the charge against earnings now required on variable options, countering the decision by FASB on April 7, 1993.

Citing that FASB's rule change would have an adverse affect on job creation, Lieberman stated,

> As a matter of abstract accounting theory, FASB's approach to stock option accounting may be defensible. But from a public policy, job creation, and competitiveness perspective, it is simply unnecessary and unusually disruptive.

Lieberman promised to provide "an examination of the accounting rationale for retaining the current accounting treatment of employee stock options" in a future floor statement.

He also noted that both Ernst & Young and Coopers & Lybrand examined his bill before introduction, concluding it was revenue positive.

Floor statements by Senators Lieberman and Feinstein and the text of the bill are attached.

cc: Joe Moraglio
Ian MacKay
Wayne Upton
Arlene Rodda
Legislative Affairs staff

of conflicts between the parties thereto. Nothing in this Act shall be construed (1) to confer jurisdiction upon any court of the United States to consider and resolve such conflicts, or (2) to alter or amend any law existing on the date of the enactment of this Act which may confer such jurisdiction in such courts.

SEC. 102. DEFINITIONS.

For purposes of this Act:

(1) MOTOR VEHICLE AND MOTOR VEHICLE PARTS.—

(A) The term "motor vehicle" means any article of a kind described in heading 8703 or 8704 of the Harmonized Tariff Schedule of the United States.

(B) The term "motor vehicle parts" means any article of a kind described in the following provisions of the Harmonized Tariff Schedule of the United States if suitable for use in the manufacture or repair of motor vehicles:

(i) Subheadings 8407.31.00 through 8407.34.20 (relating to spark-ignition reciprocating or rotary internal combustion piston engines).

(ii) Subheading 8408.20 (relating to the compression-ignition internal combustion engines).

(iii) Subheading 8409 (relating to parts suitable for use solely or principally with engines described in clauses (i) and (ii)).

(iv) Subheading 8483 (relating to transmission shafts and related parts).

(v) Subheadings 8706.00.10 and 8706.00.15 (relating to chassis fitted with engines).

(vi) Heading 8707 (relating to motor vehicle bodies).

(vii) Heading 8708 (relating to bumpers, brakes and servo brakes, gear boxes, drive axles, nondriving axles, road wheels, suspension shock absorbers, radiators, mufflers and exhaust pipes, clutches, steering wheels, steering columns, steering boxes, and other parts and accessories of motor vehicles).

The Secretary shall by regulation include as motor vehicle parts such other articles (described by classification under such Harmonized Tariff Schedule) that the Secretary considers appropriate for the purposes of this Act.

(C)(i) The term "Japanese motor vehicle" means a motor vehicle which is the product of Japan.

(ii) The term "Japanese motor vehicle part" means a motor vehicle part which is the product of Japan.

(2) ENTERED.—The term "entered" means entered, or withdrawn from warehouse for consumption, in the customs territory of the United States.

(3) IMPORT RESTRICTION IMPLEMENTATION PERIOD.—The term "import restriction implementation period" means a calendar year which—

(A) occurs after 1994 and before calendar year 2001, and

(B) follows a calendar year with respect to which the Secretary finds, under section 201(b), that the trade deficit reduction target was not met.

(4) INTERSTATE SALE.—The term "interstate sale" means sale or distribution in the interstate commerce of the United States.

(5) BASELINE DEFICIT.—(A) The term "baseline deficit" means the average monthly merchandise trade deficit, as computed by the Secretary, of the United States with Japan during calendar year 1993.

(B) In computing merchandise trade deficits under this section, the value of bilateral trade between the United States and Japan in—

(i) crude petroleum; and

(ii) nonmonetary gold;

shall not be included.

(6) SECRETARY.—The term "Secretary" means the Secretary of Commerce.

(7) TRADE REPRESENTATIVE.—The term "Trade Representative" means the United States Trade Representative.

TITLE II—MERCHANDISE TRADE DEFICIT REDUCTION

SEC. 201. STAGED TRADE DEFICIT REDUCTION.

(a) TRADE DEFICIT REDUCTION TARGETS.—

(1) IN GENERAL.—The trade deficit reduction target for each of the calendar years listed below is an average monthly merchandise trade deficit of the United States with Japan during such year that does not exceed an amount that equals the applicable percentage of the baseline deficit that appears opposite such year:

Calendar year	Applicable percentage of baseline deficit
1994	80 percent
1995	60 percent
1996	40 percent
1997	20 percent
1998	0 percent

(2) SPECIAL RULE FOR 1998.—For calendar year 1998, the 0 percent trade deficit reduction target shall be treated as having been met if the merchandise trade deficit of the United States with Japan during such year does not exceed—

(A) an amount equal to 5 percent of the value of the aggregate bilateral merchandise trade between the United States and Japan during such year; or

(B) $5,000,000,000.

(b) COMPUTATIONS.—

(1) IN GENERAL.—Not later than January 1 following each calendar year listed in subsection (a)(1), the Secretary shall compute whether the trade deficit reduction target for such year was met.

(2) ANNOUNCEMENT OF IMPORT RESTRICTION IMPLEMENTATION PERIOD.—If the Secretary finds under paragraph (1) that the trade deficit reduction target specified under subsection (a) for a calendar year was not met, the Secretary shall announce, by publication in the Federal Register, that the import restriction implementation period is in effect beginning on January 1 of the year after the year to which the finding applies.

SEC. 202. COMPUTATION OF IMPORT RESTRICTIONS IF TRADE DEFICIT REDUCTION TARGET NOT MET.

(a) IN GENERAL.—On January 1 of the first calendar year (and each calendar year thereafter) for which an import restriction implementation period is in effect, the Secretary shall compute and publish in the Federal Register the quantitative import restrictions for such calendar year.

(b) COMPUTATION.—

(1) IN GENERAL.—For purposes of subsection (a), the term "quantitative import restrictions" means the aggregate quantity of Japanese motor vehicles and the aggregate quantity of Japanese motor vehicle parts that may be entered into the United States (in accordance with paragraph (2) or (3)) for a calendar year described in subsection (a).

(2) FIRST YEAR RESTRICTIONS.—The aggregate quantity of Japanese motor vehicles and Japanese motor vehicle parts that may be entered into the United States, during the first calendar year for which an import restriction implementation period is in effect, may not exceed the aggregate quantity of such motor vehicles and the aggregate quantity of such motor vehicle parts entered into the United States during 1993, reduced by 20 percent.

