

# ODTBT Finance: Mechanism-Driven Collapse Geometry in Corporate Fraud

WorldCom, Enron, HealthSouth

John Surmont  
Recursive Systems Labs

January 11, 2026

Phase 1 Final Report — Three-Case Validation of TWIST Geometry

## Abstract

This preprint presents the Phase 1 results of the ODTBT Finance research program, applying a physics-based opacity and momentum framework to three major corporate fraud collapses: WorldCom (2002), Enron (2001), and HealthSouth (2003). The study introduces and validates a new concept, TWIST geometry, which characterizes how corporate collapses unfold over time. Across all three cases, we find that:

- Opacity momentum spikes before collapse (TWIST), not opacity level alone
- Earnings quality (C) and governance (F) failures are universal collapse precursors
- Final opacity converges near 70–87% regardless of baseline complexity
- Collapse geometry differs systematically by fraud mechanism architecture

Specifically: Single-objective or single-mechanism frauds (WorldCom, HealthSouth) produce *concentrated TWISTs*, sharp, high-amplitude collapses concentrated in a single disclosure period. Multi-mechanism frauds (Enron) produce *distributed TWISTs*, staged collapses unfolding across multiple disclosure events. The analysis is conducted under strict methodological constraints: Minimal Evidence Rule (no hindsight contamination), bounded momentum scoring, artifact-anchored period scoring, and explicit falsification criteria. This work is made possible by the ODTBT (Oscillatory Dynamics & Topological Breakdown Theorem) framework, which allows “opacity” to be treated as a measurable system property rather than a metaphor.

**Status:** Phase 1 Final Report (Three-Case Validation)

**License:** Creative Commons Attribution 4.0 (CC BY 4.0)

**Next Phase:** Generalization to non-fraud collapses (liquidity crises, systemic events)

**Keywords:** corporate fraud, financial collapse, opacity, accounting fraud, Enron, WorldCom, HealthSouth, Sarbanes-Oxley, forensic accounting, financial regulation, complex systems, physics-based economics, ODTBT

## 1 Introduction

When a major corporation collapses, the explanations that follow tend to take a familiar shape. There was fraud. Management lied. Auditors failed. Controls were inadequate. Shareholders were betrayed.

These accounts are not wrong, but they are incomplete. They tell us *that* something broke, and often *who* was responsible, but they rarely explain *how* the system came apart. Did it snap suddenly, or unravel over weeks? Did all the problems surface at once, or in stages? And most importantly: does it matter?

The standard view treats these questions as incidental, details of timing and disclosure that don't change the fundamental story. But what if the shape of a collapse is not incidental? What if the way a system fails reflects something structural about what was breaking?

That question motivated the research documented here. Over the course of several weeks, we studied three major corporate collapses in depth, WorldCom, Enron, and HealthSouth, using a framework that treats opacity not as a metaphor, but as a measurable quantity. What we found was unexpected: these collapses did not fail the same way. They followed different trajectories, with different durations, and different disclosure patterns. And those differences were not random.

This article documents what we observed, why it matters, and, critically, what it does not yet prove.

## 2 The Question

The research began with a simple observation: post-mortem analyses of corporate fraud tend to focus on the magnitude of the deception (how much was stolen or misstated) and the identity of the perpetrators (who knew what, and when). What they rarely examine is the *topology* of the failure, the shape it took as it became visible.

We wanted to know:

**Do corporate collapses have different shapes?**

More precisely:

- When a fraud-based collapse becomes public, does it happen all at once, or in stages?
- If there are stages, what determines their sequence?
- Does the internal architecture of the fraud, the way it was structured, predict how it will come apart?

These questions cannot be answered with traditional financial statement analysis alone. Balance sheets and income statements show the outcome of deception, but not its dynamics. We needed a framework that could measure *opacity*, the gap between what was disclosed and what was real, as it evolved over time.

That framework is ODTBT (Oscillatory Dynamics Transductive Bridging Theorem), a physics-based theory of coherence loss in complex systems. We will return to why ODTBT was necessary. For now, what matters is that it made the research possible.

## 3 Method (Plain Language)

We studied three cases:

**WorldCom (2002):** A telecommunications company that capitalized \$3.8 billion in operating expenses as assets. The fraud was discovered through internal audit and disclosed in a single restatement in June 2002. The company filed for bankruptcy 26 days later.

**Enron (2001):** An energy trading company that used off-balance-sheet entities (SPEs), related-party transactions, and aggressive mark-to-market accounting to inflate earnings and hide debt. The collapse unfolded over 47 days, from an October 16 earnings announcement to bankruptcy on December 2.

**HealthSouth (2003):** A healthcare services company whose CEO directed subordinates to inflate earnings by \$1.4 billion through fabricated journal entries. The fraud was disclosed in a single SEC complaint on March 19, 2003, with trading halted the same day.

For each case, we:

1. **Scored a baseline period** (the year before the collapse became public), measuring opacity across nine categories: entity structure, obligations, earnings quality, valuation, financing, governance, narrative coherence, counterparty risk, and regulatory posture.
2. **Scored the collapse period** (the quarter or quarters when fraud became public), tracking how opacity changed across the same nine categories.
3. **Classified the collapse geometry:** Did most of the opacity increase happen in a single period (concentrated), or across multiple periods (distributed)?
4. **Compared the geometry to the fraud mechanism:** Did simple, single-mechanism frauds collapse differently from complex, multi-mechanism frauds?

### 3.1 Falsification Criteria (Defined in Advance)

We pre-registered two tests that would have *disproven* our hypothesis:

**Type 1 Counterexample:** A simple fraud (like WorldCom or HealthSouth) producing a distributed collapse (unfolding over multiple periods, like Enron).

**Type 2 Counterexample:** A complex fraud (like Enron) producing a concentrated collapse (collapsing in a single period, like WorldCom or HealthSouth).

If either pattern had appeared, the hypothesis would have required refinement or rejection.

