Enron, WorldCom scandals to cost US economy $37b: Study

AFP, *Washington*

The fallout from the Enron and WorldCom scandals will cost the US economy an estimated 37 billion to 42 billion dollars this year, according to a study released Thursday.

The Brookings Institution study says much of the losses will come from stock declines that reduce the so-called "wealth effect" and end up impacting gross domestic product.

The study assumes that the stock market does not recover from its July 19 level this year or drop substantially below it.

"Declines in the value of stocks can adversely affect the economy in at least two ways," according to the report.

"One is through the so-called 'wealth effect' on consumption. As consumers feel poorer, they are likely to spend less. The second channel is through the impact of falling stock prices on the 'equity premium' and thus on the cost of capital. Other things equal, a lower stock market especially one that is associated with more volatility -- should drive up the cost of equity capital, and thus diminish investment."

Additionally, they said, investment "can be dampened to the extent firms expect lower consumption and more uncertainty, both of which can and are likely to be associated with a drop in stock prices."

The study examined the precipitous declines in the stock market since March, and concluded that much of the drop could be attributed to corporate malfeasance and scandals.

"In the absence of other obvious causes of stock market decline -- such as oil embargoes or the threat of an interest rate increase -- we believe a conservative assumption is that at least half of the drop in the stock market's value since March can be attributed to the Enron crisis, and that roughly 80 per cent of the drop in the market's value since June 2002 can be attributed to WorldCom and subsequent scandals," the authors wrote.

"With these assumptions ... we attribute a 17.5 per cent loss in stock market wealth to the corporate scandals."

Study authors Carol Graham, Robert Litan and Sandip Sukhtankar said the scandals have hurt the US economy in other ways, including impacts of unemployment, inflation, and foreign investment in the United States.

"For example, because the crisis has almost certainly discouraged foreign investment into the United States, the result has been a decline in the value of the dollar," they wrote.

"Between March 19 and July 19, the trade-weighted value of the dollar fell by 5.2 per cent."

These scandals, by hurting confident in the US system, could have a broader spillover effect in other companies, say the authors.

Nasdaq board okays corporate governance rule changes

AFP, *New York*

The Nasdaq Stock Market on Thursday said its board of directors had approved more than 25 new corporate governance reform proposals which had been announced early last month.

Speaking in a conference call Thursday afternoon, Nasdaq President Richard Ketchum said that new standards will now be sent to the National Association of Securities Dealers (NASD) board, which was to meet later in the day.

Ketchum did not say when he expected the NASD to decide on the standards, but if they are approved, they will then be forwarded to the Securities and Exchange Commission.

US Congress approves corporate reform bill

AFP, *Washington*

Seeking to reassure investors of their commitment to corporate reform, the US Congress on Thursday resoundingly passed a bill to increase accountability among executives of publicly-held companies.

The Sarbanes-Oxley Act of 2002, which emerged after nearly a week in conference, was passed 423-3 in the House and 99-0 in the Senate.

Once it is signed by US President George W. Bush, it will tighten oversight of auditors, stiffen penalties for errant executives and require greater accountability for financial statements from top corporate officers.

The legislation comes in response to the raft of revelations of questionable accounting practices at publicly-held companies that has helped to bleed more than seven trillion dollars from the US markets since March 2000.

Investor confidence was badly wounded in December, when energy trader Enron filed for bankruptcy. Since then, a string of admissions by some of the country's top companies that all was not right with their balance sheets -- including Global Crossing, WorldCom and, according to a new SEC probe, possibly media giant AOL Time Warner -- has rocked the already-fragile markets.

Arrests of the top executives at cable operator Adelphia on charges of fraud, and accusations leveled against both Bush and Vice President Dick Cheney for questionable accounting at companies they were both executives before taking office have also done little to assuage concerns.

"This legislation, combined with substantive and far-reaching reforms underway throughout our free markets, will help to restore faith in the system," vowed Republican Representative Michael Oxley.