(3) SUBSEQUENT YEARS.—In the case of any calendar year for which an import restriction period is in effect after the first such calendar year, the aggregate quantity of Japanese motor vehicles and Japanese motor vehicle parts that may be entered into the United States shall not exceed the amount of such motor vehicles and motor vehicle parts entered during the most recent preceding calendar year for which an import restriction implementation period was in effect, reduced by 20 percent.

(4) ADMINISTRATION.—In order to prevent import surging or to otherwise ensure the efficient administration of this Act, the Secretary may impose temporary quantitative import restrictions on Japanese motor vehicles and Japanese motor vehicle parts entered during the first 3 months of a calendar year in an import restriction implementation period.

SEC. 203. REPORTS.

Within 30 days after a computation is made under section 201 or 202 with respect to a calendar year, the Secretary shall submit to the Congress a report setting forth the bases of the computation.

SEC. 204. SENSE OF CONGRESS REGARDING ACHIEVEMENT OF MERCHANDISE TRADE DEFICIT REDUCTION TARGETS.

It is the sense of the Congress that representatives of the United States and Japanese Governments should undertake continuing discussions regarding the means and measures, to be selected by the Japanese Government, to achieve the merchandise trade deficit reduction targets required under section 201(a). During the discussions, the Trade Representative should particularly address market access priorities for United States exports to Japan.•

By Mr. LIEBERMAN (for himself, Mr. MACK, Mrs. FEINSTEIN, and Mrs. BOXER):

S. 1175. A bill to amend the Internal Revenue Code of 1986 to allow corporations to issue performance stock options to employees, and for other purposes; to the Committee on Finance.

EQUITY EXPANSION ACT OF 1993

• Mr. LIEBERMAN. Mr. President, I rise today to introduce the Equity Expansion Act of 1993. I am pleased to be joined in this effort by Senators MACK, FEINSTEIN, and BOXER.

This bill could help spur the competitiveness and profitability of American companies by expanding the number of employees in all industries who will have the opportunity to receive part of their remuneration in the form of stock options. In addition, our bill would reform the current punitive tax and financial accounting treatment of employee stock options and it will create strong tax incentives for employees to retain the stock they purchase through their stock options, enhancing our pool of long-term, patient capital.

Mr. President, from a public policy perspective this bill is appealing because it is focused on strengthening a key American advantage in global competition. America's best companies learned long ago that the key to success in the world's toughest markets is a dedicated work force that shares the common goals for their company. Nothing spawns that commitment better than the opportunity for equity ownership through broad-based employee stock options and stock purchase plans.

Employee equity could help give us an edge in global competition. Neither the Europeans nor the Japanese have yet learned how to generate the kind of

employee creativity and commitment that broad-based employee stock option plans have demonstrated for United States companies. Our Nation's public policy should encourage and promote employee participation through broad use of equity compensation programs. The bill we are introducing today will begin that process.

WHY THIS IS A JOBS BILL

One of our Nation's strongest concerns now is how to stimulate additional job creation in the American economy. We contemplate spending billions of dollars trying to prime the job pump, but we often can't be certain what we will receive in return. As we debate those measures, it's important that we not overlook a powerful job creation engine that is already pumping out thousands of high-quality jobs with a future in this country and generating major tax revenues for us in the process. That engine is small business, and the fuel is the broad-based employee stock option.

Stock options make it possible to start new companies and create new jobs with significantly less cash than would otherwise be required. They enable growing companies to attract the key people who can make the difference at each stage of a company's progress. Stock options stretch scarce venture capital dollars and allow companies to hire more people than they otherwise could. Stock options also encourage risk-taking and spur technological innovation. America's most dynamic, job-creating companies consistently rely on employee stock options to attract and motivate their employees. Not just their top executives, all their employees.

I often hear from innovative CEO's who tell me they could not have built their companies and created the jobs they have without the ability to offer stock options to their entire work force. These same executives tell me that the rule change soon to be imposed by the Financial Accounting Standards Board [FASB] would have prevented them from creating many of those jobs.

Mr. President, our bill will not only prevent damage to America's growth-oriented industries, it will improve the ability of those companies to share equity more widely with their employees. In the process it will encourage thousands of additional companies to begin granting stock options to their work force, giving them a powerful stake in those companies.

At a time when we are contemplating a variety of reforms, taxes, and other mandates on business that will make it more expensive to create jobs, it's vital that we find new ways to make it easier to start companies and employ people. The Equity Expansion Act is such a bill.

A POSITIVE REVENUE IMPACT

Mr. President, another important reason this bill is attractive is that, unlike most business tax proposals, we believe the Equity Expansion Act will be ruled revenue-positive by the Joint Committee on Taxation. The Joint Committee found a similar bill to be a revenue-raiser in 1979. We asked two national accounting firms to analyze the revenue implications of our bill under today's tax rates and rules.

In a letter dated April 26, 1993, Ernst and Young reached the following conclusions:

> Setting aside matters of timing, to the extent that the performance stock options created by this bill displace nonqualifying stock options (or equivalently taxed cash compensation), there is an unambiguous revenue gain to the Treasury. This revenue gain is offset to the extent that performance stock options displace incentive stock options; and under the current rate structure, so long as 40 percent or more of the performance stock options would otherwise have been nonqualifying stock options (or equivalently taxed cash compensation), the net impact would be a revenue gain for the Treasury.

Coopers & Lybrand also examined the revenue implications of our bill. They conclude:

> In summary, the Equity Expansion Act of 1993 appears to offer the combination of reducing individual tax burdens for the employee and potentially increased Treasury collections. When compared to a non-qualified stock option, the proposed performance option would induce employees to keep the associated stock for the required holding period and in the situations outlined above, government revenue should rise. Our results are less definitive when the analysis is done using ISOs as a yardstick, but based on the current employee practice of selling the stock immediately, the performance options should also increase government revenue.

At a time when there is intense pressure on all tax provisions, my colleagues and I are pleased to be able to offer a bill that focuses on many of the most productive, job creating companies in the economy and also is likely to generate a revenue gain for the Treasury. I plan to include the full text of these accounting firm analyses, along with the Joint Committee's revenue estimate, in a future statement on this bill.

WHAT ARE STOCK OPTIONS, AND WHO PAYS FOR THEM?