### 3.2 Control Variables

We tested whether factors other than fraud mechanism could explain collapse geometry:

- **Auditor:** Ernst & Young (HealthSouth) vs. Arthur Andersen (WorldCom, Enron)
- **Regulatory Regime:** Post-Sarbanes-Oxley (HealthSouth, 2003) vs. Pre-SOX (WorldCom and Enron, 2001-2002)
- **Baseline Opacity:** HealthSouth started at 16/45 (36%), WorldCom at 20/45 (44%), Enron at 21/45 (47%)

If any of these factors had overridden the mechanism effect, the hypothesis would not hold.

## 4 What We Found

### 4.1 Two Distinct Collapse Geometries

The three cases fell into two clear patterns:

#### Concentrated Collapse:

- Most opacity increase occurs in a single disclosure event
- $\geq 70\%$  of total momentum in one period
- Duration:  $\leq 30$  days
- Multiple disclosure categories spike simultaneously
- Examples: **WorldCom** (73% concentration, 26 days), **HealthSouth** (100% concentration, 1 day)

#### Distributed Collapse:

- Opacity increases across multiple periods
- $< 70\%$  concentration in any single period
- Duration:  $\geq 40$  days
- Disclosure categories spike sequentially
- Example: **Enron** (54% in first period, 46% in second, 47 days total)

### 4.2 Mechanism-Geometry Correlation

The shape of collapse correlated with the structure of the fraud:

**WorldCom** had a **single-mechanism fraud** (capitalizing line costs as assets). It collapsed in a concentrated pattern: 73% of the opacity increase occurred in one 26-day period (June 25 restatement  $\rightarrow$  July 21 bankruptcy).

**HealthSouth** had a **single-objective fraud** (CEO's "fix it" directive to meet earnings targets). It collapsed in the most concentrated pattern observed: 100% of the opacity increase occurred on March 19, 2003, when the SEC filed fraud charges.

**Enron** had a **multi-mechanism fraud** (SPEs + mark-to-market + related-party transactions + off-balance-sheet debt). It collapsed in a distributed pattern: 54% of opacity increase in Q3 2001 (October 16 earnings announcement), then 46% in Q4 2001 (November 8 restatement  $\rightarrow$  December 2 bankruptcy).

The pattern held across all three cases with no counterexamples.

### 4.3 Universal Patterns (All Three Cases)

Despite different geometries, all three collapses shared six common features:

1. **Earnings quality (Category C) spiked** during the collapse period
2. **Governance (Category F) failed** during the collapse period
3. **Narrative coherence (Category G) broke down**

4. **Regulatory enforcement (Category I) escalated**
5. **Final opacity converged** near 70-87%, regardless of baseline
6. **Cumulative momentum** reached +13 to +16 (massive increases in measured opacity)

These appear to be fundamental signatures of accounting fraud collapse, independent of mechanism.

## 5 Why This Was Surprising

Three findings contradicted initial expectations:

### 5.1 Baseline Opacity Did Not Predict Collapse Shape

HealthSouth had the *lowest* baseline opacity (16/45, 36%) but produced the *sharpest* collapse (+16 spike, 100% concentration). This ruled out the hypothesis that high baseline complexity is required for concentrated collapses.

The shape of collapse depends on *what breaks*, not how complex the system appeared beforehand.

### 5.2 Regulatory Regime Did Not Override Structure

HealthSouth collapsed in March 2003, nine months after Sarbanes-Oxley became law. It was the first CEO charged under SOX Section 302 (false certification). Enhanced disclosure requirements, CEO/CFO certification, and heightened post-Andersen scrutiny were all in place.

Yet HealthSouth's collapse geometry matched WorldCom's (pre-SOX, 2002), not Enron's. The mechanism (single-objective fraud) determined the shape, not the regulatory environment.

### 5.3 Auditor Differences Did Not Override Structure

HealthSouth was audited by Ernst & Young. WorldCom and Enron were both audited by Arthur Andersen (which collapsed in 2002). If auditor behavior were the dominant factor, HealthSouth should have shown a different pattern from WorldCom.

Instead, HealthSouth (E&Y, single-objective) matched WorldCom (Andersen, single-mechanism) in geometry. The fraud architecture, not the auditor, determined the collapse shape.

## 6 Why ODTBT Made This Possible

This research could not have been conducted using traditional financial analysis alone. Here's why.

### 6.1 The Problem: Opacity Is Usually a Metaphor

When analysts or regulators speak of "opacity," they typically mean something vague: complexity, obfuscation, or deliberate misdirection. These are qualitative judgments made after the fact. They do not support cross-case comparison or measurement over time.

## 6.2 ODTBT's Contribution: Opacity as a Measurable Field

ODTBT treats opacity not as a narrative judgment, but as a *physical quantity*, the gap between disclosed state and actual state. Just as stress accumulates in a material before fracture, opacity accumulates in a financial reporting system before collapse.

This allowed us to:

1. **Score opacity on a 0-45 scale** across nine categories (entity, obligation, earnings, valuation, financing, governance, narrative, counterparty, regulatory).
2. **Track momentum** (rate of change) with bounded limits (no category can change more than  $\pm 2$  per period). This prevents inflation of scores based on hindsight.
3. **Measure coherence loss** as it unfolded, not just after bankruptcy. Traditional analysis waits for failure and then explains it. ODTBT scores the *approach to failure*, the periods when the system was still operating but losing internal consistency.

## 6.3 Why Momentum Matters More Than Level

A company can have high complexity (high baseline opacity) and remain stable. What matters is *change*, the rate at which opacity increases. ODTBT focuses on **momentum**, not static condition.

This is why we could distinguish:

- A system under **strain** (slow opacity drift, recoverable)
- A system in **TWIST** (rapid opacity spike, terminal)

## 6.4 How Hindsight Was Prevented

When scoring HealthSouth's 2001 baseline, we knew the CEO had committed 4,722% earnings overstatement. But ODTBT's **Minimal Evidence Rule** forced us to score only what was *observable in March 2002*:

- Governance (F) = 2 (clean audit opinion, no disclosed control issues)
- Regulatory (I) = 1 (no SEC investigation disclosed)

That restraint is what kept the research honest. Without a structural framework enforcing discipline, hindsight leakage would have inflated baseline scores and erased the TWIST signal.

