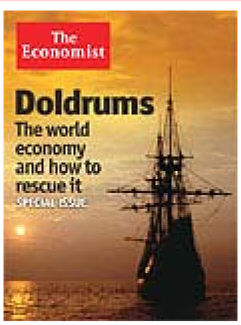

Accounting scandals

Worthless promises?

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Was American bosses' first certification of accounts a non-event?

REMEMBER the fuss around August 14th, the date by which America's corporate chieftains had to swear personally to the accuracy of their companies' accounts, under orders from the Securities and Exchange Commission (SEC)? This was supposed to restore the confidence of investors, savaged by accounting scandals from Enron to WorldCom. Certification, carrying with it the prospect of criminal prosecution for the signatories if the accounts later proved to be fraudulent, would presumably not be done lightly. Bosses hated the idea, and spent small fortunes on legal advice.

It was widely believed that certification would boost the share price of those firms whose bosses signed, while hurting those whose bosses declined to do so. What actually happened is the subject of a new study by Utpal Bhattacharya, Peter Groznik and Bruce Haslem of the Kelley School of Business at Indiana University. They examined the share prices of 762 firms, 688 of which had to certify by August 14th and 74 that certified voluntarily, seeking out any impact of certification or non-certification.

They found crucial differences between the 738 firms that provided a pro-forma certification, the 15 that certified using their own words and caveats, and the nine that failed to certify at all. The nine tended to be firms that had restated their accounts in the previous year, were financially distressed, had a relatively low proportion of institutional shareholders and were audited by, you guessed it, Andersen.

But on the crucial question of its impact on the stockmarket, they found that, on average, announcing that a firm had or, more strikingly, had not certified made no significant difference to its share price. The likeliest explanation for this, say the three economists, is that the market was not in the least bit surprised by those firms that stood by their accounts and those that did not. Indeed, the study suggests, share-price movements indicate that the market had sorted out the corporate sheep from the goats by April 2002, well before the SEC made its certification order in June.

Or perhaps investors had so lost faith in CEOs that they dismissed their signatures as empty pledges not worth the paper they were

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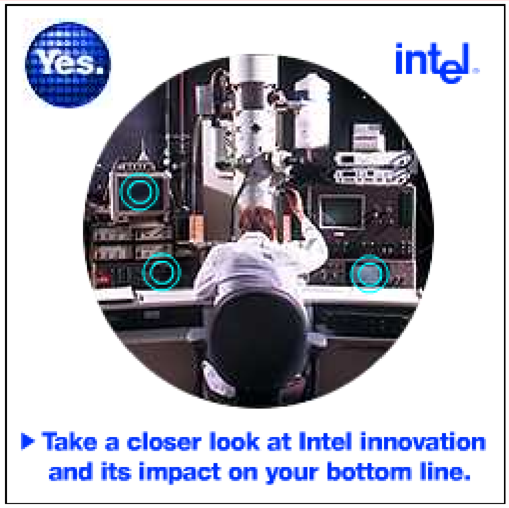
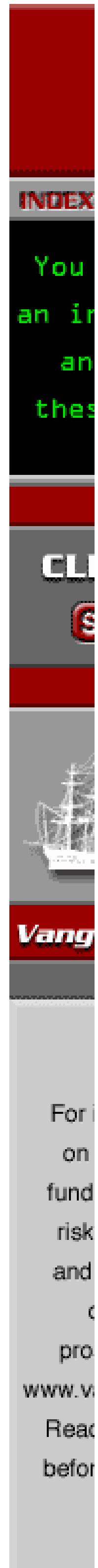
written on. Whatever, says Mr Bhattacharya, certification seems to have been "a non-event".





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