An employee stock option is a right to purchase a set number of company shares for a fixed price at some defined time in the future. Unlike the type of stock options traded on stock exchanges, employee stock options are not transferable. There is no external market to establish their value.

The cost of employee stock options is borne entirely by the company's shareholders through dilution in the value of their shares. Yet, as described in more detail below, investors willingly approve these plans because they stimulate greater returns. Stock option plans are the only element of corporate compensation that already require the express approval of shareholders. Further, they are subject to annual proxy disclosure and footnote treatment in financial statements.

SUMMARY OF THE EQUITY EXPANSION ACT

The Equity Expansion Act leaves existing forms of stock options in place. Companies could continue to offer tax-deductible nonstatutory—nonqualified—stock options if they wish. But companies willing to forgo that deduction and grant options broadly throughout their work force would be able to offer their employees a new form of option, called a performance stock option [PSO], that requires no taxes from employees at exercise and gives them strong tax incentives to hold onto their stock after they acquire it. To qualify, at least half of a PSO must go to "non-highly compensate" employees, as defined by the IRS. This new form of option essentially restores the benefits of capital gains treatment by excluding half of the tax on the employees' gain when they sell their stock, after a minimum two year holding period.

TAX PROVISIONS

Despite its powerful tax incentives, this new form of option, performance stock option, will not cause a revenue loss to the U.S. Treasury. In fact, a revenue gain is achieved by omitting the employer's expense deduction when PSO's are exercised—as in incentive stock options.

PSO plans will require the approval of the firm's shareholders. They:

Assure broad participation by reserving at least half of the stock in PSO plans for "non-highly compensated" employees as defined by Congress in IRC §414(q).

Relieve employees of taxes on their paper profits when they exercise their options. They would still be taxes when they sell their stock.

Encourage employees to retain their stock after exercise by excluding 50 percent of their gain from tax when the stock is sold, after a minimum 2-year holding period.

Remove the spread at exercise from the alternative minimum tax, and prevent the IRS from imposing FICA and FUTA taxes on premature sales.

ACCOUNTING PROVISIONS

The bill directs the SEC to end the charge against earnings now required on variable options, thereby providing management with a flexible and powerful new motivational tool. The number of options the employee could exercise in the future could be increased or decreased by the achievement of performance goals set by the company—that is, shareholder ROI, product development goals, revenue or profitability target, et cetera—without an accounting penalty.

The bill counters the decision on stock option accounting announced by the Financial Accounting Standards Board on April 7, 1993. It directs the SEC to maintain the current financial accounting treatment of all forms of fixed stock options. No additional compensation charge to earnings would be required.

THE NEED FOR THIS BILL

1. STOCK OPTIONS IMPROVE THE PERFORMANCE OF AMERICAN COMPANIES

In the traditional model for financing a company, investors provide money to

a company and receive stock in return. The company then uses some of the money to compensate its employees. There is no dispute over how to account for this simple transaction. But over the last generation a growing number of American companies have learned the value of going back to their investors for a second investment in the form of stock which they then share with large segments of their work force through employee stock option plans.

Because the exercise of employee options will dilute the economic and voting power of shareholders, the corporation laws of virtually every State require that shareholders specifically approve employee stock option plans. And approve them they do, because over the years shareholders have learned that they receive significantly greater returns from companies that share stock to motivate their work force.

For example, it's worth nothing that professional venture capital firms are some of the strongest advocates of broad-based employee stock option plans. Veteran America venture capitalists are among the most sophisticated corporate investors, directors, and shareholders in the world. They know that as shareholders they bear the full cost of stock option plans through dilution of their holdings. Yet they consistently insist that their portfolio companies establish and maintain extensive employee stock options plans that cover all or nearly all of their work force. And they're not hesitant to say why. The professional venture capital industry has learned over the years that broad-based employee stock ownership is essential to achieving the dramatic returns that investors in professional venture capital funds seek.

2. COMPANY-WIDE OPTION PLANS ARE WIDESPREAD AND GROWING

Many people in this country mistakenly believe that stock options are a benefit awarded only to CEO's and other top executives. This misimpression is reinforced by stories about individual executives stock option packages. Hardly any national visibility has gone to the important trend toward companies sharing options with their entire work force. Yet this movement is fundamental to the success American companies have achieved in global competition. Examples include such highly successful large companies as Chili's, DuPont, Genentech, Kroger, Merck, Nation'sBank, Pepsico, and Pfizer. And the practice is even more widespread among smaller companies.

America's technology companies have been the world's leaders in sharing their stock with their employees and benefiting from the growth that ensues. A dramatic example is Microsoft Corp. The New York Times recently estimated that Microsoft's stock option and employee stock purchase plans have created more than 2,200 employee millionaires in that one company. This is an achievement that our public policy should encourage. But it is far from an isolated example.

A 1990 Radford Associates survey of 300 electronics companies found 85 percent of the companies using options gave them to middle managers and above, while 30 percent even include nonsalaried people. Only 15 percent limited their options to officers.

The Industrial Biotechnology Association reports a similar experience. According to IBA, 75 percent of their companies use stock options. Fully 60 percent grant options to their entire work force. Only 8 percent limit their options to officers and a few managers.

In 1991, ShareData, Inc., makers of a widely used PC-based stock option management program, surveyed their 800-firm user group, which includes many companies outside the technology sectors. They received 300 responses. A substantial majority—68 percent—of the smallest companies—with fewer than 100 employees—grant stock options to every one of their employees. Even when companies reached 500 employees, more than half—54 percent—of the respondents granted options to their entire work force.

It's well known that the political pressure on FASB stems in large part from the mistaken belief that stock options only go to a few top executives. It's painfully ironic that FASB's new accounting rule would translate that premise into a self-fulfilling prophesy. Top executives will always be able to bargain for equity compensation, and boards of directors will want them to have it, even if FASB doubles its cost. What will be lost, however, is the tradition of granting stock options to a company's entire work force. FASB's proposed charge against earnings would also cover the discounts companies now offer their employees to encourage them to purchase stock directly from the company. Both broad-based stock options and employee stock purchase plans will become prohibitively expensive if FASB's plan goes through.

3. U.S. TAX POLICY SHOULD ENCOURAGE STOCK RETENTION BY EMPLOYEES

Nearly every study of what works in successful companies advocates encouraging employees to buy and own meaningful portions of their company's stock. Employee stock options are a sound technique for making it possible for employees to purchase stock in their companies. Yet today's tax policies strongly discourage employees from retaining their stock after they exercise their options.