## 6.5 Coherence Loss vs. Blame Narratives

Most post-collapse analyses ask: *Who lied? Who should have known? Who failed to act?*

ODTBT asks instead: *When did internal consistency break down? What sequence did the breakdown follow? What structural features determined that sequence?*

This is not about avoiding accountability. It is about understanding *how systems fail*, not just *that they did*.

## 7 What This Does Not Claim

It is critical to be explicit about what this research does *not* demonstrate.

## 7.1 No Predictive Capability

This work cannot forecast when the next collapse will occur. We studied collapses *retrospectively*, after they became public. We can classify their geometry and correlate it with fraud architecture, but we cannot yet:

- Detect fraud before disclosure
- Estimate time-to-collapse from baseline conditions
- Distinguish fraudulent opacity from legitimate complexity in real time

Those capabilities, if they ever materialize, would require additional work: false-positive analysis, lead-time calibration, and prospective testing. None of that has been done.

## 7.2 No Inevitability

Finding that collapses follow patterns does not mean collapses are inevitable. Fraud can be detected and stopped before systemic failure. Auditors, regulators, whistleblowers, and boards all have agency. Geometry describes *how a collapse unfolds if it occurs*, not whether it must occur.

## 7.3 No Moral Ranking

**Concentrated collapses are not “worse” than distributed collapses**, and vice versa. Geometry describes the *shape* of failure, not its *severity*. A small fraud with complex architecture may produce a distributed collapse. A massive fraud with simple architecture may produce a concentrated collapse.

Moral culpability, financial harm, and legal consequences are independent of geometry. This framework is *descriptive*, not *normative*.

## 7.4 Geometry $\neq$ Severity

This point deserves emphasis. The geometry of a collapse tells us about *internal coupling*, how many subsystems failed simultaneously vs. sequentially. It does not measure:

- Dollar magnitude of fraud
- Number of victims harmed
- Executive culpability
- Societal damage

Enron’s distributed collapse (47 days) was not “less severe” than WorldCom’s concentrated collapse (26 days). It was *structurally different*, and that difference reflected the complexity of Enron’s fraud architecture, not the moral weight of the crime.

## 8 Falsification & Limits

### 8.1 What Would Disprove This

We defined two tests in advance that would have refuted the mechanism-geometry hypothesis:

**Type 1:** A simple fraud producing a distributed collapse (did not occur)

**Type 2:** A complex fraud producing a concentrated collapse (did not occur)

Both remained absent across all three cases. That is evidence *for* the hypothesis, but it is not proof. With  $N=3$ , the sample is too small to rule out coincidence or hidden confounds.

### 8.2 Why $N=3$ Matters

Three cases allow us to:

- Establish a pattern
- Test control variables (auditor, regulatory regime, baseline)
- Define falsification criteria and check whether they were met

Three cases do *not* allow us to:

- Claim universal applicability
- Generalize beyond accounting fraud
- Estimate statistical confidence intervals
- Rule out alternative explanations we have not tested

This is why the findings are described as **validated within this sample**, not as universal laws.

### 8.3 Accounting Fraud Only

All three cases were **accounting frauds**, deliberate misstatements of financial results to inflate earnings or hide losses. We have not tested:

- Liquidity crises (Bear Stearns, Lehman Brothers)
- Management looting (Tyco)
- Systemic market collapses (2008 financial crisis)
- Modern failures (FTX, Silicon Valley Bank)

If the collapse grammar holds for non-fraud failures, that would strengthen the framework significantly. If it does not, that tells us the *boundary conditions*, when the grammar applies and when it breaks. Either outcome is informative.

But right now, the findings are restricted to accounting fraud between 2001 and 2003.

## 8.4 Why This Is a Beginning, Not a Conclusion

The value of this work is not that it answers all questions about corporate collapse. The value is that it establishes:

1. Collapse has measurable geometry
2. Geometry correlates with fraud architecture
3. The correlation survives control variable testing
4. The methodology is reproducible and falsifiable

Those four findings open a research program. They do not close one.

# 9 Why This Matters

## 9.1 For Research

This work introduces a new category of question: *How do failures unfold?* Most research asks *why* failures occur (causes) or *what* the consequences are (impacts). Geometry asks *how*, the shape and sequence of breakdown.

That is a structural question, not a causal one. And it appears to have structure worth studying.

## 9.2 For Auditing

If collapse geometry reflects fraud architecture, auditors may be able to use pattern recognition as a diagnostic tool. Not to predict fraud (which would require prospective validation), but to:

- Assess the *type* of risk present (concentrated vs. distributed)
- Understand which disclosure categories are most likely to spike first
- Recognize when strain is transitioning to irreversible breakdown

This would not replace traditional audit procedures. It would complement them with structural awareness.

## 9.3 For Regulation

Regulators currently treat all collapses as requiring the same response: investigation, enforcement, sanctions. But if collapses have different topologies, responses might benefit from topology-awareness:

- Concentrated collapses may require rapid, coordinated action across disclosure categories
- Distributed collapses may require sustained monitoring as subsystems fail sequentially

This is speculative. But the finding that geometry exists raises the question of whether response should be geometry-sensitive.

## 9.4 For Understanding Institutional Failure

Beyond fraud, this framework may apply to other forms of institutional breakdown:

- Governance failures
- Trust collapses in non-profits
- Organizational dissolution
- Mission drift in public institutions

These are not financial frauds, but they involve *coherence loss*, the breakdown of internal consistency between stated purpose and actual behavior. If the grammar holds, ODTBT may offer a general theory of how coherent systems fall apart.

# 10 What Comes Next

## 10.1 Phase 2: A Test, Not an Extension

The next step is not to expand the claims, but to test their limits.

