No refuge for European firms that restate their accounts.

By Gideon Long

LONDON, July 9 (Reuters) - Guilty until proven innocent.

In Europe's shell-shocked equity markets, that appears to be the principle by which any company which dares to restate its accounts is judged - even for seemingly benign reasons like switching from European to U.S. accounting standards.

On Tuesday, Spain's Telefonica became the latest company to be punished for mentioning the A word - accounting.

The company revealed it made a 2001 net loss of 7.2 billion euros under new U.S. accounting rules rather than the 2.1 billion euro profit it originally reported under Spanish standards.

It pointed out that the difference lay simply in the way goodwill is calculated under Generally Accepted Accounting Principles (GAAP) in Spain and the United States.

But the explanation did little to reassure investors who have had their fingers badly burned by the massive fraud cases at Enron and WorldCom in recent months.

The stock was sold down 4.2 percent, making it the fifth biggest loser among Europe's blue chips.

But many observers said the sell-off was unwarranted.

Spanish fund manager and brokerage Safei described Telefonica's news as of a "mere accounting nature...and does not change our fundamental opinion on the operator".

And Nigel Cobby, managing director at Deutsche Bank in London, said Telefonica had no option but to restate its accounts under U.S. GAAP given that it is listed in the United States, like many other European companies.

"Producing numbers in U.S. GAAP doesn't change the value of the company one iota," Cobby said.

"To tar every company with the same brush is ridiculous. This tells us a lot more about the state of the market and investor confidence than it does about Telefonica."

Telefonica is by no means the only company to have suffered in the current climate of suspicion over corporate integrity.

On Monday, investors bailed out of U.S. drug company Merck after it acknowledged in a regulatory filing one of its subsidiaries booked $14 billion in revenue it never collected.

The stock recovered its poise only when analysts pointed out the accounting treatment had no effect on net income.

Last week, France's Le Monde newspaper published what it called new revelations about accounting methods at French media giant Vivendi, claiming the group had tried to fudge its 2001 books.

The report sparked panic selling, even though French regulators said they had cleared Vivendi of any irregularities and the company insisted it had acted properly.

"It's complete nonsense. Telefonica are being criticised for doing the opposite of what Vivendi did," said Stuart Fraser, head of European Equities at Standard Life Investments.

"Vivendi were criticised for using U.S. GAAP to flatter their profits whereas Telefonica are now being criticised for not using U.S. GAAP in the first place because it makes their profits look lower.

"You can't penalise the companies in both cases."

Experts say corporate accounting issues will remain at the forefront of investors' minds until there is an improvement in the performances of Europe's companies.

"These things are easy meat for the market because at the moment there's no good news around in terms of corporate earnings," Fraser said.

Deutsche Bank's Cobby agreed.

"People are using so-called accounting issues to hit stocks simply because the fundamental buyers are not there, the stocks aren't cheap and we're in a bear market," he said.

That might change in the coming weeks, as the second-quarter earning season picks up steam.

"I think people are beginning to wise up," said Michael O'Sullivan, European strategist at Commerzbank. "In the next couple of weeks I think we'll see a sense of perspective return to the earnings story."