When employees exercise their stock options they are only acquiring stock. Ordinarily an income tax liability doesn't develop from purchasing an asset like stock. But in the case of the most widely used form of stock option, nonqualified options, employees are required to pay a tax on their paper profit at the time they purchase their stock—before they actually realize any gain from selling the stock. The law also allows employers to deduct the same amount as a compensation expense.

Since the cost of this tax on employees is in addition to the cost of purchasing the stock, most employees are forced to sell their stock immediately to pay the tax. This destroys the fundamental policy goal of encouraging employee ownership in their companies.

INCENTIVE STOCK OPTIONS HAVE BEEN RENDERED WORTHLESS

In 1981 Congress enacted incentive stock options [ISO's] to redress some of the problems with nonqualified options. ISO's were designed to allow employees to keep their stock after exercise by relieving them of taxes at exercise. In return for dropping the tax on employees, ISO's provide no compensation tax deduction for the company.

ISO's actually raise money for the Treasury because, when they sell their stock, employees pay tax on the full spread from date of grant to the date of sale. Since that tax revenue is not diluted by a deduction from the company, the Treasury comes out ahead. The Joint Committee on Taxation confirmed this effect in 1979 when it ruled that the ISO is revenue-positive.

But over the years, the usefulness of ISO's have been severely curtailed. Even though they raise money for the Treasury, Congress now treats ISO's like a tax concession and imposes the alternative minimum tax on their exercise. In addition to being conceptually wrong, this means that employees are once again forced to sell their ISO stock to pay the AMT tax. That defeats the whole purpose of the ISO. The bill we are introducing today will reform that policy.

As noted above, the Equity Expansion Act will create a new form of option, called performance stock options. This new form of option will encourage more companies to grant more options to more of their employees because it is limited to companies that offer broad-based stock option plans to large portions of their work force.

PSO's will require neither an income tax nor an AMT tax payment from employees when they exercise their options. Since any gain in the value of the stock at exercise would not be treated as personal service income to the employee, the company would not receive a compensation expense deduction for it. This foregone corporate deduction generates what Ernst and Young describes as "an unambiguous revenue gain for the Treasury."

Our bill then uses a portion of that revenue gain to encourage employees to retain their stock for at least 2 years after exercise. After that holding period, half of the employee's gain will be excluded from tax when he or she ultimately sells the stock. Even with this tax incentive included, we expect the PSO to be ruled revenue-positive to the Treasury.

BUT WHAT ABOUT THOSE FAT CATS?

Mr. President, as I have noted, much of the criticism of stock options revolves around horror stories about a small number of extravagantly compensated executives. Much of the political pressure that has been exerted on FASB stems from such publicity. So it's fair to ask why our bill won't generate even more such stories.

First, it's important to remember that following the scandals we all remember last year, the SEC has promulgated a major new program requiring extensive disclosure of executive compensation in a company's proxy statements. The compensation of the top people in a company will now be displayed in a readable and comprehensive way, along with comparisons against other companies in the same industry. It is now much easier for shareholders to hold their board of directors accountable for overcompensating employees. It is not necessary to clamp down on the use of stock options as a way to get a handle on executive pay.

Second, the Equity Expansion Act will encourage thousands of companies to share stock options with large percentages of their work force. The bill requires that at least 50 percent of the stock in a PSO plan must be granted to employees who are "not highly compensated" under the definition of that term in section 414(q) which Congress enacted in 1986. That definition is adjusted for inflation. In 1993 highly compensated employees begins at $57,820 for company officers. It covers the top paid 100 employees and the top 20 percent of employees. So any CEO who earns a gain on a PSO will not only have shared that gain with his or her shareholders, but will also have shared it widely with lower level people inside the company.

And finally there is the matter of tax cost. This bill does not cost the taxpayers additional money. We expect it will actually generate additional revenue for the Treasury. Therefore, it is to everyone's advantage to have this new stock option vehicle be adopted and implemented as widely as possible.

FASB'S STOCK OPTION PROPOSAL MUST BE RECONSIDERED

Mr. President, the tax provisions of the Equity Expansion Act would increase the value of broad-based employee stock options to both employees and companies in this country. Unfortunately, however, there still remains a major threat to the ability of companies to continue offering this incentive to their entire work force. I refer to the proposal by the Financial Accounting Standards Board to change the financial accounting rules for stock options.

The magnitude of the threat posed by FASB's proposal is demonstrated by a recent survey of 500 mainly high-technology start-up companies conducted by Venture One, a San Francisco research firm. Ninety percent of these companies said that if they had to deduct stock options from their profits it would force them to stop granting options to their entire work force, confine them to top executives only, or drop them completely. That is exactly the opposite of what we should be doing with stock options in this country.

WHY DOES SECRETARY BENTSEN CALL FASB'S PLAN HIGHLY DEBATABLE?

Mr. President, on April 2d, Treasury Secretary Lloyd Bentsen wrote FASB expressing his "reservations about the proposal under consideration which would require companies to take a highly debatable charge to earnings when granting stock options."

It's important to point out some of the reasons this charge is considered "highly debatable" by the Clinton administration, the users of financial statements, all six national public accounting firms, and the companies that grant options.

The fact is that accurately estimating the future value of employee stock options is nearly impossible. No model yet offered comes close. First, no one can even know if the option recipient will remain employed at the company long enough to ever exercise the option. Beyond that, estimating the value of an option to purchase stock in the future requires predicting the company's future earnings, cash flow, market share, capital spending, as well as future Government policy. A high degree of subjectivity is simply unavoidable. Yet FASB proposes to force such guesses about the future onto the company's income statement as a reduction of its hard-won earnings.

The Board says the market will learn to overlook these charges and discern the true worth of the companies. The question is—from a policy perspective why should we make them do it in the first place? Can the benefits FASB proposes to produce with this charge outweigh the harm it will cause? The Board's supporters respond that such considerations are outside of FASB's charter. They feel the Board's responsibility is truth in accounting, not a balancing of interests. Yet a broader perspective is needed.

The Equity Expansion Act contains a provision directing the SEC not to require an issuer to recognize an expense or other charge in financial statements furnished to its security holders resulting from the grant, vesting, or exercise of an employee stock option. It would also eliminate the charge to earnings currently required for performance-based, variable options.