We plan to study two liquidity crisis collapses:

- **Bear Stearns (March 2008)**
- **Lehman Brothers (September 2008)**

These were not accounting frauds. They were *liquidity failures*, firms that could not meet short-term obligations despite solvent balance sheets (at least initially). If the collapse grammar holds, we expect:

- **Different category dominance:** Financing (E) and Obligation (B) may spike instead of Earnings (C)
- **Similar geometry patterns:** Concentrated vs. distributed may still apply, but driven by liquidity thresholds instead of fraud mechanisms
- **Faster TWISTs:** Liquidity panics may collapse in hours or days, not weeks

If Phase 2 matches these predictions, the grammar generalizes beyond fraud. If it does not, we learn the *boundary conditions*, the domain where ODTBT collapse geometry applies.

## 10.2 Liquidity Crises as an Open Question

We do not yet know whether:

- Liquidity crises show the same universal patterns (C/F/G/I spikes)
- Mechanism-geometry correlation persists for non-fraud collapses
- TWIST duration shortens for binary threshold events (liquidity panic vs. fraud disclosure)

Phase 2 will answer those questions. Until then, they remain hypotheses, not findings.

## 11 Closing

This work does not tell us when the next collapse will occur. It does not offer early warnings, predictive models, or algorithmic risk scores. What it offers is quieter and more fundamental:

### **Collapses have structure, and structure can be studied.**

For decades, corporate failure has been analyzed through moral, legal, and procedural lenses. Those lenses are necessary, but they are not sufficient. They tell us *who* was wrong and *what* rules were broken. They do not tell us *how* the system came apart.

We now have evidence, validated across three independent cases, tested against control variables, and constrained by pre-registered falsification criteria, that the shape of a collapse reflects the architecture of what broke. Simple frauds snap. Complex frauds unravel. The difference is not incidental. It is structural.

That finding does not explain everything. It raises as many questions as it answers. But it establishes a foundation: collapse is not random, not purely narrative, and not beyond systematic study.

What happens when systems lose coherence can be measured, classified, and understood. That is not a conclusion. It is a starting point.

And starting points, when honestly earned, are worth building on.

---

**Methodology Note:** This research used ODTBT (Oscillatory Dynamics Transductive Bridging Theorem), a physics-based framework for measuring coherence loss in complex systems. The opacity taxonomy (9 categories), momentum bounds ( $\pm 2$  per period), and hindsight discipline (Minimal Evidence Rule) were applied consistently across all three cases. Full methodology, scoring field notes, and Phase 1 Final Report are available in the ODTBT Finance research repository.

**Cases Studied:** WorldCom (2002), Enron (2001), HealthSouth (2003). All data drawn from SEC filings, press releases, court documents, and contemporaneous disclosures. No proprietary data or inside information was used.

**Funding & Affiliations:** This research was conducted independently at Recursive Systems Labs with no external funding, commercial partnerships, or conflicts of interest.

**Phase 1 Status:** Complete and canonical as of January 11, 2026. Phase 2 (liquidity crisis generalization test) authorized but not yet begun.

**Contact:** For questions about methodology, data sources, or collaboration inquiries: [support@recursivesystemslabs.com](mailto:support@recursivesystemslabs.com)

*Recursive Systems Labs — Where Collapse Has Geometry*

**License:** This work is licensed under Creative Commons Attribution 4.0 International (CC BY 4.0). You are free to share and adapt this material for any purpose, provided you give appropriate credit and indicate if changes were made.

### **How to Cite:**

Surmont, J. (2026). *ODTBT Finance: Mechanism-Driven Collapse Geometry in Corporate Fraud*. Phase 1 Final Report — Three-Case Validation of TWIST Geometry. Preprint, Recursive Systems Labs. Licensed under CC BY 4.0.

**Authority:** RSL ODTBT Finance Research Team

**Date:** January 11, 2026

**Status:** CANONICAL — Public-Facing Article (Phase 1)

## A ODTBT Opacity Taxonomy

**Purpose:** Formal definition of the 9-category opacity measurement framework used in Phase 1 three-case validation.

### A.1 Opacity Definition

**Opacity** is the gap between disclosed state and actual state in a financial reporting system. It is measured as stored distortion across nine structural categories.

Opacity is not:

- A moral judgment
- A measure of fraud magnitude
- A prediction of collapse timing

Opacity is:

- A physical quantity (like stress in a material)
- Measurable on a bounded scale (0-45 total)
- Dynamic (changes over time, tracked as momentum)

### A.2 Nine-Category Taxonomy

Cat.	Domain	Measures	Examples
A	Entity Architecture	Structural complexity of organizational boundaries	SPEs, consolidation
B	Obligation	Hidden or unclear liabilities	Off-balance-sheet, contingent
C	Earnings↔Cash	Gap between reported earnings and cash	Accruals, non-GAAP
D	Valuation	Subjectivity in asset/liability measurement	MTM, Level 3, impairments
E	Financing	Capital structure complexity and stress	Debt, derivatives, liquidity
F	Governance	Quality of oversight and internal checks	Board, auditor, controls
G	Narrative	Coherence of management story vs. financials	MD&A, KPIs, tone
H	Counterparty	Dependencies and conflicts with external parties	Related-party, concentration
I	Regulatory	Enforcement posture and investigation status	SEC, DOJ, inquiries

Table 1: Nine-Category Opacity Taxonomy

**Total Opacity Score:** Sum of all 9 categories (0-45 scale)

### A.3 Level Definitions (L = 0 to 5)

Each category is scored on a 6-level scale:

Level	Label	Definition	Example
0	Transparent	No observable opacity	Standard consolidation, clean opinion
1	Minimal	Normal business complexity	Routine accruals, disclosed leases
2	Moderate	Elevated but coherent	Complex revenue recognition, disclosed RPTs
3	Significant	Elevated with signs of strain	Multiple non-GAAP metrics, board turnover
4	Severe	Observable breakdown	Restatement announced, auditor non-reliance
5	Terminal	System failure	SEC fraud charges, bankruptcy, false certifications

Table 2: Opacity Level Definitions

**Scoring Constraint:** No category can exceed L=5 (physical boundary prevents score inflation).

### A.4 Momentum Rules (M = -2 to +2)

**Momentum (M)** measures rate of change between periods.

Momentum	Symbol	Interpretation
+2	+2	Maximum increase per period (rapid deterioration, capped)
+1	+1	Moderate increase (accumulating strain)
0	0	No change (stable, may be stable dysfunction)
-1	-1	Moderate decrease (recovery or revelation)
-2	-2	Maximum decrease per period (rapid improvement, rare in collapse)

Table 3: Momentum Scoring

**Cap Enforcement:** No category can change more than  $\pm 2$  per period, even if actual evidence suggests larger movement. This prevents hindsight inflation of scores and loss of geometric signal.

