The Accountable Corporation

This comprises a brief comparison of the current liability exposure of shareholders with the proposed exposure under shareholder liability for corporate malfeasance.

Corporate limited liability for financial indebtedness applies to shareholders in both cases.

For corporate malfeasance, shareholder liability for actionable damages should apply.

How would this affect the corporate sources and uses of funds? It may be appropriate to infer that the proportion of funding from initial offerings relative to debt financing should be considerably lower.

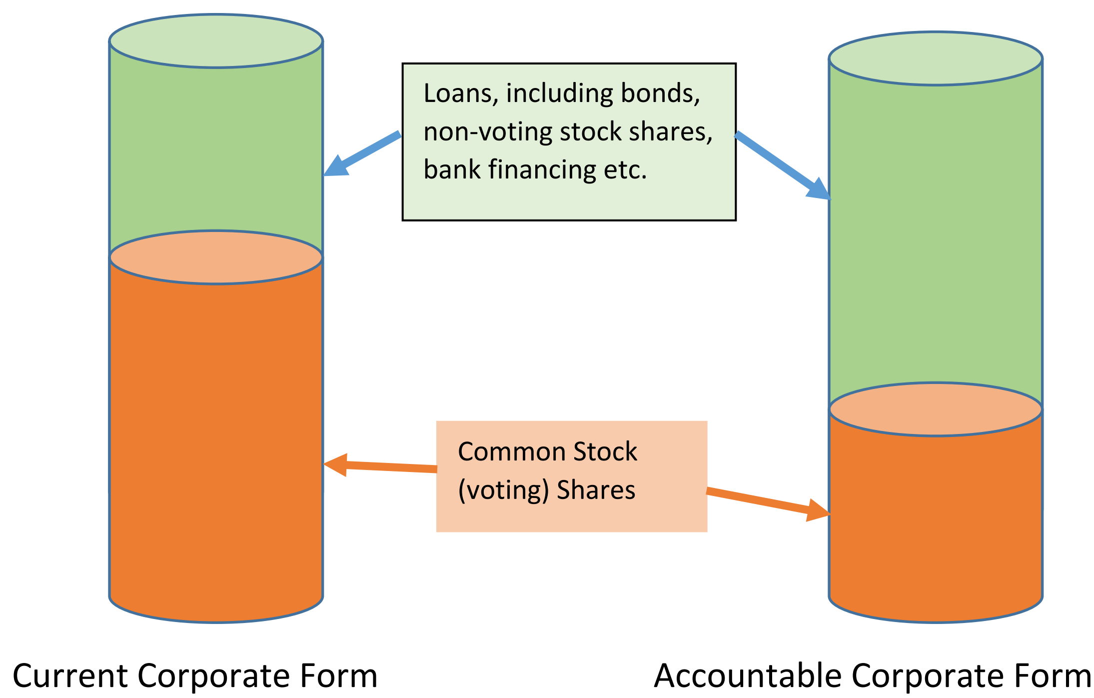
This implies that the price-earnings ratio would be affected. With fewer shares issued and total earnings less affected, earnings per share should be higher than otherwise. Today, the market has a PE ratio of about 15. Hence, the PE ratio should be lower, given higher earnings per share and the greater risk of loss to shareholders. Funding would rely more on debt than on public stock offerings.

In the words of Investopedia:

"…suppose there are two similar companies that differ primarily in the amount of debt they assume. The one with more debt will likely have a lower P/E value than the one with less debt."

We show this below with a bar graph:

CAPITAL SOURCES



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