As a matter of abstract accounting theory, FASB's approach to stock option accounting may be defensible. But from a public policy, job creation, and competitiveness perspective, it is simply unnecessary and unusually disruptive.

I believe that the global preeminence of America's vital technological industries could be damaged by the proposal FASB has put forward.

FUTURE STATEMENTS ON EQUITY EXPANSION ACT ISSUES

Mr. President, a full discussion of the various questions raised by this bill is well beyond the scope of a single floor statement. Therefore, I plan to offer additional remarks over the next weeks and months to consider in more detail some of the topics that are important to understanding the Equity Expansion Act. Among the future issues I hope to review are:

How the Equity Expansion Act can spread the benefits of equity compensation to thousands of companies and millions of Americans who don't receive options today;

A survey of the research showing that extensive use of equity compensation promotes growth and competitiveness in American companies and industries.

Explanations of the revenue impact of the bill from both the public accounting firms and the Joint Committee on Taxation;

An examination of the accounting rationale for retaining the current accounting treatment of employee stock options; and

What positive alternatives to this accounting change are available to answer FASB's concerns.

Mr. President, I ask unanimous consent that the text of the Equity Expansion Act be printed in the RECORD following my remarks.

There being no objection, the bill was ordered to be printed in the RECORD, as follows:

S.1175

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Equity Expansion Act of 1993".

SEC. 2. PERFORMANCE STOCK OPTIONS.

(a) IN GENERAL.—Part II of subchapter D of chapter 1 of the Internal Revenue Code of 1986 (relating to certain stock options) is amended by redesignating section 424 as section 425 and by inserting after section 423 the following new section:

"SEC. 424. PERFORMANCE STOCK OPTIONS.

"(a) IN GENERAL.—Section 421(a) shall apply with respect to the transfer of a share of stock to any person pursuant to the exercise of a performance stock option if no disposition of such share is made by such person within 1 year after the transfer of such share to such person.

"(b) PERFORMANCE STOCK OPTION.—For purposes of this part—

"(1) IN GENERAL.—The term 'performance stock option' means an option granted to any person for any reason in connection with the performance of services for an entity described in paragraph (4) to purchase stock of any corporation described in paragraph (4).

"(2) ADDITIONAL REQUIREMENTS.—An option shall not be treated as a performance stock option unless the following requirements are met:

"(A) NONDISCRIMINATION.—Either—

"(i) the option is granted to an employee who, at the time of the grant, is not a highly compensated employee, or

"(ii) immediately after the grant of the option, employees who are not highly compensated employees hold performance share options which permit the acquisition of at

least 50 percent of all shares which may be acquired pursuant to all performance stock options outstanding (whether or not exercisable) as of such time.

For purposes of clause (ii), only that portion of the options held by persons other than nonhighly compensated employees which results in the requirements of clause (ii) not being met shall be treated as options which are not performance stock options, and such portion shall be allocated among options held by such persons in such manner as the Secretary may prescribe.

"(B) SPECIFIC NUMBER OF OPTIONS.—The option is granted pursuant to a plan that includes either—

"(i) the aggregate number of shares that may be issued under options granted under the plan, or

"(ii) a method by which the aggregate number of shares that may be issued under options granted under the plan can be determined (without regard to whether such aggregate number may change under such method),

and which is approved by the stockholders of the granting corporation within 12 months before or after the date such plan is adopted.

"(C) TIME WHEN OPTION GRANTED.—The option is granted within 10 years after the date the plan described in subparagraph (B) is adopted, or the date such plan is approved by the stockholders, whichever is earlier.

"(D) TIME FOR EXERCISING OPTION.—The option by its terms is not exercisable after the expiration of 10 years from the date such option is granted.

"(E) OPTION PRICE.—Except as provided in paragraph (6) of subsection (c), the option price is not less than the fair market value of the stock at the time the option is granted.

"(F) TRANSFERABILITY.—The option by its terms is not transferable by the person holding the option, other than—

"(i) in the case of an individual, by will or the laws of descent and distribution, or pursuant to a qualified domestic relations order (as defined in subsection (p) of section 414), and

"(ii) in the case of any other person, by any transaction in which gain or loss is not recognized in whole or in part.

"(3) ELECTION NOT TO TREAT OPTION AS PERFORMANCE STOCK OPTION.—An option shall not be treated as a performance stock option if—

"(A) as of the time the option is granted the terms of such option provide that it will not be treated as a performance stock option, or

"(B) as of the time such option is exercised the grantor and holder agree that such option will not be treated as a performance stock option.

"(4) ENTITIES TO WHICH SECTION APPLIES.—This section shall apply to an option granted to a person who performs services for—

"(A) the corporation issuing the option, or its parent or subsidiary corporation,

"(B) a partnership in which the corporation issuing the option holds (at the time of the grant) a capital or profits interest representing at least 20 percent of the total capital or profits interest of the partnership, or

"(C) a corporation or a parent or subsidiary corporation of such corporation issuing or assuming a stock option in a transaction to which section 425(a) applies.

"(5) HIGHLY COMPENSATED EMPLOYEE.—For purposes of this subsection, the term 'highly compensated employee' has the meaning given such term by section 414(q).

"(c) SPECIAL RULES.—

"(1) GOOD FAITH EFFORTS TO VALUE STOCK.—If a share of stock is acquired pursuant to the exercise by any person of an option which would fail to qualify as a performance stock option under subsection (b) because there was a failure in an attempt, made in good faith, to meet the requirement of subparagraph (E) of subsection (b)(2), the requirement of subparagraph (E) of subsection (b)(2) shall be considered to have been met.

"(2) PERMISSIBLE PROVISIONS.—An option that meets the requirements of subsection (b) shall be treated as a performance stock option even if—

"(A) the option holder may pay for the stock with stock of the corporation granting the option,

"(B) the option holder has the right to receive property at the time of the exercise of the option,

"(C) the right to exercise all or any portion of a performance stock option may be subject to any condition, contingency or other criteria (including, without limitation, the continued performance of services, achievement of performance objectives, or the occurrence of any event) which are determined in accordance with the provisions of the plan or the terms of such option, or

"(D) the option is subject to any condition not inconsistent with the provisions of subsection (b).