### A.5 Scoring Constraints (Methodological Discipline)

#### A.5.1 Minimal Evidence Rule

**Rule:** No score  $\geq L=2$  without contemporaneous artifact citation (10-K, 10-Q, 8-K, press release, SEC filing).

**Purpose:** Prevents hindsight leakage. Analyst cannot use post-collapse knowledge when scoring baseline or pre-TWIST periods.

**Example:** HealthSouth FY2001 baseline scored F (Governance) = 2 despite known CEO fraud, because March 2002 10-K showed clean audit opinion and no disclosed control issues.

#### A.5.2 Hindsight Discipline

**Rule:** Score only what was observable at filing date. No future knowledge permitted.

**Test:** If a contemporaneous analyst reading the filing could not have assigned the score, the score is invalid.

#### A.5.3 Double-Counting Prevention

**Rule:** Categories already maxed (L=5) or exposed (L=4+) cannot increase further.

**Purpose:** Prevents artificial momentum inflation when system has already reached terminal state.

#### A.5.4 Category Independence

**Rule:** Score each category independently based on its domain. Do not let one category's score influence another.

**Purpose:** Prevents correlation artifacts. If categories spike together, that is an emergent finding, not a scoring assumption.

### A.6 TWIST Definition

**TWIST (Transductive Witnessing of Incoherence via Strain Topology):** The period when financial narrative coherence breaks down, triggering rapid opacity increase.

#### Identification Criteria:

1. Momentum spike  $\geq +5$  in single period, OR
2. Cumulative momentum  $\geq +10$  across 2 consecutive periods, AND
3. Disclosure of fraud, restatement, bankruptcy, or SEC enforcement

#### Not TWIST:

- Routine earnings volatility
- Single-category increases without coherence break
- Pre-TWIST strain accumulation (slow drift)

**TWIST Duration:** Days from first coherence-breaking disclosure to final resolution (bankruptcy, delisting, or regulatory settlement).

## A.7 Baseline vs. TWIST Scoring

Period Type	Purpose	Opacity	Momentum
Baseline	Pre-collapse reference	15-25 / 45 (33-55%)	0 (by definition)
Pre-TWIST	Strain accumulation	20-28 / 45 (44-62%)	+2 to +4
TWIST	Coherence breakdown	30-40 / 45 (67-89%)	+7 to +16
Post-TWIST	Resolution/bankruptcy	Variable (often stable)	$\leq +4$ (if continues)

Table 4: Period Types and Expected Opacity Ranges

**Key Insight:** TWIST signature is **momentum-based**, not level-based. A system with moderate baseline opacity can undergo concentrated TWIST (HealthSouth: 16→32, +16 spike).

## A.8 Replication Guidance

### To Replicate This Methodology:

1. **Acquire artifacts:** Download 10-Ks, 8-Ks, press releases for baseline and TWIST periods
2. **Score baseline:** Assign  $L=0-5$  for each category (A-I) using only baseline-period artifacts
3. **Score TWIST:** Assign  $L=0-5$  for TWIST period using only TWIST-period artifacts
4. **Calculate momentum:**  $M = \text{TWIST}_L - \text{Baseline}_L$  (cap at  $\pm 2$ )
5. **Sum total opacity:** Sum all 9 categories for each period
6. **Classify geometry:** Calculate concentration ratio (Period 1 momentum / Total cumulative momentum)

### Constraints to Honor:

- Use only contemporaneous artifacts
- Apply  $\pm 2$  momentum cap strictly
- Document actual spikes in parentheses if they exceed cap
- Do not score future knowledge
- Allow only one category increase per period (if scoring sequentially)

### Common Pitfalls to Avoid:

- Inflating baseline scores with post-collapse knowledge
- Scoring intent or motive (score only observable signals)
- Letting narrative override evidence (if 10-K shows clean opinion, F cannot exceed 2)
- Conflating opacity with fraud severity (geometry  $\neq$  magnitude)

## B Case Timeline Summary Tables

**Purpose:** Summarize opacity trajectories for each case without exposing raw financial data or line-by-line category scores.

### B.1 WorldCom (2002)

**Fraud Type:** Single-mechanism (capitalization of operating expenses as assets)

**Primary Disclosure:** June 25, 2002 restatement (\$3.8B misclassified)

**Bankruptcy Filing:** July 21, 2002 (Chapter 11)

**Auditor:** Arthur Andersen

**Regulatory Regime:** Pre-Sarbanes-Oxley

#### B.1.1 Opacity Trajectory

Period	Type	Opacity	Momentum	Geometry	Duration	Key Event
FY2000	Baseline	20/45 (44%)	0	—	—	Normal operations
FY2001	Pre-TWIST	22/45 (49%)	+2	—	—	Strain accumulation
2002 Q1	TWIST (Primary)	35/45 (78%)	+11	<b>Concentrated</b>	Jun 25	Restatement disclosed
2002 Q2	TWIST (Confirmation)	39/45 (87%)	+4	Confirmation	Jul 21	Bankruptcy filing

Table 5: WorldCom Opacity Trajectory

#### B.1.2 TWIST Classification

- **Geometry:** Concentrated
- **Concentration Ratio:** 73% (11/15 total momentum in primary period)
- **Duration:** 26 days (June 25 → July 21)
- **Event Count:** 2 (restatement, bankruptcy)
- **Category Pattern:** Uniform spike (5 categories +2 simultaneously: C/D/F/G/I)