"A strong dose of character, honesty, and ethics in corporate America wouldn't hurt."

Asian stocks sink in wake of steep Nasdaq fall

AFP, *Hong Kong*

Asian share markets ended the week on a sour note Friday, buffeted by a steep fall on the technology-dominated Nasdaq and a bleak third quarter forecast from Taiwan's largest semiconductor maker.

Asian markets with heavy hi-tech weightings bore the brunt after the Nasdaq's 3.9 percent slump with Japan, Taiwan and South Korea all seeing a wave of selling.

Although Wall Street's blue chip Dow Jones industrials index managed Thursday to hang on to almost all its stunning 6.4 percent gain from the day before, Asian investors focussed on the weak hi-tech sector and fears of further storms in global markets.

Japanese share prices tumbled 3.4 percent to a five-month low after the Nasdaq's slump and amid uncertainty over Japan's first quarter earnings season.

The Nikkei-225 average of the Tokyo Stock Exchange lost 338.88 points to end at 9,591.03, the lowest close since February 7.

"Investors remain concerned that Japanese corporate earnings will deteriorate in the July-September quarter," said Keiji Numata, investment section manager at Toyo Securities.

Numata added chip stocks would remain under pressure after a prediction Thursday by Taiwan Semiconductor Manufacturing Co. -- the world's largest maker of made-to-order chips -- that the semiconductor market would slow in the third quarter.

"Microchip stocks are reasonably priced. But negative news keeps coming up and no one knows when it will end," Numata said.

Toshikazu Shimamura, analyst at North Pacific Bank, said there was also talk European institutions were beginning to unload Japanese stocks after suffering huge losses in their home markets.

Hong Kong's key Hang Seng index fell below the key 9,800 point support level, led by losses in telecoms stocks, with the index losing 1.1 percent to close at 9,773.12.

Polaris Securities analyst Marty Chan said the Hang Seng was likely to fall below the 9,000 points level before hitting bottom.

South Korea's composite index fell 3.5 percent to 697.84 due to heavy selling by foreign investors of key technology and telecoms stocks.

"Foreign investor sales have suddenly snowballed, with Samsung Electronics and SK Telecom hit the hardest," Tongyang Investment Bank market analyst Seo Myung-Suk said.

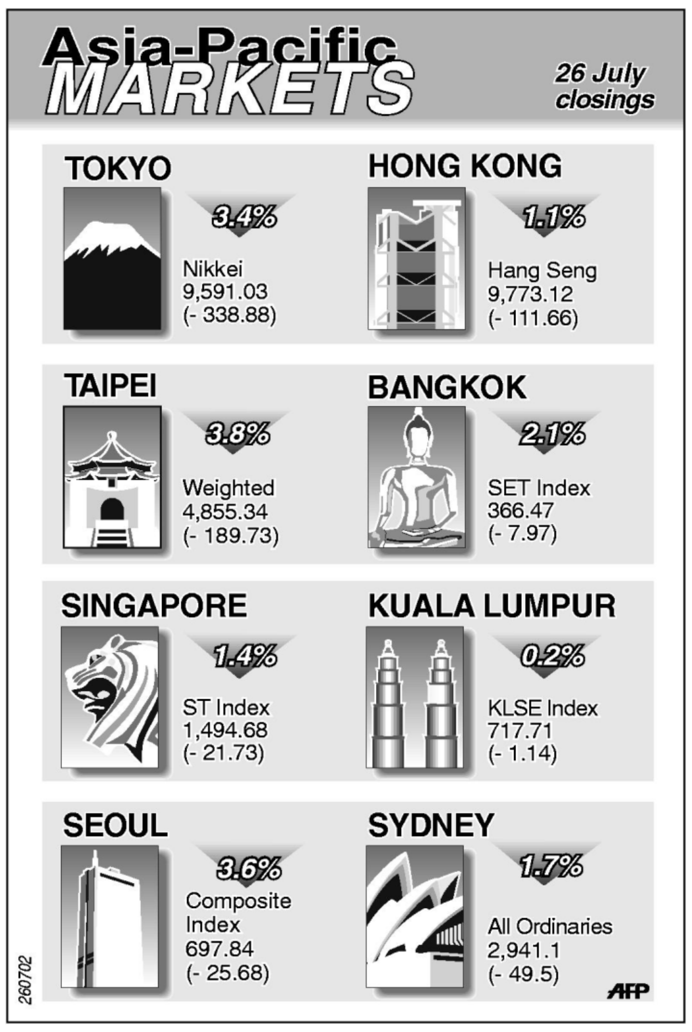
Taiwan stocks were also punished with the weighted index diving 3.8 percent to close at 4,855.34.