"(3) FAIR MARKET VALUE.—For purposes of this section, the fair market value of stock shall be determined without regard to any restriction other than a restriction that, by its terms, will never lapse.

"(4) DEFINITION OF PARENT AND SUBSIDIARY CORPORATIONS.—For purposes of this section, the terms 'parent corporation' and 'subsidiary corporation' have the meanings given such terms by subsections (e) and (f) of section 425 except that such subsections shall be applied by substituting '20 percent' for '50 percent' each place it appears.

"(5) PERFORMANCE CRITERIA.—In the case of a performance stock option that provides that its exercise is subject to any conditions or criteria described in subparagraph (C) of paragraph (2), the date or time the option is granted with respect to each share that may be acquired shall be the date or time the original performance share option is granted and subject to the provisions of section 425(h), no portion of the option shall be treated as granted at any other time.

"(6) CONVERSION OF OPTIONS.—If—

"(A) there is a transfer of an incentive stock option in exchange for a performance stock option, and

"(B) the number of shares that may be acquired pursuant to such performance stock option and the transferred incentive stock option are the same,

then the option acquired shall qualify as a performance stock option if the option price pursuant to the performance share option is no less than the option price under the transferred incentive stock option."

(b) CONFORMING AMENDMENTS.—

(1) Section 421(a) of such Code is amended by striking "or 423(a)" and inserting ", 423(a), or 424(a)".

(2) Section 421(b) of such Code is amended—

(A) by striking "or 423(a)" and inserting ", 423(a), or 424(a)", and

(B) by striking "or 423(a)(1)" and inserting "423(a)(1), or 424(a)".

(3) Section 421(c)(1)(A) of such Code is amended by inserting "and the holding period requirement of section 424(a)" after "423(a)";

(4)(A) Sections 421(a)(2), 422(a)(2), and 423(a)(2) of such Code are each amended by striking "424(a)" and inserting "425(a)".

(B) Clause (ii) of section 402(e)(4)(E) of such Code is amended by striking "424" and inserting "425".

(5) Section 423(b)(3) of such Code is amended by striking "424(d)" and inserting "425(d)".

(6) Section 425(a) of such Code, as redesignated by subsection (a), is amended by striking "424(a)" and inserting "425(a)".

(7) Section 425(c)(3)(A)(ii) of such Code, as redesignated by subsection (a), is amended by striking "or 423(a)(1)" and inserting ", 423(a)(1), or 424(a)".

(8) Section 425(g) of such Code, as redesignated by subsection (a), is amended by striking "and 423(a)(2)" and inserting ", 423(a)(2) and 424(b)(4) (as modified by section 424(c)(4))".

(9) Section 425(j) of such Code, as redesignated by subsection (a) (relating to cross-references), is amended by inserting "performance stock option" after "employee stock purchase plans,".

(10) Section 1042(c)(1)(B)(ii) of such Code is amended by striking "or 423" and inserting "423, or 424".

(11)(A) Section 6039(a)(1) of such Code is amended by inserting "or performance stock option" after "incentive stock option".

(B) Section 6039(b)(1) is amended by inserting ", performance share option," after "incentive stock option".

(C) Section 6039(c) is amended by striking "and" at the end of paragraph (1), by striking the period at the end of paragraph (2) and inserting ", and" and by adding at the end the following new paragraph:

"(3) the term 'performance share option', see 424(b)."

(12) The table of sections for part II of subchapter D of chapter 1 of such Code is amended by striking the item relating to section 424 and inserting the following new items:

"Sec. 424. Performance stock options.

"Sec. 425. Definitions and special rules."

SEC. 3. TAX TREATMENT OF GAIN ON PERFORMANCE SHARE OPTIONS.

(a) EXCLUSION.—

(1) IN GENERAL.—Part I of subchapter P of chapter 1 of the Internal Revenue Code of 1986 (relating to capital gains and losses) is amended by adding at the end the following new section:

"SEC. 1202. 50-PERCENT EXCLUSION FOR GAIN FROM STOCK ACQUIRED THROUGH PERFORMANCE STOCK OPTIONS.

"(a) GENERAL RULE.—Gross income shall not include 50 percent of the gain from the disposition of any stock acquired pursuant to the exercise of a performance stock option if such disposition occurs more than 2 years after the date on which such option was exercised with respect to such stock.

"(b) DEFINITIONS AND RULES.—For purposes of this section—

"(1) PERFORMANCE STOCK OPTION.—The term 'performance stock option' has the meaning given such term by section 424(b).

"(2) CERTAIN ACQUISITIONS DISREGARDED.—If stock described in subsection (a) is disposed of and the basis of the person acquiring the stock is determined by reference to the basis of the stock in the hands of the person who acquired it through exercise of the performance stock option, such person shall be treated as acquiring such stock pursuant to such option on the date such stock was acquired pursuant to the exercise of such option.

"(3) EXERCISE BY ESTATE.—If a performance stock option is exercised after the death of an individual holder by the estate of the decedent, or by a person who acquired the right to exercise such option by bequest or inheritance or by reason of the death of the decedent, the 2-year holding requirement of subsection (a) shall not apply to the disposition by such estate or person."

(2) CONFORMING AMENDMENTS.—

(A)(i) Section 172(d)(2) of such Code (relating to modifications with respect to net operating loss deduction) is amended to read as follows:

"(2) CAPITAL GAINS AND LOSSES OF TAXPAYERS OTHER THAN CORPORATIONS.—In the case of a taxpayer other than a corporation—

"(A) the amount deductible on account of losses from sales or exchanges of capital assets shall not exceed the amount includable on account of gains from sales or exchanges of capital assets, and

"(B) the exclusion provided by section 1202 shall not be allowed."

(ii) Subparagraph (B) of section 172(d)(4) of such Code is amended by inserting ", (2)(B)," after "paragraph (1)".

(B) Paragraph (4) of section 642(c) is amended to read as follows:

"(4) ADJUSTMENTS.—To the extent that the amount otherwise allowable as a deduction under this subsection consists of gain described in section 1202(a), proper adjustment shall be made for any exclusion allowable to the estate or trust under section 1202. In the case of a trust, the deduction allowed by this subsection shall be subject to section 681 (relating to unrelated business income)."

(C) Paragraph (3) of section 643(a) of such Code is amended by adding at the end thereof the following new sentence: "The exclusion under section 1202 shall not be taken into account."