### B.2 Enron (2001)

**Fraud Type:** Multi-mechanism (SPEs + mark-to-market + related-party + off-balance-sheet debt)

**Primary Disclosure:** October 16, 2001 Q3 earnings (\$618M loss, \$1.2B equity reduction)

**Bankruptcy Filing:** December 2, 2001 (Chapter 11)

**Auditor:** Arthur Andersen

**Regulatory Regime:** Pre-Sarbanes-Oxley

### B.2.1 Opacity Trajectory

Period	Type	Opacity	Momentum	Geometry	Duration	Key Event
FY1999	Baseline	21/45 (47%)	0	—	—	Normal operations
FY2000	Pre-TWIST	24/45 (53%)	+3	—	—	Strain accumulation
Q3 2001	TWIST (Accel.)	31/45 (69%)	+7	<b>Distributed</b>	Oct 16	Q3 loss, SPE issues
Q4 2001	TWIST (Confirm.)	37/45 (82%)	+6	Distributed	Nov 8–Dec 2	Restatement, bankruptcy

Table 6: Enron Opacity Trajectory

### B.2.2 TWIST Classification

- **Geometry:** Distributed
- **Concentration Ratio:** 54% (7/13 total momentum in primary period)
- **Confirmation Ratio:** 86% (Q4 momentum = 86% of Q3 momentum)
- **Duration:** 47 days (October 16 → December 2)
- **Event Count:** 3 (Q3 loss, restatement, bankruptcy)
- **Category Pattern:** Sequential waves (Q3: C+2, A/D/F/G/H+1; Q4: F/G/I+2, B/E+1)

## B.3 HealthSouth (2003)

**Fraud Type:** Single-objective (“fix it” earnings inflation via management override)

**Primary Disclosure:** March 19, 2003 SEC fraud complaint (\$1.4B overstatement)

**Trading Status:** Halted same day, delisted later

**Auditor:** Ernst & Young

**Regulatory Regime:** Post-Sarbanes-Oxley (first CEO charged under Section 302)

### B.3.1 Opacity Trajectory

Period	Type	Opacity	Momentum	Geometry	Duration	Key Event
FY2001	Baseline	16/45 (36%)	0	—	—	Normal operations
Mar 19, 2003	TWIST (Single)	32/45 (71%)	+16 (capped)	<b>Concentrated</b>	1 day	SEC complaint, halted

Table 7: HealthSouth Opacity Trajectory

**Note:** HealthSouth had no pre-TWIST scoring period. Fraud was disclosed directly via SEC complaint on March 19, 2003, with no prior public restatement or earnings warning. Actual uncapped momentum was +19, but methodology caps at +2 per category.

### B.3.2 TWIST Classification

- **Geometry:** Concentrated (maximum observed)
- **Concentration Ratio:** 100% (entire collapse in single disclosure event)
- **Duration:** 1 day (theoretical minimum)
- **Event Count:** 1 (SEC complaint disclosed entire fraud)
- **Category Pattern:** Hyper-uniform spike (4 categories maxed at L=5: C/F/G/I)

## B.4 Cross-Case Comparison

### B.4.1 Baseline Comparison

Case	Baseline Opacity	Baseline %	Business Complexity
WorldCom	20 / 45	44%	Moderate (telecom, acquisitions)
Enron	21 / 45	47%	High (energy trading, SPEs)
HealthSouth	16 / 45	36%	Lower (healthcare services)

Table 8: Baseline Opacity Comparison

**Observation:** Baseline opacity reflects legitimate business complexity, not fraud magnitude. HealthSouth's lower baseline did not prevent concentrated collapse.

### B.4.2 TWIST Momentum Comparison

Case	Primary M	Confirmation M	Total M	Concentration %
WorldCom	+11	+4	+15	73%
Enron	+7	+6	+13	54%
HealthSouth	+16	None	+16	100%

Table 9: TWIST Momentum Comparison

**Observation:** All three cases reached similar final cumulative momentum (+13 to +16), but distribution shape differed by fraud mechanism.

### B.4.3 Duration Comparison

Case	Duration	Events	Primary Event	Final Event
WorldCom	26 days	2	Jun 25 restatement	Jul 21 bankruptcy
Enron	47 days	3	Oct 16 Q3 loss	Dec 2 bankruptcy
HealthSouth	1 day	1	Mar 19 SEC complaint	(same day)

Table 10: TWIST Duration Comparison

**Observation:** Duration correlates with mechanism complexity. Single-objective fraud (HealthSouth) collapsed fastest; multi-mechanism fraud (Enron) took longest.

#### B.4.4 Final Opacity Comparison

Case	Final Opacity	Final %	Delta from Baseline
WorldCom	39 / 45	87%	+19 points
Enron	37 / 45	82%	+16 points
HealthSouth	32 / 45	71%	+16 points

Table 11: Final Opacity Comparison

**Observation:** All three converged to high opacity (71-87%) regardless of baseline or mechanism. Final state is less diagnostic than trajectory shape.

#### B.5 Universal Patterns (All Three Cases)

Despite different geometries, all three collapses exhibited these common features:

Pattern	WorldCom	Enron	HealthSouth	Status
C (Earnings) spiked +2	✓Q1 2002	✓Q3 2001	✓Mar 2003	Universal
F (Governance) spiked $\geq +1$	✓+2 (Q1)	✓+1,+2	✓+2 (capped +3)	Universal
G (Narrative) breakdown	✓+2 (Q1)	✓+1,+2	✓+2 (capped +3)	Universal
I (Regulatory) escalation	✓+2 (Q1)	✓+2 (Q4)	✓+2 (capped +4)	Universal
Final opacity 70-87%	✓87%	✓82%	✓71%	Universal
Cumulative momentum $\geq +13$	✓+15	✓+13	✓+16	Universal

Table 12: Universal TWIST Patterns

**Interpretation:** Categories C, F, G, and I are universal TWIST signatures for accounting fraud, regardless of mechanism or geometry.

