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SEC Headquarters
100 F Street N.E.
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Dear Security Exchange Commission Chairman Christopher Cox,

Securities and Exchange Commission (SEC) Decides to Mislead Investors About Chief Executive Officer (CEO) Pay

It was more than telling that the Securities and Exchange Commission (SEC) introduced an executive pay reporting rule on the last business day before Christmas. The rule counts the stock options grant amount as pay the year when it vests -- as the executive qualifies to execute the options -- instead of the full grant date amount agreed to in July 2006. In addition, insulting to investors, the SEC neglected to seek public comment, adopting the rule immediately.

At least, at the time of the grant you get an accurate, snap-shot in time, value of the options, because the calculation is time and stock value dependent. Options are derivatives, based on the stock price, so the value changes with the value of the underlying stock price over time. As an investor you want to hold the board of directors accountable, so you must know how much the executive is granted at the outset, not years out. To hold the board of directors (the board) accountable, investors need accurate information at the grant date, not as that cost is recognized. It's the timely intent of the board we need to know, even if the option never gets executed. This rule makes it difficult to judge whether the board is working in the best interest of investors.

SEC Chairman Christopher Cox's method will obfuscate, distort, and mislead investors, because the option value will have changed by the time the option vests. The option value, no matter when it's disclosed, will be the grant date value. More than likely, it will greatly understate the value of the option. In addition, information provided on the original grant in a piecemeal fashion will confuse that grant with other option grants. The best option value, calculates the value on a mark-to-market basis, considering: time, stock price, and volatility when granted.

Companies use the treasury stock method to buy stock in the market to deliver to executives executing their options. The true economic cash expense is the difference between the stock price in the market at the time of purchase from the exercise price of the option. The true economic value or cost to the company is the subsequent gain awarded to the executive. Financial Accounting Standards Board No. 123 should concentrate on disclosing this amount as a component of income statement salary expense.

Again, Chairman Cox has proved himself a lackey for the Chamber of Commerce. He shows utter contempt, a disregard, and disrespect for analysts attempting to quantify a growing expense category. These costs are not trivial, the top-5 executives are consuming 10% of corporate earnings, according to Harvard's Lucian Bebchuk. Studies show that companies more equitably distributing corporate wealth, make better investments.

Chairman Cox talks a good story concerning "disclosure," but instead he takes the path to maximize the distortion of reality. He wants to obfuscate the egregious amounts of CEO pay. History will show Chairman Cox to go down as one of the most anti-investor SEC officials ever appointed. Haven't investors suffered enough pain by over-paid and under-performing CEOs? We deserve transparent, accurate, and timely executive pay disclosure. Investors would be better served with a new SEC Chairman.

Sincerely,

Andrew H. Dral
"The Rabble – Janosik"