(D) Paragraph (4) of section 691(c) of such Code is amended by striking "1201, and 1211" and inserting "1201, 1202, and 1211".

(E) The second sentence of paragraph (2) of section 871(a) of such Code is amended by inserting "such gains and losses shall be determined without regard to section 1202 and" after "except that".

(F) The table of sections for part I of subchapter P of chapter 1 is amended by adding after the item relating to section 1201 the following new item:

"Sec. 1202. 50-percent exclusion for gain from stock acquired through performance stock options."

(b) TREATMENT FOR WAGE WITHHOLDING AND EMPLOYMENT TAXES.—

(1) FICA TAXES.—Section 3121(a) of the Internal Revenue Code of 1986 (defining wages) is amended by striking "or" at the end of paragraph (20), by striking the period at the end of paragraph (21) and inserting ", or", and by adding after paragraph (21) the following new paragraph:

"(22) any gain from the exercise of a performance stock option (as defined in section 424(b)) or from the disposition of stock acquired pursuant to the exercise of such a performance stock option."

(2) FUTA TAXES.—Section 3306(b) of such Code (defining wages) is amended by striking "or" at the end of paragraph (15), by striking the period at the end of paragraph (16) and inserting ", or", and by adding after paragraph (16) the following new paragraph:

"(17) any gain described in section 3121(a)(22)."

(3) WAGE WITHHOLDING.—

(A) Section 3401(a) of such Code (defining wages) is amended by striking "or" at the end of paragraph (19), by striking the period at the end of paragraph (20) and inserting ", or", and by adding at the end the following new paragraph:

"(21) any gain from the exercise of a performance stock option (as defined in section 424(b)) or from the disposition of stock acquired pursuant to such a performance stock option."

(B) Section 421(b) of such Code (relating to effect of disqualifying disposition) is amended by adding at the end the following new sentence: "A deduction to the employer corporation in the case of a transfer pursuant to an option described in section 422, 423, or 424 shall not be disallowed by reason of a failure to withhold tax under chapter 24 with respect to gain on stock acquired in the transfer."

SEC. 4. STOCK OPTION COMPENSATION.

Section 14 of the Securities Exchange Act of 1934 (15 U.S.C. 78n) is amended by adding at the end the following new subsection:

"(h) STOCK OPTION COMPENSATION.—The Commission shall not require or permit an issuer to recognize any expense or other charge in financial statements furnished to its security holders resulting from, or attributable to, either the grant, vesting, or exercise of any option or other right to acquire any equity security of such issuer (even if the right to exercise such option or right is subject to any conditions, contingencies or other criteria, including, without limitation, the continued performance of services, achievement of performance objectives, or the occurrence of any event) which is granted to its directors, officers, employees, or other persons in connection with the performance of services, where the exercise price of such option or right is not less than the fair market value of the underlying security at the time such option or right is granted."

SEC. 5. EFFECTIVE DATE.

The amendments made by this Act shall apply to options granted after the date of the enactment of this Act.•

• Mrs. FEINSTEIN. Mr. President, I rise to join my distinguished colleagues, Senators LIEBERMAN, MACK, and BOXER in introducing the Equity Expansion Act of 1993.

At a time when California continues to be mired in recession, when our economy is struggling to convert thousands of defense jobs into private sector jobs, it's a pleasure for me to offer a bill that will significantly improve the ability of new companies to start-up and grow, as well as help existing companies create more new jobs than they otherwise could.

My bill will improve the tax and accounting treatment of employee stock options and encourage many more companies to offer stock options to their entire workforce. It will also require the Financial Accounting Standards Board [FASB] to reexamine their recent decision to impose huge new accounting charges on the use of employee stock options. I am seriously concerned that if FASB's rule is adopted, tens of thousands of desperately needed jobs in California and the Nation will never be created.

Because of this bill, thousands of households in California and the rest of the country should begin to enjoy the benefits of equity participation in their companies. At the same time, the companies that begin to share equity more broadly with their employees should find their earnings improved and their competitiveness enhanced.

Many of my colleagues here in Washington may not be familiar with the widespread use of employee stock options in America's fastest growing companies. But I can tell you that in California's high technology industries, broad-based employee stock option plans play a crucial role in creating and sustaining the entrepreneurial culture that is essential to the competitiveness of these industries. They are especially important to young technology companies that depend on options to attract and retain key technical talent that would be beyond their ability to attract with cash compensation alone.

A stock option is a right granted to an employee to purchase stock in his or her own company, at today's price, for a specified time in the future. Options help the company by giving employees a strong incentive to work to increase the value of their company's stock. Stock options help create jobs by stretching the cash of venture capitalists and other risk capital investors. By sharing stock with employees in addition to their cash compensation, more companies and more jobs can be created from the limited investment capital pool that is available today.

HOW THE EQUITY EXPANSION ACT WOULD IMPROVE STOCK OPTIONS

Valuable as employee stock options plans are for our economy, they are inhibited and discouraged by the Federal Tax Code today.

Under current law employees who hold the most common form of option, "nonqualified" options are forced to pay a tax on their paper profit at the time they exercise their options and purchase their stock. The difference between the fair market value of the stock obtained by nonqualified options and the option exercise price is treated as ordinary income. The employer is generally permitted to deduct the same amount of ordinary income reported by the employee.

In the case of the other form of option currently available, "incentive stock options," or "ISO's," the difference between the option price and the fair market value of the stock when it is exercised is treated as a tax preference under the alternative minimum tax [AMT].

So under today's tax regime employees are forced to pay either an income tax or an alternative minimum tax at the time they purchase their stock, even though they have not realized and pocketed any gain. The effect of this requirement is to force almost all option recipients to immediately sell their stock at the time they exercise their options in order to generate cash to pay their tax. This destroys the fundamental policy goal of the option program which was to encourage employees to own as much of their company as possible.

The Equity Expansion Act would reform this situation by creating a third form of stock option, called performance stock option. This new option would relieve employees of the obligation to pay a tax at the time they exercise their options and the company would receive no corresponding deduction. In addition, it would give employees a strong incentive to hold onto their stock after they acquire it, by excluding half the tax on their gain when they eventually sell their stock after a 2-year holding period.