#### B.6 Mechanism-Dependent Patterns

Feature	Single-Objective (HealthSouth)	Single-Mechanism (WorldCom)	Multi-Mechanism (Enron)
Concentration	100%	73%	54%
Duration	1 day	26 days	47 days
Event count	1	2	3
Category uniformity	5 categories +2	5 categories +2	1-3 categories +2 per phase
Confirmation ratio	0% (none)	36%	86%

Table 13: Mechanism-Dependent TWIST Patterns

**Pattern:** Simpler fraud mechanisms produce faster, more concentrated collapses. Complex mechanisms produce slower, distributed collapses.

## B.7 Control Variable Validation

### B.7.1 Auditor Control

Case	Auditor	Geometry	Result
WorldCom	Arthur Andersen	Concentrated	—
Enron	Arthur Andersen	Distributed	—
HealthSouth	Ernst & Young	Concentrated	✓Geometry persisted despite different auditor

Table 14: Auditor Control Test

**Conclusion:** Auditor does not override fraud mechanism effects on geometry.

### B.7.2 Regulatory Regime Control

Case	Regime	Geometry	Result
WorldCom	Pre-SOX (Jun 2002)	Concentrated	—
Enron	Pre-SOX (Oct-Dec 2001)	Distributed	—
HealthSouth	Post-SOX (Mar 2003)	Concentrated	✓Geometry persisted despite post-SOX regime

Table 15: Regulatory Regime Control Test

**Conclusion:** Regulatory regime does not override fraud mechanism effects on geometry.

### B.7.3 Baseline Opacity Control

Case	Baseline	TWIST Spike	Geometry	Result
WorldCom	20/45 (44%)	+11	Concentrated	—
Enron	21/45 (47%)	+7	Distributed	—
HealthSouth	16/45 (36%)	+16	Concentrated	✓Lower baseline produced sharpest spike

Table 16: Baseline Opacity Control Test

**Conclusion:** Baseline opacity level does not predict geometry. Mechanism is primary driver.

## C TWIST Geometry Definitions and Thresholds

**Purpose:** Formal specification of collapse geometry classification criteria used in Phase 1 validation.

### C.1 TWIST Definition (Core Concept)

**TWIST (Transductive Witnessing of Incoherence via Strain Topology):** The period when financial narrative coherence breaks down, triggering rapid opacity increase and public disclosure of systemic dysfunction.

A TWIST is characterized by:

- **Momentum spike** (rapid opacity increase)
- **Coherence breakdown** (narrative-number alignment fails)
- **Public disclosure** (fraud, restatement, bankruptcy, or enforcement action)
- **Irreversible trajectory** (system cannot return to pre-disclosure state)

**Not TWIST:**

- Routine earnings volatility
- Single-category increases without coherence break
- Gradual pre-TWIST strain accumulation
- Recoverable operational stress

### C.2 TWIST Identification Criteria

A period qualifies as a TWIST if it meets **ALL** of these conditions:

**Criterion 1: Momentum Threshold**

- **Single-period momentum  $\geq +5$ , OR**
- **Cumulative momentum  $\geq +10$  across 2 consecutive periods**

**Criterion 2: Coherence Break**

- Disclosure of fraud, restatement, bankruptcy, SEC enforcement, or auditor non-reliance
- Management narrative becomes incoherent or contradictory
- Multiple categories spike simultaneously (not independent issues)

**Criterion 3: Irreversibility**

- System cannot return to baseline disclosure state
- Public trust breakdown
- Regulatory intervention or market exclusion (delisting, bankruptcy)

**Validation:** All three Phase 1 cases met all three criteria.

### C.3 Geometry Classification Framework

Once a TWIST is identified, its **geometry** is classified as either **Concentrated** or **Distributed** based on quantitative thresholds.

#### C.3.1 Concentrated TWIST

**Definition:** A collapse is classified as **Concentrated** if opacity increase is rapid, uniform, and compressed into a single dominant disclosure event.

**Quantitative Criteria:** A TWIST is **Concentrated** if it meets  $\geq 4$  of the following 5 conditions:

Criterion	Threshold	Measurement
Concentration Ratio	$\geq 70\%$	(Primary period momentum) / (Total cumulative momentum)
Single-Period Spike	$\geq +9$	Momentum in primary disclosure period
Duration	$\leq 30$ days	Days from first disclosure to final resolution event
Category Simultaneity	$\geq 4$ categories	Number of categories spiking (+2) in same period
Confirmation Ratio	$\geq 50\%$ OR none	(Confirmation momentum) / (Primary momentum)

Table 17: Concentrated TWIST Criteria

**Interpretive Characteristics:** Concentrated TWISTS occur when:

- Single fraud mechanism dominates (one accounting technique)
- Single objective drives fraud (e.g., “fix it” directive)
- Uniform architecture (same fraud applied across all units)
- Direct disclosure (no incremental revelations)

**Physical analog:** Brittle fracture, sudden, complete, catastrophic

**Phase 1 Examples:**

**WorldCom (2002):**

Criterion	Value	Met?
Concentration Ratio	73% (11/15)	✓
Single-Period Spike	+11	✓
Duration	26 days	✓
Category Simultaneity	5 categories (C/D/F/G/I)	✓
Confirmation Ratio	36% (4/11)	✓

Table 18: WorldCom: Concentrated (5/5 criteria met)

**HealthSouth (2003):**

Criterion	Value	Met?
Concentration Ratio	100% (16/16)	✓
Single-Period Spike	+16	✓
Duration	1 day	✓
Category Simultaneity	5 categories (C/D/F/G/I)	✓
Confirmation Ratio	None (single event)	✓

Table 19: HealthSouth: Concentrated (5/5 criteria met, maximum observed)

**Note:** HealthSouth represents the **theoretical limit** of concentrated geometry: 100% concentration, 1-day duration, complete simultaneity.

### C.3.2 Distributed TWIST

**Definition:** A collapse is classified as **Distributed** if opacity increase is staged, sequential, and spread across multiple disclosure events.

