

# Many firms are massaging earnings figures, Levitt warns

NEW YORK — The quarterly earnings of American companies should be subjected to greater scrutiny amid a rise in earnings manipulation and doubts raised by Enron's fall, warns Mr Arthur Levitt, ex-chairman of the Securities and Exchange Commission (SEC).

"Unquestionably, there is more financial information available to investors today — but it is being more severely

massaged by companies to gain a competitive advantage," he said last weekend.

He said the fall of Enron exposed the lack of proper oversight that normally would protect investors.

"It was the brokers who sold us, it was the analysts who just didn't do their job, it was the rating agencies that dropped the ball, it was the investment bankers that cooked

up a scheme to hide the obligations of the company and subsidiaries," he said.

"The system just didn't work. There wasn't adequate oversight, and it could happen at other companies just as well. We need oversight of the accounting profession by an independent body, perhaps appointed by the SEC...that will supervise them and not require the funding of the

trade group that represents the agency."

Big companies have proven masterful at manipulating expectations, playing down prospects in advance and then reporting numbers slightly ahead of those gloomy forecasts. Already, companies that have pre-announced their earnings have beaten Wall Street forecasts, helping to support the recent strong rally

in US share prices.

The Enron affair has also heightened concern about the quality of US accounts.

Agreeing, other accounting experts say the Sept 11 terrorist attacks and the recession have provided companies with the "cover" to overstate losses.

By exaggerating the bad news and blaming it on external events, they can report a much bigger earnings re-

bound. Among the factors raising concern are:

- ◆ The tendency for companies to sweep bad news into catch-all restructuring charges or footnotes to accounts; and
- ◆ An increase in the use of "pro-forma" numbers which include only things that they want investors to focus on.

— FINANCIAL TIMES,  
BLOOMBERG NEWS