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Study Finds Stocks Unaffected By CEO Certifications

By JUDITH BURNS

OF DOW JONES NEWSWIRES

WASHINGTON -- Corporations whose executives signed off on the firm's financial results weren't rewarded by Wall Street, a new study concludes.

Sworn oaths by chief executives and chief financial officers were a non-event for stocks, having little impact on prices, according to Utpal Bhattacharya, a finance professor at Indiana University's Kelley School of Business.

"On average, nothing happened," Bhattacharya said in a telephone interview Thursday.

Certifications were ordered in mid-June by the Securities and Exchange Commission in response to accounting scandals at Enron Corp. (ENRNQ), WorldCom Inc. (WCOEQ) and others.

Seeking to reassure investors, the SEC ordered top executives at hundreds of U.S. companies to personally vouch for the accuracy of the company's earnings reports, generally by Aug. 14.

Despite expectations that Wall Street would reward firms whose executives certified results, researchers at Indiana University found little difference in stock prices for firms that certified results compared to those that did not.

Researchers looked at 762 firms, the vast majority of which certified results using the exact wording sought by the SEC. Only nine firms failed to certify their results, mainly former Arthur Andersen clients that had to restate earnings. Another 15 certified the results accurate, but used their own words, breaking with the SEC's phrasing.

Few stocks were affected by the news, good or bad, researchers discovered. Bhattacharya suggests Wall Street already knows which firms have high-quality accounting and which do not, so "there's no information content in certifications."

Even though the CEO signatures left Wall Street cold, Bhattacharya called them "a public relations move" on the part of the SEC.

Lawmakers embraced the idea in legislation adopted this summer to combat corporate accounting scandals, requiring all public company CEOs and CFOs to certify quarterly and annual financial results.

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"Congress has put some teeth into certification," by including tough criminal pena executives who falsely swear their firm's reports are accurate and complete, Bhatta noted. "If we see someone going to jail, then I think it will have an effect."

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