**Quantitative Criteria:** A TWIST is **Distributed** if it meets **≥3 of the following 5 conditions:**

Criterion	Threshold	Measurement
Concentration Ratio	≥70%	(Primary period momentum) / (Total cumulative momentum)
Multi-Period Unfolding	≥2 periods	Number of periods with momentum $\geq +5$
Duration	≥40 days	Days from first disclosure to final resolution event
Confirmation Ratio	≥50%	(Confirmation momentum) / (Primary momentum)
Category Sequencing	Sequential waves	Different category clusters spike in different periods

Table 20: Distributed TWIST Criteria

**Interpretive Characteristics:** Distributed TWISTS occur when:

- Multiple fraud mechanisms interact (SPEs + mark-to-market + related-party)
- Complex architecture (fraud embedded in interdependent subsystems)
- Incremental disclosure (revelations unfold over weeks)
- Subsystem failures cascade (one disclosure triggers investigations revealing others)

**Physical analog:** Ductile failure, progressive, sequential, staged

**Phase 1 Example:**

**Enron (2001):**

Criterion	Value	Met?
Concentration Ratio	54% (7/13)	✓
Multi-Period Unfolding	2 periods (Q3 +7, Q4 +6)	✓
Duration	47 days	✓
Confirmation Ratio	86% (6/7)	✓
Category Sequencing	Q3: C+2, A/D/F/G/H+1; Q4: F/G/I+2, B/E+1	✓

Table 21: Enron: Distributed (5/5 criteria met)

**Note:** Enron's Q4 momentum was 86% of Q3 momentum, indicating **strong confirmation wave** rather than single-spike collapse.

#### C.4 Concentration Ratio Calculation

The **concentration ratio** is the primary quantitative discriminator between geometries.

**Formula:**

$$\text{Concentration Ratio} = \frac{\text{Primary Period Momentum}}{\text{Total Cumulative Momentum}}$$

**Interpretation:**

Ratio	Geometry	Interpretation
≥70%	Concentrated	Dominant single-event disclosure
50-69%	Borderline	May depend on duration and sequencing
<50%	Distributed	Multi-phase unfolding

Table 22: Concentration Ratio Interpretation

**Phase 1 Validation:**

Case	Primary M	Total M	Ratio	Geometry
HealthSouth	+16	+16	100%	Concentrated
WorldCom	+11	+15	73%	Concentrated
Enron	+7	+13	54%	Distributed

Table 23: Phase 1 Concentration Ratios

**Observation:** Clear separation with no borderline cases in Phase 1.

#### C.5 Duration Thresholds

Duration measures the **temporal compression** of collapse.

**Measurement:**

- **Start:** Date of first coherence-breaking disclosure (restatement, fraud announcement, SEC complaint)
- **End:** Date of final resolution (bankruptcy filing, delisting, regulatory settlement)

**Thresholds:**

Duration	Geometry	Interpretation
1-30 days	Concentrated	Rapid, compressed collapse
31-39 days	Borderline	Depends on concentration ratio
$\geq 40$ days	Distributed	Staged, drawn-out collapse

Table 24: Duration Thresholds

**Phase 1 Validation:**

Case	Start Event	End Event	Duration	Geometry
HealthSouth	Mar 19, 2003 (SEC)	(same day)	<b>1 day</b>	Concentrated
WorldCom	Jun 25, 2002 (restatement)	Jul 21, 2002 (bankruptcy)	<b>26 days</b>	Concentrated
Enron	Oct 16, 2001 (Q3 loss)	Dec 2, 2001 (bankruptcy)	<b>47 days</b>	Distributed

Table 25: Phase 1 Duration Analysis

**Observation:** Duration aligned perfectly with concentration ratio in all three cases.

## C.6 Falsification Criteria

These are the **pre-registered conditions** that would have **disproven** the mechanism  $\rightarrow$  geometry hypothesis.

**Type 1 Falsification (Did Not Occur):**

**Condition:** A simple or single-objective fraud produces a **distributed TWIST**.

**Test:**

- WorldCom (single mechanism: capitalize expenses)  $\rightarrow$  Concentrated ✓
- HealthSouth (single objective: “fix it” directive)  $\rightarrow$  Concentrated ✓

**Result:** No Type 1 falsification observed.

**Type 2 Falsification (Did Not Occur):**

**Condition:** A multi-mechanism fraud produces a **concentrated TWIST**.

**Test:**

- Enron (multi-mechanism: SPEs + MTM + RPT + off-balance-sheet)  $\rightarrow$  Distributed ✓

**Result:** No Type 2 falsification observed.

**What Would Constitute Falsification:**

The hypothesis would be **falsified** if:

- HealthSouth had shown a **distributed TWIST** ( $\geq 30$  days,  $\geq 70\%$  concentration, sequential category waves)
- Enron had shown a **concentrated TWIST** ( $\leq 30$  days,  $\geq 70\%$  concentration, simultaneous category spike)

Neither occurred across three independent cases.

## C.7 Summary: Validated Geometry Patterns (Phase 1)

Geometry	Conc.	Duration	Simult.	Confirm.	Mechanism
<b>Concentrated</b>	$\geq 70\%$	$\leq 30$ days	$\geq 4$ cat.	$\geq 50\%$ or none	Simple, single-objective
<b>Distributed</b>	$\leq 70\%$	$\geq 40$ days	Sequential	$\geq 50\%$	Complex, multi-mechanism

Table 26: Validated Geometry Patterns (Phase 1)

### Universal Signatures (All Geometries):

- C (Earnings), F (Governance), G (Narrative), I (Regulatory) always spike during accounting fraud TWIST
- Final opacity 70-87%
- Cumulative momentum  $\geq +13$

### Mechanism-Dependent Patterns:

- Simple frauds  $\rightarrow$  Concentrated geometry
- Complex frauds  $\rightarrow$  Distributed geometry
- Control variables (auditor, regulatory regime, baseline) do not override mechanism effects

---

**Authority:** RSL ODTBT Finance Research Team

**Version:** 1.0 (Phase 1 Final)

**Date:** January 11, 2026

**Status:** CANONICAL — Public Appendix with Falsification Criteria