A REVENUE GAIN FOR THE TREASURY

The tax break offered by performance stock options should make them extremely popular in the business com-

munity, but what about in Congress? Can we afford to create a new tax incentive for employee stock options? I am pleased to report that we can, because this new stock option will generate a revenue gain for the Treasury. That's because companies that offer performance stock options will have to forego the compensation expense tax deductions they would otherwise have received if they had given their employees either cash compensation or nonqualified stock options. Even though employees will be paying less tax, their employers will be paying more than enough additional tax to make up the difference.

HOW WILL THIS BILL HELP RANK-AND-FILE EMPLOYEES?

Mr. President, I'm well aware that in the past stock options have figured in prominently in stories about runaway executive compensation. Unfortunately all those headlines have obscured the important contribution that options make to the livelihoods of hundreds of thousands of Americans who will never be famous for their wealth. Now that the SEC has imposed an extensive new regime of executive compensation disclosure rules, it will be much easier for shareholders to prevent the kind of abuses we have heard so much about in the past. It is simply not necessary to restrict the use of stock options overall to prevent abuses by a few fat cats.

But it's still fair to ask how my bill would prevent top executives from hogging all the tax benefits it offers. The answer is that the Equity Expansion Act requires that companies that choose to offer this new form of option will be required to share at least half the stock in the plan with company employees who are not highly compensated as defined by Congress. This requirement will assure that the benefits of performance stock options are shared widely in every company that uses them. It will also encourage many companies that today restrict their stock option plans to top executives to broaden their option program. I am very enthusiastic about the prospect that this bill will result in employee stock options becoming available to thousands of households that don't have them today.

The Equity Expansion Act is a carefully crafted bill. It would encourage several of the most widely recommended reforms called for by experts in the debate over executive compensation. For instance, in a recent Harvard Business Review article, Andrew R. Brownstein and Morris J. Panner propose exactly what this bill would deliver.

> We suggest that companies take two important steps that make both business and political sense. First, corporations should design plans that allow workers throughout an organisation to share in the large bonuses and generous rewards of stock option plans. Second, corporations should create plans that encourage employees to continue to hold the shares awarded to them in stock option programs.

By expanding the employee eligibility pool for stock options, companies will solve two problems simultaneously. They will take the principle of pay for performance and spread it throughout the organization. And they will address the political problem of pay disparity between workers and executives.

Mr. President, I hope my colleagues in the Senate will join with us in sponsoring and voting for this important job-creating and job-preserving bill, the Equity Expansion Act of 1993.•

By Mr. KOHL:

S. 1176. A bill to clarify the tariff classification of certain plastic flat goods; to the Committee on Finance.

CLARIFYING THE CLASSIFICATION OF CERTAIN FLAT GOODS

• Mr. KOHL. Mr. President, I am introducing legislation today that is important to the health of the domestic flat goods industry in this country and in the State of Wisconsin. Flat goods are items that are carried in your pocket or your purse, like wallets, key chains, and eyeglass holders.

When the United States converted to the International Harmonized Tariff Schedule [HTS], a loophole was crated which allowed plastic flat goods, which formerly entered at a duty rate of 20 percent, to enter at an effective duty rate of 5.8 percent. The actual and potential number of items subject to reclassification into the lower duty category is massive and could result in a loss of revenue to the U.S. Government of up to $9 million.

More important, however, is the fact that the duty loophole is threatening our domestic industry by driving up imports and making it impossible for American producers to stay competitive.

Mr. President, this was clearly not the intent of Congress. In fact, Congress was specific in its intent that the conversion to HTS should be tariff neutral. I firmly believe it is up to Congress to remedy this situation, and the legislation I am introducing today achieves this in the fairest way possible.

My bill is a modification of an earlier bill I introduced in the last Congress, S. 1661, and is based on compromise language put forward by the administration last year. The changes proposed by the administration would, in their words, "restore the duties applicable at the time of the tariff conversion by: First, reintroducing into the HTS a definition of reinforced and laminated plastics; second, providing a duty of 8 percent ad valorem for flat goods with an outer surface of not less than 20 percent leather; and third providing authority for the President to continue staging previously authorized tariff cuts."

Under the former tariff schedules of the United States [TSUS], reinforced or laminated plastics were defined as "rigid, infusible, insoluble plastics formed by the application of heat and high pressure on two or more superimposed layers of fibrous sheet material which has been impregnated or coated with plastics or rigid plastics comprised of embedded fibrous reinforcing material—such as paper, fabric, asbestos, and fibrous glass—impregnated, coated, or combined with plastics usually by the application of heat or heat and low pressure." This definition was dropped in the conversion to the HTS, leaving HTS 4202.32.10 open to a broader interpretation of what constitutes "reinforced or laminated plastics." The change recommended by the administration clarifies that only rigid products would be subject to the lower duty under HTS 4202.32.10.

The administration's recommended changes also address the major concern of importers to the earlier version of my bill—the duty treatment of plastic flat goods with leather trim. Under the TSUS, these items were treated as leather products for duty purposes since the leather trim was considered to be the component of chief value and, thus, were imported in a leather category, dutiable at 8 percent. With the conversion to the HTS, however, the chief value concept was replaced with essential character. Therefore, plastic flat goods with leather trim were considered plastic, and were dutiable at 20 percent. The administration's recommended change, incorporated in my bill, establishes a new subheading for plastic flat goods with leather trim dutiable at 8 percent ad valorem.

In closing, I urge my colleagues on the Senate Finance Committee to take this measure up at the earliest possible time.•

By Mr. ROCKEFELLER:

S. 1177. A bill to amend, title 38, United States Code, to extend the authority of the Veterans' Advisory Committee on Education, and for other purposes; to the Committee on Veterans Affairs.

VETERANS' PROGRAM IMPROVEMENT ACT OF 1993

• Mr. ROCKEFELLER. Mr. President, as chairman of the Committee on Veterans' Affairs, I am pleased to introduce S. 1172, the proposed Veterans' Program Extension Act of 1993. This legislation would extend two VA programs—first, it would extend the Veterans' Advisory Committee on Education by 4 years, from December 31, 1993, until December 31, 1997; and second, it would extend VA's authority to maintain a regional office in the Republic of the Philippines by 18 months, from March 31, 1994, until September 30, 1995.

Mr. President, the Veterans' Advisory Committee on Education is composed of persons who are eminent in the fields of education, labor, and management, representatives of institutions and establishments furnishing education to veterans and their families, and of veterans themselves. The Advisory Committee works in consultation with the Secretary of Veterans Affairs with respect to the admin-