In Singapore, the Straits Times index fell 1.4 percent to 1,494.68, below the psychologically important 1,500 points level.

The Australian market -- in which tech stocks are not a major component -- closed down 1.7 percent with the benchmark SP/ASX 200 index down 52.9 points at 2,989.5.

Asia's downturn followed another day of wild swings Thursday in US and European markets.

The Nasdaq composite crumpled 50.15 points to 1,240.08, while the blue chip Dow Jones industrials closed just 4.98 points lower at 8,186.31 after a volatile session.



California to divest from US firms that hide assets

23 firms blacklisted

AFP, *Los Angeles*

The US state of California on Thursday announced it would divest from publicly-held US companies that hide their assets in offshore tax havens, branding the practice "deceptive."

The state, aiming to use its investments as a force for corporate reform, created a blacklist of 23 firms that claim headquarters in such places as Bermuda and the Cayman Islands while remaining based in the United States.

State treasurer Philip Angelides also called on two powerful state pension funds -- CalPERS and CalSTRS, the nation's first and third largest -- to pull out 752 million dollars from the companies.

"Corporations hiding behind a mailbox in Bermuda are shirking their duty as Americans and undermining confidence in the financial markets," he said in a statement.

California will divest from offshore companies and refuse to sign contracts with them, Angelides said, endorsing federal legislation that would close a tax law loophole that allows corporations to avoid taxes by moving offshore.

"These sham transactions, like the accounting of scandals at Enron and WorldCom, are the kinds of deceptive corporate practices that have shaken the financial marketplace and cost families, pensioners and taxpayers billions," he said.

"We will use our clout as investors to let companies know we will not tolerate this type of irresponsible conduct," Angelides added.

CalPERS (California Public Employees' Retirement System) and CalSTRS (California State Teachers' Retirement System) together control around 250 billion dollars in assets, and have frequently use their financial muscle to encourage sound corporate governance.

Angelides also banned California's 45 billion dollar Pooled Money Investment Account from investing on public US companies that use offshore tax shelters to protect themselves from paying US taxes.

The move comes at the height of a wave of scandals that have rocked some of America's biggest corporations and as the US Congress passed a bill to increase accountability among executives of publicly-held companies.

The financial official unveiled what he termed a partial list of 23 firms that the state would cut ties with, including giant firms such as Accenture, Tyco International, Ingersoll-Rand and Stanley Works.

Most of the companies have incorporated in either Bermuda or the Cayman Islands while a few -- including Stanley Works -- have planned to shift their headquarters but the moves are still pending.

California's decision to use its weight as an investor to influence corporate behavior is part of a growing trend among state governments.

Tool-making company Stanley Works, based in the eastern US state of Connecticut, has came under fire in May when its shareholders narrowly approved a plan to reincorporate in Bermuda.

The Connecticut state pension fund, a large shareholder in the company, challenged the legitimacy of the vote in court and Stanley agreed to do it over. The second vote is still pending.

"There are number of efforts out there where treasurers are becoming more active in encouraging corporate responsibility," said Bernard Kavaler, spokesman for Connecticut Treasurer Denise Nappier.